



## MARKET DIVERSIFICATION AND DISCIPLINED GROWTH



### 2009 QUARTERLY REPORT

For the three months  
ended March 31, 2009

# Q1

Badger Income Fund (the "Fund" or "Badger") is pleased to announce its financial and operating results for the quarter ended March 31, 2009. Overall revenues increased by approximately 8 percent to \$37.4 million for the first quarter of 2009 from \$34.8 million for the same period in 2008, due to a 48 percent increase in United States revenues. As a result of the increase in revenues, EBITDA and funds generated from operations also increased. Badger's EBITDA increased to \$11.3 million in the first quarter of 2009 from \$10.0 million in the same quarter of 2008, while funds generated from operations increased to \$10.2 million in the first quarter of 2009 from \$9.7 million in the same quarter of 2008.

Badger had 418 daylighting units at the end of the first quarter of 2009, reflecting the addition of 13 daylighting units to the fleet to date in 2009 and the retirement of eight units. The Fund had 413 daylighting units at December 31, 2008.

### FINANCIAL HIGHLIGHTS

(\$ thousands, except per unit and total units outstanding information)	Three months ended March 31, 2009	Three months ended March 31, 2008
Revenues	<b>37,383</b>	34,774
EBITDA <sup>(1)</sup>	<b>11,314</b>	10,045
Earnings before income taxes	<b>7,688</b>	6,777
Taxes		
Current	<b>772</b>	254
Future	<b>1,243</b>	1,240
Net earnings	<b>5,673</b>	5,283
Net earnings per unit – diluted (\$)	<b>0.53</b>	0.49
Funds generated from operations <sup>(2)</sup>	<b>10,234</b>	9,687
Funds generated from operations per unit – diluted (\$)	<b>0.95</b>	0.89
Maintenance capital expenditures <sup>(3)</sup>	<b>2,484</b>	–
Required long-term debt repayments	<b>108</b>	55
Cash available for growth and distribution <sup>(4)</sup>	<b>8,430</b>	9,967
Cash distributions declared	<b>3,401</b>	3,391
Growth capital expenditures <sup>(3)</sup>	<b>–</b>	5,451
Total units outstanding	<b>10,804,753</b>	10,773,419

The following financial measures do not have any standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP) and may not be comparable to similar measures as presented by other funds or entities:

- (1) Earnings before interest, taxes, depreciation and amortization (EBITDA) is a measure of the Fund's operating profitability and is therefore useful to management and investors. EBITDA provides an indication of the results generated by the Fund's principal business activities prior to how these activities are financed, assets are amortized or how the results are taxed in various jurisdictions. EBITDA is calculated from the Consolidated Statements of Earnings and Comprehensive Income and Retained Earnings as gross margin, less selling, general and administrative costs and foreign exchange loss (gain).
- (2) Funds generated from operations is used to assist management and investors in analyzing operating performance and leverage. It is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with GAAP. Funds generated from operations is calculated from the Consolidated Statements of Cash Flows and is defined as cash provided by operating activities before changes in non-cash working capital.
- (3) Maintenance capital expenditures is defined as the amount incurred during the period to keep the Fund's daylighting fleet at the same number of units, plus any other capital expenditures required to maintain the existing business. It also includes any costs incurred to enhance the operational life of a daylighting unit. This amount will fluctuate from period-to-period depending on the number of units retired from the fleet. During the three-month period ended March 31, 2009, Badger added 13 units to the fleet and removed eight from service. As a result five of the units added during the three months ended March 31, 2009 represent growth capital expenditures, while eight of the units represent maintenance capital expenditures. The economic life of a Badger hydrovac is approximately 10 years. The average age of the fleet is approximately four years. Growth capital expenditures exclude acquisitions made during the period.
- (4) Cash available for growth and distribution is used by management to supplement cash flow as a measure of operating performance and leverage. The objective of this measure is to calculate the amount which is available for distribution to unitholders. It is defined as funds generated from operations, less required debt repayments and maintenance capital expenditures, plus any proceeds received on the disposal of assets.

# Interim Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) should be read in conjunction with the attached unaudited interim consolidated financial statements of Badger Income Fund (the "Fund" or "Badger"). Readers should also refer to the audited consolidated financial statements and MD&A included in Badger Income Fund's 2008 Annual Report. Additional information is also available on the Fund's website ([www.badgerinc.com](http://www.badgerinc.com)) and all previous public filings, including the most recently filed Annual Information Form, are available through SEDAR ([www.sedar.com](http://www.sedar.com)).

This MD&A has been prepared taking into consideration information available to May 12, 2009.

## DISCLAIMER

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Certain statements contained in the quarterly report including the MD&A constitute forward-looking statements. These statements relate to future events or Badger's future performance. These statements involve known and unknown risks, uncertainties and other factors that may cause the actual results or events to differ materially from those anticipated in such forward-looking statements. Other factors include, but are not limited to: the future tax treatment of income trusts; supply-demand fluctuations for oil and natural gas and related products and services; political and economic conditions; the demand for services provided by Badger; industry competition; and Badger's ability to attract and retain key personnel. The Fund believes that the expectations reflected in these forward-looking statements are reasonable; however, no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this quarterly report should not be unduly relied upon. In addition, these forward-looking statements relate to the date on which they are made. Badger disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## SHORT-TERM ECONOMIC IMPACT

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The current economic downturn, market uncertainty and slowdown in activity levels in the oil and gas industry has had an impact on Badger's business in the first quarter of 2009 and this impact is expected to continue for the foreseeable future. It has always been difficult to forecast activity levels in Badger's business, even in normal markets. The economic uncertainty makes it even more difficult to do so. The visibility for upcoming amounts of work has always been short, and, this visibility is even less today given the rapid change occurring in regional economies throughout Canada and the United States. Badger is continuously adding customers to an already long customer list, which has created a broad base from which to find work. In addition, the trucks are very mobile and can easily travel to where the work is, which enables Badger to respond quickly to new opportunities.

The current economic situation has and will impact Badger's four regions differently. Comments are as follows.

Western Canada – Badger is forecasting fewer big projects in 2009, which would normally help top up revenue per truck, as much lower oil and gas activity is expected for the spring and summer seasons moderated somewhat by maintenance activity. Badger also expects a lower level of construction activity in the major cities. Finally, Badger expects more pricing pressure than normal due to the lower industry activity. All of these factors will have an impact on 2009 revenue. To minimize these impacts Badger has and will continue to aggressively pursue available work in Western Canada to try to gain market share in a potentially smaller market in 2009.

Eastern Canada – Badger is expecting to grow revenue in Eastern Canada this year. The Fund is not involved in the manufacturing sector in Eastern Canada, which has been particularly hard hit over the past year. The infrastructure spending announced by various levels of government should have a positive impact on revenues later in the year.

Western United States – Areas which are dependent on good activity levels in the oil and gas service industry have been adversely affected by the slowdown. However, Badger expects to make gains in other areas of the market to partially offset the negative impact. Badger has been able to move trucks from slow areas to areas of stronger demand to maintain an acceptable revenue level.

Eastern United States – This market has been and remains the most difficult to predict and the most volatile in revenue generation. This is because Badger still relies on major plant projects, which can quickly dry up and have a big impact on business. The first quarter of 2009 was particularly good due to a couple of major projects. These projects have a finite life. Badger is striving to add locations and increase the customer base to stabilize revenue in this market. Infrastructure spending announced by various levels of governments is expected to have a positive impact in this market.

In the first quarter Badger was able to move several trucks from one region to another to better utilize the assets. Badger intends to continue doing so for the rest of the year. Badger continues to focus on business development to try to get involved in work that may become available.

## RESULTS OF OPERATIONS

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### REVENUES

Revenues of \$37.4 million for the three months ended March 31, 2009 were 8 percent higher than the \$34.8 million generated during the comparable period of 2008. The increase is attributable to the following:

1. In the United States revenues increased to \$16.7 million from \$11.3 million period-over-period. This 48 percent increase was mainly due to very good project work in the Eastern United States.
2. In Western Canada revenues decreased by \$2.8 million or 16 percent in the first quarter of 2009 from the first quarter of 2008. The decrease was due to a general decrease in demand for hydrovac services in various areas as a result of reduced oil and gas commodity prices, meaning less plant work and fewer pipeline projects.
3. Eastern Canada revenue increased by 5 percent period-over-period due to better than expected construction activity brought about by better weather conditions in the first quarter of 2009 versus the comparable period in 2008.

Badger's average revenue per truck per month during the three months ended March 31, 2009 was \$27,300 versus \$30,400 for the three months ended March 31, 2008.

Included in revenues is approximately \$546,000 of truck placement and franchise fees for the three months ended March 31, 2009, versus \$528,000 for the three months ended March 31, 2008.

### DIRECT COSTS

Direct costs for the quarter ended March 31, 2009 were \$23.5 million compared to \$22.1 million for the quarter ended March 31, 2008. This 7 percent increase is less than the 8 percent increase in revenues due to the good project work being performed by certain of the Fund's corporate locations in the Eastern United States, resulting in better margins.

### GROSS MARGIN

Gross margin was 37.0 percent for the quarter ended March 31, 2009, an increase from the 36.4 percent for the quarter ended March 31, 2008. As indicated above, this was due to the good level of project work during the quarter in the Eastern United States.

### AMORTIZATION

Amortization of property, plant and equipment was \$3.4 million for the three months ended March 31, 2009, \$0.5 million higher than the \$2.9 million for the three months ended March 31, 2008. This increase reflects the larger number of hydrovac units in the fleet. Included in this figure is approximately \$49,000 related to amortization of intangible assets with a limited life.

**INTEREST EXPENSE**

Interest expense was \$338,000 for the quarter ended March 31, 2009 versus \$383,000 for the quarter ended March 31, 2008. The lower interest expense is attributable to reduced interest rates in the first quarter of 2009 than in the first quarter of 2008.

**SELLING, GENERAL AND ADMINISTRATIVE**

Selling, general and administrative expenses were \$2.8 million for the quarter ended March 31, 2009 compared to \$2.6 million for the quarter ended March 31, 2008. As a percentage of revenues, selling, general and administrative expenses were 7.5 percent for the first quarter of 2009, consistent with the 7.4 percent recorded for the first quarter of 2008. The increase was due to incurring non-cash compensation expense of \$312,000 for the first quarter of 2009 versus \$231,000 in the first quarter of 2008, bad debt expense recorded for a customer and higher general office costs to support the growth in business.

**FOREIGN EXCHANGE LOSS (GAIN)**

The foreign exchange loss or gain results from converting the balance sheet and earnings statement related to the United States operations into Canadian currency. The foreign exchange gain was \$283,000 in the first quarter of 2009 versus a \$48,000 loss in the comparative period of 2008. The main reason for the period-over-period change was the depreciation of the Canadian dollar in the first quarter of 2009.

**INCOME TAXES**

The effective tax rate for the quarter ended March 31, 2009 was 26 percent versus 22 percent for the quarter ended March 31, 2008. The increase was due to generating more earnings in the United States which are taxed at a higher rate.

The minimal effective tax rate overall is due to the trust structure, which results in tax-deductible distributions being made to unitholders.

**LIQUIDITY AND CAPITAL RESOURCES**

Funds generated from operations for the quarter ended March 31, 2009 increased to \$10.2 million from \$9.7 million for the comparable period in 2008 due to stronger United States activity levels.

The Fund had working capital of \$28.0 million at March 31, 2009 compared to \$21.8 million at December 31, 2008. The increase was predominantly due to the Fund remitting payment for the majority of the cab and chassis that had been acquired prior to December 31, 2008, with the amount owing being included in the accounts payable and accrued liabilities figure. Good levels of cash flow from operations allowed Badger to build new daylighting units while maintaining a healthy working capital position.

The Fund has in place a \$40 million extendable revolving credit facility which expires on June 27, 2009 and is renewable at the Fund's option for an additional 364-day period. If not renewed, interest is payable on the facility for 364 days after which the entire amount is to be repaid. The facility is used to fund working capital requirements and finance capital expenditures, of which \$34.7 million was drawn at March 31, 2009. At this time the Fund does not anticipate any issues with the facility being renewed.

The Fund spent \$2.5 million on property, plant and equipment for the three months ended March 31, 2009, compared to \$5.5 million for the three months ended March 31, 2008. A number of the daylighting units completed in the first quarter of 2009 were included in equipment under construction as at December 31, 2008, with this amount being included in property, plant and equipment. The Fund added 13 units to the fleet in the first quarter of 2009, compared to 18 units in the first quarter of 2008. The costs to build a daylighting unit increased by approximately 8 percent comparing the first quarter of 2009 to fiscal 2008. The main reasons for the increase were the increased cost of acquiring the cab and chassis which are purchased in United States dollars and the reduced build rate resulting in fixed overhead costs being allocated to fewer units.

Based on the current build of daylighting units Badger has paid for the majority of cab and chassis required for the remainder of 2009 and the start of 2010. This will lower the cash requirement to build daylighting units for the foreseeable future.

In addition to the above, as at March 31, 2009 the Fund had committed to certain capital expenditures totalling approximately \$2.3 million. These capital expenditures will be financed with existing credit facilities and funds generated from operations, as well as alternative sources of financing as required. There are no set terms for remitting payment for these financial obligations.

Management believes that the Fund's healthy balance sheet and unutilized borrowing capacity, combined with funds generated from operations, will provide sufficient capital to fund ongoing operations, make distributions to unitholders, finance future capital expenditures and execute its strategic plan for the foreseeable future.

### NUMBER OF DAYLIGHTING UNITS

During the three-month period ended March 31, 2009 Badger added ten units to the Canadian fleet, transferred eight to the United States and removed four from service, bringing the total to 236 units operating in Canada as at March 31, 2009. In the United States, Badger added three units, received eight which were transferred from Canada and removed four from service, bringing the total number of units in the United States fleet to 182 at March 31, 2009.

### DISTRIBUTIONS

The following table outlines the cash available to fund growth and pay distributions to unitholders for the three months ended March 31, 2009:

Cash provided by operating activities	\$ 7,097,578
Add (deduct): net change in non-cash working capital	3,136,046
Funds generated from operations	10,233,624
Add: proceeds on disposal of property, plant and equipment	788,435
Deduct: required repayments of long-term debt	(108,441)
Deduct: maintenance capital expenditures	(2,484,117)
Cash available for growth capital expenditures and distributions	\$ 8,429,501
Growth capital expenditures	-
Cash distributions declared	\$ 3,400,555

In determining cash available for distributions the Fund excludes non-cash working capital changes for the period as well as growth capital expenditures. Changes in non-cash working capital items have been excluded so as to remove the effects of timing differences in cash receipts and disbursements, which generally reverse themselves and can vary significantly between fiscal quarters. Growth capital expenditures have been excluded so as to include only the maintenance capital expenditures required for the sustainability of the existing asset base.

The following table outlines the excess or shortfall of cash provided by operating activities and net earnings over cash distributions declared during the quarter ended March 31, 2009 and the year ended December 31, 2008:

	March 31, 2009 \$	December 31, 2008 \$
Cash provided by operating activities	<b>7,097,578</b>	35,231,938
Net earnings	<b>5,673,330</b>	18,981,890
Cash distributions declared	<b>3,400,555</b>	13,586,593
Excess of cash provided by operating activities over cash distributions declared	<b>3,697,023</b>	21,645,345
Excess of net earnings over cash distributions declared	<b>2,272,775</b>	5,395,297

The Fund makes regular monthly cash distributions to unitholders. These cash distributions may be reduced, increased or suspended entirely by the trustees depending on the operations of Badger and the performance of its assets. The actual cash flow available for distribution to holders of Fund units is a function of numerous factors, including: the Fund's financial performance; debt covenants and obligations; working capital requirements; maintenance and growth capital expenditure requirements for the purchase of property, plant and equipment; and the number of units outstanding. It may also be impacted by the future tax treatment of income trusts.

The Fund maintains a strong balance sheet and has sufficient debt facilities to manage its short-term funding needs as well as planned equipment additions. The debt management strategy includes retaining sufficient funds from available distributable cash to finance maintenance capital expenditures as well as working capital needs. Growth capital expenditures will generally be financed through existing debt facilities or cash retained from operating activities. The majority of the cash provided by operating activities was used to finance maintenance and growth capital expenditures and to pay distributions to unitholders.

If maintenance capital expenditures increase in future periods, the Fund's cash available for growth capital expenditures and distribution will be negatively affected. Due to Badger's growth rate in recent years, the majority of the Fund's hydrovac units are relatively new, with an average age of approximately four years. As a result, Badger is currently experiencing relatively low levels of maintenance capital expenditures. Over time, Badger would expect to incur annual maintenance capital expenditures in an amount that approximates the amortization expense reported in the year. For the fiscal year 2009, Badger estimates it will remove approximately 40 hydrovac units from the fleet. Badger expects that cash provided by operations and cash available for growth capital expenditures and distributions will be sufficient to fund the maintenance capital expenditures in the future.

Badger is restricted from declaring distributions and distributing cash if it is in breach of the covenants under its credit facilities. As at the date of this quarterly MD&A the Fund is in full compliance with all debt covenants and is able to fully utilize all existing credit facilities. Badger does not have a stability rating.

## UNITHOLDERS' CAPITAL

Unitholders' capital increased by \$154,800 during the three months ended March 31, 2009. This was the result of the Fund issuing 14,009 units from its long-term incentive plan as partial payment for 2008 performance bonuses payable to management.

The total units outstanding at March 31, 2009 were 10,804,753. There was no change to the balance as of May 12, 2009.

## SELECTED QUARTERLY FINANCIAL INFORMATION

	Quarter Ended							
	2009		2008		2007			
	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30
Revenues (\$)	<b>37,383,305</b>	40,471,059	39,957,349	33,142,814	34,774,334	33,356,010	31,741,950	25,015,707
Net earnings (\$)	<b>5,673,330</b>	2,732,192	6,960,013	4,006,788	5,282,897	5,816,949	5,136,223	1,539,755
Net earnings per unit – basic (\$)	<b>0.53</b>	0.25	0.64	0.37	0.49	0.54	0.48	0.14
Net earnings per unit – diluted (\$)	<b>0.53</b>	0.25	0.64	0.37	0.49	0.54	0.48	0.14

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## **CHANGES IN ACCOUNTING POLICIES**

Effective January 1, 2009, the Fund prospectively adopted the following section from the Handbook of the Canadian Institute of Chartered Accountants (CICA), Section 3064 "Goodwill and Intangible Assets", which establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from Section 3062. There is no material impact to the Fund's consolidated financial statements as a result of implementing the new standards.

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## **CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The Fund is continuing with its conversion to international financial reporting standards ("IFRS"), which will replace Canadian GAAP starting in 2011. Assessments of the impacts of conversion to IFRS, including the adoption of potential IFRS standards under development that might impact the Fund, have not been finalized. The impacts to the consolidated financial statements on the adoption of IFRS will depend on the circumstances prevailing on January 1, 2011 as well as the accounting policy choices by Badger.

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## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Internal control over financial reporting (ICFR) is designed to provide reasonable assurance regarding the reliability of the Fund's financial reporting and its compliance with Canadian GAAP in its financial statements. The President and CEO and the VP Finance and CFO have evaluated whether there were any changes to the Fund's ICFR during the three months ended March 31, 2009 that have materially affected or are reasonably likely to materially affect the ICFR. No such changes were identified through their evaluation.

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## **BUSINESS RISKS**

The MD&A for the year ended December 31, 2008, which is included in the Fund's 2008 Annual Report, includes an overview of business risks associated with the Fund. Those business risks remain. The reader is also referred to Badger's 2008 Annual Information Form.

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## **OUTLOOK**

As forecast at the end of 2008 the economic downturn and uncertainty have tightened the market plus made it more difficult to forecast future activity levels. Badger expects activity levels to remain lower in Western Canada until the fall or such time as activity in the oil and gas sector increases. Eastern Canada is now moving into construction season, which is expected to have a positive impact on revenues. Badger believes the business has stabilized in the Western United States and that this market will be flat until the fall. The amount of project work in Eastern United States is an unknown at this time. Badger will continue to look for activity in the sectors that normally still spend during tougher economic times, including municipalities, utilities, etc. and will follow closely the infrastructure spending initiatives made by the various levels of government. As always Badger will utilize the mobility of its fleet to take advantage of any revenue opportunities in stronger markets.

## **REVIEW OF INTERIM FINANCIAL STATEMENTS**

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Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of an issuer's interim financial statements, the statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Fund have been prepared by Badger Income Fund's management.

The Fund's independent auditor has not performed a review of the accompanying unaudited interim consolidated financial statements in accordance with standards established by the CICA for a review of interim financial statements by an entity's auditor.



# Consolidated Balance Sheets

(Unaudited)	March 31, 2009 \$	December 31, 2008 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash	<b>1,304,657</b>	2,656,144
Accounts receivable	<b>35,413,588</b>	35,830,748
Inventories	<b>1,844,812</b>	2,197,611
Prepaid expenses	<b>1,129,432</b>	778,661
	<b>39,692,489</b>	41,463,164
<b>Property, plant and equipment</b>	<b>96,109,523</b>	97,653,365
<b>Intangible assets</b>	<b>4,942,512</b>	4,791,512
<b>Goodwill</b>	<b>1,621,000</b>	1,621,000
	<b>142,365,524</b>	145,529,041
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	<b>10,010,386</b>	18,043,971
Income taxes payable	<b>161,956</b>	58,135
Distributions payable	<b>1,134,499</b>	1,133,028
Current portion of long-term debt	<b>433,768</b>	433,768
	<b>11,740,609</b>	19,668,902
<b>Long-term debt</b>	<b>39,619,495</b>	39,147,594
<b>Future income taxes</b>	<b>22,815,936</b>	21,262,936
	<b>74,176,040</b>	80,079,432
<b>Unitholders' equity</b>		
Unitholders' capital (note 4(a))	<b>44,337,955</b>	44,183,155
Contributed surplus (note 4(c))	<b>2,926,150</b>	2,613,850
Retained earnings	<b>20,925,379</b>	18,652,604
	<b>68,189,484</b>	65,449,609
	<b>142,365,524</b>	145,529,041

See accompanying notes.

# Consolidated Statements of Earnings and Comprehensive Income and Retained Earnings

(Unaudited)	Three months ended March 31, 2009 \$	Three months ended March 31, 2008 \$
<b>Revenues</b>	<b>37,383,305</b>	34,774,334
<b>Direct costs</b>	<b>23,537,428</b>	22,102,022
<b>Gross margin</b>	<b>13,845,877</b>	12,672,312
<b>Expenses</b>		
Amortization	<b>3,380,969</b>	2,891,679
Gain on sale of property, plant and equipment	<b>(92,445)</b>	(6,193)
Interest – long-term	<b>337,943</b>	382,677
Selling, general and administrative	<b>2,814,815</b>	2,578,468
Foreign exchange loss (gain)	<b>(283,030)</b>	48,397
	<b>6,158,252</b>	5,895,028
<b>Earnings before income taxes</b>	<b>7,687,625</b>	6,777,284
<b>Income taxes</b>		
Current	<b>771,795</b>	254,387
Future	<b>1,242,500</b>	1,240,000
	<b>2,014,295</b>	1,494,387
<b>Net earnings and comprehensive income for the period</b>	<b>5,673,330</b>	5,282,897
<b>Retained earnings, beginning of period</b>	<b>18,652,604</b>	13,257,307
<b>Cash distributions</b>	<b>(3,400,555)</b>	(3,391,159)
<b>Retained earnings, end of period</b>	<b>20,925,379</b>	15,149,045
<b>Net earnings per unit (note 5)</b>		
Basic	<b>0.53</b>	0.49
Diluted	<b>0.53</b>	0.49

See accompanying notes.

# Consolidated Statements of Cash Flows

(Unaudited)	Three months ended March 31, 2009 \$	Three months ended March 31, 2008 \$
<b>Operating activities</b>		
Net earnings and comprehensive income for the period	<b>5,673,330</b>	5,282,897
Add (deduct) items not involving cash:		
Amortization	<b>3,380,969</b>	2,891,679
Future income taxes	<b>1,242,500</b>	1,240,000
Unit-based compensation	<b>312,300</b>	230,700
Foreign exchange loss (gain)	<b>(283,030)</b>	48,397
Gain on sale of property, plant and equipment	<b>(92,445)</b>	(6,193)
	<b>10,233,624</b>	9,687,480
Net change in non-cash working capital relating to operating activities	<b>(3,136,046)</b>	(2,871,102)
	<b>7,097,578</b>	6,816,378
<b>Financing activities</b>		
Proceeds from long-term debt	<b>580,342</b>	1,698,298
Repayment of long-term debt	<b>(108,441)</b>	(54,693)
Distributions to unitholders	<b>(3,399,084)</b>	(3,389,925)
	<b>(2,927,183)</b>	(1,746,320)
<b>Investing activities</b>		
Purchase of property, plant and equipment	<b>(6,110,317)</b>	(5,451,469)
Purchase of service rights	<b>(200,000)</b>	-
Proceeds on disposal of property, plant and equipment	<b>788,435</b>	334,470
	<b>(5,521,882)</b>	(5,116,999)
<b>Decrease in cash during the period</b>	<b>(1,351,487)</b>	(46,941)
<b>Cash, beginning of period</b>	<b>2,656,144</b>	1,477,078
<b>Cash, end of period</b>	<b>1,304,657</b>	1,430,137

# Notes to Consolidated Financial Statements

(Unaudited)

## **1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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The unaudited interim consolidated financial statements include the accounts of Badger Income Fund ("Badger" or the "Fund") and its wholly-owned subsidiaries and have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). These unaudited interim consolidated financial statements for the three months ended March 31, 2009 have been prepared following the same accounting policies and methods of application as the audited consolidated financial statements of the Fund for the fiscal year ended December 31, 2008, except as noted below in Note 2. The disclosures provided below are incremental to those included in the Fund's annual audited consolidated financial statements. The unaudited interim consolidated financial statements and the related notes should be read in conjunction with the audited consolidated financial statements and the related notes in the Fund's Annual Report for the year ended December 31, 2008.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end and the results of operations for the interim periods shown in these statements are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the accompanying unaudited interim consolidated financial statements include all adjustments (of a normal recurring nature) necessary to present fairly the consolidated results of the Fund's operations and cash flows for the three months ended March 31, 2009 and 2008.

## **2. CHANGES IN ACCOUNTING POLICIES**

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Effective January 1, 2009 the Fund adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064 "Goodwill and Intangible Assets", which replaced Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill, other intangible assets as well as research and development costs. The adoption of this standard has had no material impact on the Fund's net earnings or cash flows.

## **3. FUTURE CHANGES IN ACCOUNTING POLICIES**

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The Fund will be subject to International Financial Reporting Standards ("IFRS") commencing in 2011. The Fund is assessing the impact conversion to IFRS may have on its financial statements.

#### 4. UNITHOLDERS' EQUITY

##### (A) UNITHOLDERS' CAPITAL

	Units	Amount (\$)
December 31, 2008	10,790,744	44,183,155
Units issued under the Incentive Plan	14,009	154,800
<b>March 31, 2009</b>	<b>10,804,753</b>	<b>44,337,955</b>

The Fund declared distributions of \$0.105 per unit for each of January, February and March for a total of \$3,400,555.

##### (B) UNIT OPTION PLAN

A summary of the unit option transactions for the three months ended March 31, 2009 is as follows:

	Units	Weighted average exercise price \$
<b>Outstanding at beginning of period</b>	<b>605,375</b>	<b>18.03</b>
Granted	-	-
Exercised	-	-
Forfeited	-	-
<b>Outstanding at end of period</b>	<b>605,375</b>	<b>18.03</b>

Price	Options outstanding			Options exercisable	
	Outstanding at March 31, 2009	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at March 31, 2009	Weighted average exercise price
<b>\$17.50</b>	<b>160,000</b>	<b>2.1</b>	<b>\$17.50</b>	<b>106,667</b>	<b>\$17.50</b>
<b>\$17.45</b>	<b>50,000</b>	<b>2.4</b>	<b>\$17.45</b>	<b>33,333</b>	<b>\$17.45</b>
<b>\$16.41</b>	<b>270,000</b>	<b>3.1</b>	<b>\$16.41</b>	<b>83,334</b>	<b>\$16.41</b>
<b>\$22.45</b>	<b>125,375</b>	<b>4.2</b>	<b>\$22.45</b>	<b>-</b>	<b>-</b>

##### (C) CONTRIBUTED SURPLUS

	\$
December 31, 2008	2,613,850
Unit-based compensation expense	312,300
<b>March 31, 2009</b>	<b>2,926,150</b>

**(D) PERFORMANCE TRUST UNITS PLAN**

The Fund has established a Performance Trust Units ("PTU") plan to reward officers and employees. The number of fund units earned is dependent upon the achievement of certain financial targets over a three-year period. The PTUs are earned over the same three-year period and vest on the third anniversary of the grant, at which time the holder is entitled to cash equal to the aggregate current market value of the number of fund units subject to the PTUs. Distributions per PTU are added to the entitlement after the PTUs are earned. Compensation expense is based on the estimated fair value of the award determined at the end of each quarter and recognized on a straight-line basis throughout the term of the vesting period, with a corresponding increase to accrued liabilities. The Fund has granted awards pursuant to the plan and recorded \$23,000 as compensation expense for the three months ended March 31, 2009 as part of selling, general and administrative expenses.

**5. NET EARNINGS PER UNIT**

Basic per unit calculations for the three months ended March 31, 2009 and 2008 were based on the weighted average number of units outstanding of 10,792,612 and 10,762,443, respectively. Diluted per unit calculations for the three months ended March 31, 2009 and 2008 were based on the weighted average number of units outstanding of 10,792,612 and 10,831,526, respectively. The difference between the basic and diluted units was attributable to the dilutive effect of the unit options outstanding.

**6. GEOGRAPHIC SEGMENTED INFORMATION**

The Fund operates in two geographic/reportable segments, providing daylighting services within each of these segments. The following is selected financial information for the three months ended March 31, 2009 and 2008 based on these geographic segments.

	Three months ended March 31, 2009			Three months ended March 31, 2008		
	Canada (\$)	U.S. (\$)	Total (\$)	Canada (\$)	U.S. (\$)	Total (\$)
Revenues	20,683,642	16,699,663	37,383,305	23,469,612	11,304,722	34,774,334
Direct costs	13,139,701	10,397,727	23,537,428	14,617,042	7,484,980	22,102,022
Selling, general and administrative	1,603,595	1,211,220	2,814,815	1,914,270	664,198	2,578,468
Amortization	1,952,768	1,428,201	3,380,969	1,874,040	1,017,639	2,891,679
Earnings before income taxes	3,721,044	3,966,581	7,687,625	4,691,368	2,085,916	6,777,284
Property, plant and equipment	55,535,981	40,573,542	96,109,523	45,849,863	28,103,470	73,953,333
Intangible assets	4,942,512	–	4,942,512	4,938,512	–	4,938,512
Goodwill	1,621,000	–	1,621,000	1,621,000	–	1,621,000
Total assets	84,580,070	57,785,454	142,365,524	77,217,136	39,495,154	116,712,290
Capital expenditures	1,894,598	589,519	2,484,117	2,044,516	3,406,953	5,451,469

# Corporate Information

## TRUSTEES

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### George Watson

Executive Chairman  
CriticalControl Solutions Corp.

### David Calnan, LL.B

Partner  
Shea Nerland Calnan LLP

### Garry P. Mihaichuk

President & Chief Executive Officer  
Toromont Energy Systems Inc.

### Glen D. Roane

Corporate Director

### J. Richard Couillard

President & Chief Executive Officer  
Rockwell Petroleum Inc.

### Tor Wilson

President & CEO

## OFFICERS AND MANAGEMENT

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### Tor Wilson

President & CEO

### Greg Kelly, CA

Vice President Finance & CFO

### Derek Dillon

Vice President Operations

### David Calnan, LL.B

Corporate Secretary

## HEAD OFFICE

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### Badger Income Fund

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Calgary, Alberta, Canada T2P 2X6  
Phone: 403-264-8500  
Fax: 403-228-9773

## AUDITORS

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### Ernst & Young LLP

Chartered Accountants  
Calgary, Alberta

## BANKERS

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### Toronto Dominion Bank

Calgary, Alberta

## REGISTRAR AND TRANSFER AGENT

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### Computershare Investor Services

Calgary, Alberta

## SOLICITORS

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### Shea Nerland Calnan LLP

Calgary, Alberta

### Robins Appleby & Taub LLP

Toronto, Ontario

### Bose McKinney & Evans LLP

Indianapolis, Indiana

## STOCK EXCHANGE LISTING

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Toronto Stock Exchange  
Trading Symbol "BAD.UN"

## WEBSITE

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[www.badgerinc.com](http://www.badgerinc.com)