



2008

QUARTERLY
REPORT

Continued Growth

For the Three and Six Months Ended June 30, 2008

Q2

BADGER INCOME FUND ANNOUNCES A 32 PERCENT INCREASE IN REVENUES AND RESULTS FOR THE SECOND QUARTER ENDED JUNE 30, 2008

Badger Income Fund (the "Fund" or "Badger") is pleased to announce its financial and operating results for the quarter ended June 30, 2008. Overall revenues for the three months ended June 30, 2008, increased by approximately 32 percent to \$33.1 million from \$25.0 million for the same period in 2007, due to a 29 percent increase in Canadian revenues and a 39 percent increase in United States revenues. As a result of the increase in revenues, the Fund's EBITDA and funds generated from operations also increased proportionately over the same period of 2007. Badger's EBITDA increased to \$8.8 million for the three months ended June 30, 2008, from \$6.3 million in the same quarter of 2007, while funds generated from operations increased to \$8.5 million in the second quarter of 2008 from \$6.5 million in the comparable quarter of 2007. Similarly positive results were also recorded for the six months ended June 30, 2008, compared to the first half of 2007.

Badger invested \$13.5 million in growth capital expenditures in the second quarter of 2008, an increase of 359 percent over the comparable period of 2007. Included in growth capital expenditures is the addition of 22 new daylighting units, \$4.3 million in purchases of land and buildings and certain plant expenditures incurred on the Red Deer facility. Two daylighting units were retired in the quarter.

Badger had 372 daylighting units at the end of the second quarter of 2008, reflecting the addition of 40 daylighting units to the fleet to date in 2008 and the retirement of two units. The Fund had 334 units at December 31, 2007.

Cash distributions remained flat quarter-over-quarter and for the comparable first-half periods, and the distribution rate per unit remained consistent at \$0.105 per unit monthly. The Fund did not issue units in the public equity markets during the 2008 period.

Financial Highlights

| (\$ thousands, except per unit results and total units outstanding information) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|------------|-----------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Revenues | 33,143 | 25,016 | 67,917 | 52,590 |
| EBITDA ⁽¹⁾ | 8,820 | 6,342 | 18,866 | 14,191 |
| Earnings before income taxes | 5,367 | 3,577 | 12,145 | 8,795 |
| Taxes | | | | |
| Current | 160 | 136 | 415 | 323 |
| Future | 1,200 | 1,901 | 2,440 | 2,702 |
| Net earnings | 4,007 | 1,540 | 9,290 | 5,770 |
| Net earnings per unit – diluted (\$) | 0.37 | 0.14 | 0.86 | 0.54 |
| Funds generated from operations ⁽²⁾ | 8,510 | 6,509 | 18,198 | 14,093 |
| Funds generated from operations per unit – diluted (\$) | 0.78 | 0.60 | 1.68 | 1.31 |
| Maintenance capital expenditures ⁽³⁾ | 631 | 964 | 631 | 1,631 |
| Required long-term debt repayments | 55 | 27 | 109 | 54 |
| Cash available for growth and distribution ⁽⁴⁾ | 8,254 | 5,679 | 18,221 | 12,694 |
| Cash distributions declared | 3,397 | 3,390 | 6,788 | 6,779 |
| Growth capital expenditures ⁽³⁾ | 13,488 | 2,937 | 18,940 | 5,090 |
| Total units outstanding, end of period | 10,790,744 | 10,761,668 | 10,790,744 | 10,761,668 |

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 June 30, 2008, Badger added 22 units to the fleet and removed two from service. As a result, 20 of the units added during the three months ended June 30, 2008 represent growth capital expenditures, while two of the units added represent maintenance capital expenditures. During the six months ended June 30, 2008 Badger added 40 units to the fleet, of which two have been reflected as maintenance capital expenditures. The economic life of a Badger hydrovac is approximately 10 years. The average age of the fleet is approximately four years. During the quarter, growth capital expenditures include the purchase of land and buildings, as well as certain plant expenditures incurred on the Red Deer facility. 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 2007 Annual Report. Additional information is also available on the Fund's website (www.badgerinc.com) and all previous public filings, including the most recently filed Annual Information Form, are available through SEDAR (www.sedar.com).

Revenue and expense variance analysis in the MD&A focuses primarily on the year-over-year changes during the second quarter. However, unless otherwise indicated, year-over-year variances for the six months ended June 30, 2008 and 2007 are explained by the same general factors, which contributed to the second quarter variance.

This MD&A has been prepared taking into consideration information available to August 12, 2008.

DISCLAIMER

Certain statements contained in the quarterly report, including statements contained in the MD&A, constitute forward-looking statements. These statements relate to future events or Badger's future performance. All statements other than statements of historical fact may be forward-looking statements. 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.

RESULTS OF OPERATIONS

Revenues

Revenues were \$33.1 million for the three months ended June 30, 2008, 32 percent higher than the \$25.0 million generated during the comparable period of 2007. The increase is attributable to the following:

- (1) In the United States, revenues increased to \$12.3 million from \$8.9 million over the comparative periods. This 39 percent increase was due to Badger's continued focus in certain geographical areas and market segments, which has resulted in an increased customer base and demand for hydrovac services. Other factors included increased oilfield services activity in the Western United States and good project work in the Eastern United States.
- (2) Good growth continued in Western Canada during the second quarter of 2008 with an increase of hydrovac revenue of 25 percent over the second quarter of 2007. Although Badger is pleased with the results, it should be noted that the second quarter of 2007 was a weak quarter for Badger. The prolonged wet weather in the spring of 2008 slowed activity in some areas but good project work and, in general, a good activity level in the field allowed Badger to increase revenue.
- (3) The slow winter in Eastern Canada was followed by a good level of activity in the second quarter. Badger grew revenues by 29 percent in the second quarter of 2008 over the second quarter of 2007.

Badger's average revenue per truck per month during the three months ended June 30, 2008 was \$27,100 versus \$25,200 for the three months ended June 30, 2007. This brings the average revenue per truck per month to \$28,700 for the six months ended June 30, 2008, from \$27,500 for the six months ended June 30, 2007. The Badger business model works well at an overall fleet average of \$25,000 or more per truck, per month.

Included in revenues is approximately \$410,000 of truck placement and franchise fees for the three months ended June 30, 2008, versus \$390,000 for the three months ended June 30, 2007.

Direct Costs

Direct costs for the quarter ended June 30, 2008, were \$21.7 million compared to \$16.3 million for the quarter ended June 30, 2007. This is consistent with the increase in revenues. During the first quarter of 2008 Badger reclassified certain United States expenses, previously included in selling, general and administrative expenses, to direct costs to better reflect the nature of those expenses. The comparative figures for each of the six and three months ended June 30, 2007, have also been reclassified to conform to the current period's presentation.

Gross Margin

Gross margin was 34.4 percent for the quarter ended June 30, 2008, virtually unchanged from the 34.7 percent for the quarter ended June 30, 2007.

Amortization

Amortization of property, plant and equipment was \$3.1 million for the three months ended June 30, 2008, or \$0.5 million higher than the \$2.6 million for the three months ended June 30, 2007. 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 \$394,000 for the quarter ended June 30, 2008, versus \$217,000 for the quarter ended June 30, 2007. The higher interest expense is attributable to maintaining a higher balance of debt during the second quarter of 2008 than in the second quarter of 2007. The increased debt was used to fund growth capital expenditures and business acquisitions made during 2007.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$2.7 million for the quarter ended June 30, 2008, compared to \$2.0 million for the quarter ended June 30, 2007. As a percentage of revenues, selling, general and administrative expenses were virtually flat at 8.1 percent for the second quarter of 2008 versus 8.0 percent recorded for the second quarter of 2007. The numerical increase was due to incurring non-cash compensation expense related to the grant of options of \$284,000 for the second quarter ended 2008 versus \$139,000 in the second quarter of 2007, to added costs due to the acquisition of service rights from certain of the Canadian Operating Partners in the second and fourth quarters of 2007, to added employee incentive compensation expenses and to 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 United States operations into Canadian currency. The foreign exchange gain was \$89,000 in the second quarter of 2008 versus a \$332,000 loss in the same period of 2007. The main reason for the period-over-period change was the appreciation of the Canadian dollar in the second quarter of 2007 versus the almost unchanged value of the United States dollar to the Canadian dollar during the second quarter of 2008.

Income Taxes

Badger recorded tax expenses of \$1.4 million in the second quarter of 2008, resulting in an effective tax rate of 25 percent, versus \$2.0 million in the second quarter of 2007, resulting in an effective tax rate of 57 percent. The 2007 second quarter expense reflected the impact of the October 31, 2006, trust tax announcement, which later became new federal tax legislation. For the remainder of 2008 the Fund anticipates an effective tax rate of 25 percent.

The low 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 June 30, 2008, increased to \$8.5 million from \$6.5 million for the comparable period in 2007, due to stronger Canadian and United States activity levels.

The Fund had working capital of \$22.1 million at June 30, 2008, compared to \$19.7 million at December 31, 2007. The increase was predominantly due to increased revenues resulting in an increase in the Fund's accounts receivable balance. Good levels of cash flow from operations allowed Badger to build new daylighting units while maintaining a healthy working capital position.

In May 2008, the Fund's extendable, revolving credit facility was renewed and amended to increase the maximum principal amount to \$40 million from \$30 million. The facility, of which \$30.1 million was drawn at June 30, 2008, is used to fund working capital requirements and finance capital expenditures. The Fund will utilize an appropriate mix of debt and equity to finance its maintenance capital expenditures and growth initiatives.

During June 2008 Badger obtained mortgage financing in the amount of \$3.2 million for certain land and buildings acquired in May 2008 for cash consideration of \$4.3 million. The amount is repayable in monthly principal payments of \$17,917 plus interest until June 2023 and bears interest at the bank's prime rate plus 0.25 percent.

The Fund spent \$14.1 million (including \$4.3 million on land and buildings) on property, plant and equipment for the three months ended June 30, 2008, compared to \$3.9 million for the three months ended June 30, 2007. The Fund built 22 daylighting units in the second quarter of 2008, compared to 15 built in the second quarter of 2007. The costs to build a daylighting unit were relatively consistent comparing the three months ended June 30, 2008, to the three months ended June 30, 2007.

In addition to the above, as at June 30, 2008, the Fund had committed to certain capital expenditures totalling approximately \$8.1 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 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 June 30, 2008, Badger added 10 units to the Canadian fleet, removed two from service and transferred two to the United States, bringing the total to 226 units operating in Canada as at June 30, 2008. In the United States, Badger added 12 units and received two, which were transferred from Canada, bringing the total number of units in the United States to 146 at June 30, 2008.

DISTRIBUTIONS

The following table outlines the cash available to fund growth and pay distributions to unitholders for the three and six months ended June 30, 2008:

| | Three Months Ended June 30, 2008 | Six Months Ended June 30, 2008 |
|--|---|--------------------------------------|
| Cash provided by operating activities | \$ 9,010,010 | \$ 15,826,388 |
| Add (deduct): net change in non-cash working capital | (499,706) | 2,371,396 |
| Funds generated from operations | 8,510,304 | 18,197,784 |
| Add: proceeds on disposal of property, plant and equipment | 429,102 | 763,572 |
| Deduct: required repayments of long-term debt | (54,693) | (109,386) |
| Deduct: maintenance capital expenditures* | (630,736) | (630,736) |
| Cash available for growth capital expenditures and distributions | \$ 8,253,977 | \$ 18,221,234 |
| Growth capital expenditures* | \$ 13,488,343 | \$ 18,939,812 |
| Cash distributions declared | \$ 3,397,265 | \$ 6,788,424 |

* Total maintenance and growth capital expenditures for the three and six months ended June 30, 2008, were \$14,119,079 and \$19,570,548, respectively.

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 six months ended June 30, 2008 and 2007 and the year ended December 31, 2007:

| | Six Months Ended June 30, 2008 \$ | Six Months Ended June 30, 2007 \$ | Year Ended December 31, 2007 \$ |
|--|--|--|--|
| Cash provided by operating activities | 15,826,388 | 13,650,591 | 24,432,856 |
| Net earnings | 9,289,685 | 5,769,673 | 16,722,845 |
| Cash distributions declared | 6,788,424 | 6,778,568 | 13,558,421 |
| Excess of cash provided by operating activities over cash distributions declared | 9,037,964 | 6,872,023 | 10,874,435 |
| Excess (shortfall) of net earnings over cash distributions declared | 2,501,261 | (1,008,895) | 3,164,424 |

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 short-term funding needs as well as planned equipment additions. Part of the debt management strategy involves 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. Badger expects that continued increases in 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 report the Fund is in 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 during the six months ended June 30, 2008, due to the issue of 2,325 units to the non-management trustees as partial payment for 2008 trustee fees, the issue of 11,751 units from the long-term incentive plan as payment for 2007 performance bonuses payable to management and the issue of 15,000 units to certain employees who exercised options pursuant to the unit option plan.

The total units outstanding at June 30, 2008, were 10,790,744. There was no change to the balance as of August 12, 2008.

SELECTED QUARTERLY FINANCIAL INFORMATION

| | Quarter Ended | | | | | | | |
|---------------------|-------------------|-------------------|------------|------------|------------|------------|------------|------------|
| | 2008 | | 2007 | | | | 2006 | |
| | June 30 | Mar. 31 | Dec. 31 | Sept. 30 | June 30 | Mar. 31 | Dec. 31 | Sept. 30 |
| Revenues (\$) | 33,142,814 | 34,774,334 | 33,356,010 | 31,741,950 | 25,015,707 | 27,574,051 | 25,621,658 | 25,324,030 |
| Net earnings (\$) | 4,006,788 | 5,282,897 | 5,816,949 | 5,136,223 | 1,539,755 | 4,229,918 | 4,659,784 | 3,974,958 |
| Net earnings per | | | | | | | | |
| unit – basic (\$) | 0.37 | 0.49 | 0.54 | 0.48 | 0.14 | 0.39 | 0.43 | 0.37 |
| Net earnings per | | | | | | | | |
| unit – diluted (\$) | 0.37 | 0.49 | 0.54 | 0.48 | 0.14 | 0.39 | 0.43 | 0.37 |

CHANGES IN ACCOUNTING POLICIES

As of January 1, 2008, the Fund prospectively adopted the following sections from the Handbook of the Canadian Institute of Chartered Accountants (CICA):

- Section 1535 “Capital Disclosures” requires the disclosure of qualitative and quantitative information about the Fund’s objectives, policies and processes for managing capital;
- Sections 3862 “Financial Instruments – Disclosures” and 3863 “Financial Instruments – Presentation” will replace Section 3861 to prescribe the requirements for presentation and disclosure of financial instruments; and
- Section 3031 “Inventories”, which prescribes the recognition, measurement, disclosure and presentation issues related to inventories.

There is no material impact to the Fund’s consolidated financial statements as a result of implementing the new standards.

On May 13, 2008, the Fund established a long-term incentive plan entitled the Performance Trust Units Plan (PTU), which is described in Note 3(d). The Fund determines compensation expense based on the estimated fair values of the PTUs, the cost of which is recognized in net earnings over the vesting periods of the PTUs.

For a detailed discussion about the accounting policies adopted, refer to Note 2 to the interim consolidated financial statements for the six- and three-month periods ended June 30, 2008.

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 June 30, 2008, that have materially affected or are reasonably likely to materially affect the ICFR. No such changes were identified through their evaluation.

BUSINESS RISKS

The MD&A for the year ended December 31, 2007, which is included in the Fund’s 2007 Annual Report, includes an overview of business risks associated with the Fund. Those business risks remain in effect. Reference should also be made to Badger’s 2007 Annual Information Form.

OUTLOOK

Badger is pleased with its results to date in 2008 and believes that growth will continue in 2008 given continued reasonable market conditions. The Fund believes its Canadian operations will be strong for the rest of the year now that the wet weather appears concluded in Western Canada and the construction season is in full operation in the east.

The United States currently has strong oil and natural gas activity levels in the west, which help keep utilization levels strong, along with several good projects in the east. Badger plans to continue to build new daylighting units at a rate of approximately six units per month.

REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the 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 Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Unaudited Consolidated Balance Sheets

| | June 30, 2008 \$ | December 31, 2007 \$ |
|--|---------------------|-------------------------|
| ASSETS | | |
| Current | | |
| Cash | 1,447,713 | 1,477,078 |
| Accounts receivable | 30,578,525 | 28,318,106 |
| Inventories | 2,437,480 | 1,690,133 |
| Prepaid expenses | 726,699 | 1,031,513 |
| | 35,190,417 | 32,516,830 |
| Property, plant and equipment | 84,633,963 | 71,672,820 |
| Intangible assets | 4,889,512 | 4,987,512 |
| Goodwill | 1,621,000 | 1,621,000 |
| | 126,334,892 | 110,798,162 |
| LIABILITIES AND UNITHOLDERS' EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities | 11,522,429 | 11,269,139 |
| Income taxes payable | 16,572 | 212,540 |
| Distributions payable | 1,133,028 | 1,129,975 |
| Current portion of long-term debt | 433,768 | 218,768 |
| | 13,105,797 | 12,830,422 |
| Long-term debt | 35,310,686 | 26,035,242 |
| Future income taxes | 15,940,936 | 13,500,936 |
| | 64,357,419 | 52,366,600 |
| Unitholders' equity | | |
| Unitholders' capital (note 3(a)) | 44,183,155 | 43,538,255 |
| Contributed surplus (note 3(c)) | 2,035,750 | 1,636,000 |
| Retained earnings | 15,758,568 | 13,257,307 |
| | 61,977,473 | 58,431,562 |
| | 126,334,892 | 110,798,162 |

See accompanying notes

Unaudited Consolidated Statements of Earnings and Comprehensive Income and Retained Earnings

| | Three Months Ended June 30, 2008 \$ | Three Months Ended June 30, 2007 \$ | Six Months Ended June 30, 2008 \$ | Six Months Ended June 30, 2007 \$ |
|---|--|--|--|--|
| Revenues | 33,142,814 | 25,015,707 | 67,917,148 | 52,589,758 |
| Direct costs | 21,728,569 | 16,347,041 | 43,830,591 | 33,917,218 |
| Gross margin | 11,414,245 | 8,668,666 | 24,086,557 | 18,672,540 |
| Expenses | | | | |
| Amortization | 3,123,473 | 2,564,165 | 6,015,152 | 4,955,996 |
| Loss (gain) on sale of property, plant and equipment | (65,126) | (16,939) | (71,319) | (3,820) |
| Interest – long-term | 394,384 | 217,029 | 777,061 | 443,979 |
| Selling, general and administrative | 2,682,848 | 1,995,117 | 5,261,316 | 4,063,166 |
| Foreign exchange loss (gain) | (88,781) | 331,929 | (40,384) | 418,636 |
| | 6,046,798 | 5,091,301 | 11,941,826 | 9,877,957 |
| Earnings before income taxes | 5,367,447 | 3,577,365 | 12,144,731 | 8,794,583 |
| Income taxes | | | | |
| Current | 160,659 | 136,260 | 415,046 | 322,910 |
| Future | 1,200,000 | 1,901,350 | 2,440,000 | 2,702,000 |
| | 1,360,659 | 2,037,610 | 2,855,046 | 3,024,910 |
| Net earnings and comprehensive income for the period | 4,006,788 | 1,539,755 | 9,289,685 | 5,769,673 |
| Retained earnings, beginning of period | 15,149,045 | 10,933,837 | 13,257,307 | 10,092,883 |
| Cash distributions | (3,397,265) | (3,389,604) | (6,788,424) | (6,778,568) |
| Retained earnings, end of period | 15,758,568 | 9,083,988 | 15,758,568 | 9,083,988 |
| Net earnings per unit (note 4) | | | | |
| Basic | 0.37 | 0.14 | 0.86 | 0.54 |
| Diluted | 0.37 | 0.14 | 0.86 | 0.54 |

See accompanying notes

Unaudited Consolidated Statements of Cash Flows

| | Three Months Ended June 30, 2008 \$ | Three Months Ended June 30, 2007 \$ | Six Months Ended June 30, 2008 \$ | Six Months Ended June 30, 2007 \$ |
|---|--|--|--|--|
| OPERATING ACTIVITIES | | | | |
| Net earnings and comprehensive income for the period | 4,006,788 | 1,539,755 | 9,289,685 | 5,769,673 |
| Add (deduct) items not involving cash: | | | | |
| Amortization | 3,123,473 | 2,564,165 | 6,015,152 | 4,955,996 |
| Future income taxes | 1,200,000 | 1,901,350 | 2,440,000 | 2,702,000 |
| Unit-based compensation | 333,950 | 188,600 | 564,650 | 251,000 |
| Foreign exchange loss (gain) | (88,781) | 331,929 | (40,384) | 418,636 |
| Loss (gain) on sale of property, plant and equipment | (65,126) | (16,939) | (71,319) | (3,820) |
| | 8,510,304 | 6,508,860 | 18,197,784 | 14,093,485 |
| Net change in non-cash working capital relating to operating activities | 499,706 | 1,514,048 | (2,371,396) | (442,894) |
| | 9,010,010 | 8,022,908 | 15,826,388 | 13,650,591 |
| FINANCING ACTIVITIES | | | | |
| Proceeds received on the exercise of unit options | 246,150 | – | 246,150 | – |
| Proceeds from long-term debt | 7,901,532 | 10,161,810 | 9,599,830 | 12,022,981 |
| Repayment of long-term debt | (54,693) | (27,192) | (109,386) | (54,384) |
| Distributions to unitholders | (3,395,446) | (3,389,284) | (6,785,371) | (6,778,248) |
| | 4,697,543 | 6,745,334 | 2,951,223 | 5,190,349 |
| INVESTING ACTIVITIES | | | | |
| Purchase of property, plant and equipment | (14,119,079) | (3,900,594) | (19,570,548) | (6,720,578) |
| Purchase of Benko Sewer Service | – | (4,101,000) | – | (4,101,000) |
| Purchase of service rights | – | (3,994,007) | – | (3,994,007) |
| Proceeds on disposal of property, plant and equipment | 429,102 | 160,697 | 763,572 | 285,442 |
| Net change in non-cash working capital relating to investing activities | – | (2,712,986) | – | (3,651,420) |
| | (13,689,977) | (14,547,890) | (18,806,976) | (18,181,563) |
| Increase (decrease) in cash during the period | 17,576 | 220,352 | (29,365) | 659,377 |
| Cash, beginning of period | 1,430,137 | 1,758,937 | 1,477,078 | 1,319,912 |
| Cash, end of period | 1,447,713 | 1,979,289 | 1,447,713 | 1,979,289 |

See accompanying notes

Notes to the Consolidated Financial Statements

(unaudited)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim consolidated financial statements include the accounts of Badger Income Fund (the "Fund" or "Badger") 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 six and three months ended June 30, 2008 and 2007 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, 2007, 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, 2007.

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 six and three months ended June 30, 2008 and 2007.

Certain comparative figures have been reclassified to conform to the current period's presentation.

2. CHANGES IN ACCOUNTING POLICIES

As of January 1, 2008, the Fund adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535 "Capital Disclosures", Section 3862 "Financial Instruments – Disclosures", Section 3863 "Financial Instruments – Presentation" and Section 3031 "Inventories". The provisions have been adopted and included in these consolidated financial statements in Notes 5 and 6. As required by the new standards, prior periods have not been restated.

The adoption of these standards has had no material impact on the Fund's net earnings or cash flows. The other effects of the implementation of the new standards are discussed below.

On May 13, 2008, the Fund established a long-term incentive plan entitled the Performance Trust Units Plan (PTU), which is described in Note 3(d). The Fund determines compensation expense based on the estimated fair values of the PTUs, the cost of which is recognized in net earnings over the vesting periods of the PTUs.

3. UNITHOLDERS' EQUITY

(a) Unitholders' Capital

| | Units | Amount (\$) |
|--|------------|-------------|
| December 31, 2007 | 10,761,668 | 43,538,255 |
| Units issued under the Incentive Plan | 14,076 | 283,850 |
| Units issued pursuant to unit option plan | 15,000 | 246,150 |
| Compensation expense related to unit options exercised | – | 114,900 |
| June 30, 2008 | 10,790,744 | 44,183,155 |

The Fund declared distributions of \$0.105 per unit for each of the months of January through June for a total of \$6,788,424.

(b) Unit Option Plan

A summary of the unit option transactions for the six months ended June 30, 2008, is as follows:

| | Six Months Ended June 30, 2008 | |
|------------------------------------|--------------------------------|------------------------------------|
| | Units | Weighted average exercise price \$ |
| Outstanding at beginning of period | 505,000 | 16.86 |
| Granted | 131,375 | 22.45 |
| Exercised | (15,000) | 16.41 |
| Forfeited | – | – |
| Outstanding at end of period | 621,375 | 18.05 |

| Price | Options Outstanding | | | Options Exercisable | |
|---------|------------------------------|---|---------------------------------|-------------------------------------|---------------------------------|
| | Outstanding at June 30, 2008 | Weighted average remaining contractual life | Weighted average exercise price | Number exercisable at June 30, 2008 | Weighted average exercise price |
| \$17.50 | 160,000 | 2.9 | \$ 17.50 | 106,666 | \$ 17.50 |
| \$17.45 | 50,000 | 3.1 | \$ 17.45 | 16,666 | \$ 17.45 |
| \$16.41 | 280,000 | 3.9 | \$ 16.41 | 93,333 | \$ 16.41 |
| \$22.45 | 131,375 | 4.9 | \$ 22.45 | – | – |

In May 2008 the Fund granted 131,375 fund unit options at an exercise price of \$22.45.

The estimated weighted average fair value of fund unit options granted for the six months ended June 30, 2008, was \$9.74 per unit option. The fair value of each unit option grant was estimated on the date of the grant, as determined by using the Black-Scholes option-pricing model with the following assumptions:

| Six Months Ended June 30, 2008 | |
|--|---------|
| Weighted average assumptions | |
| Dividend yield | 5.61% |
| Discount for forfeiture | 0 |
| Risk-free interest rate | 3.50% |
| Expected life of options | 5 years |
| Expected volatility factor of the future expected market price of fund units | 76% |

(c) Contributed Surplus

| | \$ |
|--|------------------|
| December 31, 2007 | 1,636,000 |
| Unit-based compensation expense | 514,650 |
| Compensation expense related to unit options exercised | (114,900) |
| June 30, 2008 | 2,035,750 |

(d) Performance Trust Units Plan

On May 13, 2008, the Fund established the PTU referenced in Note 2 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 fair value of the award determined by the Fund's closing price at the end of the quarter (June 30, 2008 – \$23.60) and recognized on a straight-line basis throughout the term of the vesting period, with a corresponding increase to accrued liabilities. On May 13, 2008, the Fund granted awards pursuant to the plan and recorded \$26,000 as compensation expense for the six months ended June 30, 2008, as part of selling, general and administrative expenses.

4. NET EARNINGS PER UNIT

Basic per unit calculations for the six and three months ended June 30, 2008, were based on the weighted average number of units outstanding of 10,771,174 and 10,779,906, respectively. Basic per unit calculations for the six and three months ended June 30, 2007, were based on the weighted average number of units outstanding of 10,759,258 and 10,759,892, respectively. Diluted per unit calculations for the six and three months ended June 30, 2008 were based on the weighted average number of units outstanding of 10,862,558 and 10,871,290, respectively. Diluted per unit calculations for the six and three months ended June 30, 2007, were based on the weighted average number of units outstanding of 10,759,258 and 10,759,892, respectively. The difference between the basic and diluted units was attributable to the dilutive effect of the unit options outstanding.

5. CAPITAL MANAGEMENT

The Fund's strategy is to carry a capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The Fund considers the capital structure to consist of net debt and unitholders' equity. Badger considers net debt to be total long-term debt less cash. The Fund seeks to maintain a balance between the level of net debt and unitholders' equity to ensure access to capital markets to fund growth and working capital. On a historical basis, the Fund has maintained a conservative ratio of net debt to net debt plus unitholders' equity. The Fund may occasionally need to increase these levels to facilitate acquisition or expansion activities. As at June 30, 2008, and December 31, 2007, this ratio was as follows:

| | June 30, 2008 | December 31, 2007 |
|--------------------------------------|---------------|-------------------|
| Long-term debt | \$ 35,744,454 | \$ 26,254,010 |
| Cash | (1,447,713) | (1,477,078) |
| Net debt | 34,296,741 | 24,776,932 |
| Unitholders' equity | 61,977,473 | 58,431,562 |
| Total capitalization | \$ 96,274,214 | \$ 83,208,494 |
| Net debt to total capitalization (%) | 36% | 30% |

The Fund sets the amounts of its various forms of capital in proportion to risk. The Fund manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Fund may adjust the amount of distributions to unitholders, return capital to unitholders, issue new units, or sell assets to reduce net debt.

The Fund is bound by certain financial and non-financial covenants as defined by its bank. If the Fund is in violation of any of these covenants its ability to pay distributions may be inhibited. The Fund monitors these covenants to ensure it remains in compliance. Throughout 2007 and year-to-date 2008, and as at June 30, 2008, the Fund was in compliance with all of these covenants.

As a result of the Canadian trust taxation legislation passed in June 2007 and effective January 1, 2011, the Fund is subject to certain capital growth restrictions referred to as "normal growth" equity rules. These rules limit the amount of unitholders' capital that can be issued by the Fund in each of the next three years, based on the Fund's market capitalization on October 31, 2006. Badger is constrained by a non-cumulative capacity of \$50 million per year until 2010 plus approximately \$8 million capacity from debt outstanding at October 31, 2006.

If the maximum allowed equity growth is exceeded, the Fund may be subject to the trust taxation prior to 2011.

In addition to growth capital restrictions, the Fund also monitors its foreign ownership levels to the extent possible given the practical limitations regarding beneficial ownership information. The Fund Declaration of Trust, under which the Fund was created, provides that no more than 49 percent of the units of the Fund can be held by non-Canadian residents. The potential impact of breaching this threshold may be the loss of mutual fund trust status, which may significantly adversely impact the valuation of the units. At June 30, 2008, the Fund's best estimate of the foreign ownership level was 23 percent.

There were no changes in the Fund's approach to capital management during the quarter.

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Values

The Fund's financial instruments recognized on the interim consolidated balance sheet consist of cash, accounts receivable, accounts payable, income taxes payable, distributions payable and long-term debt. The fair values of these recognized financial instruments, excluding long-term debt, approximate their carrying value due to their short-term maturity. The carrying value of the long-term debt approximates fair value because each of the long-term facilities has a floating interest rate.

Credit Risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. A substantial portion of the Fund's accounts receivable balance is with customers in the petroleum and utility industries and is subject to normal industry credit risks. The Fund manages its exposure to credit risk through standard credit granting procedures and short payment terms. The Fund attempts to monitor financial conditions of its customers and the industries in which they operate.

Liquidity Risk

Liquidity risk is the risk that, as a result of operational liquidity requirements, the Fund will not have sufficient funds to settle a transaction on the due date, will be forced to sell financial assets at a price which is less than what they are worth, or will be unable to settle or recover a financial asset.

The Fund's operating cash requirements are continuously monitored by management. As factors impacting cash requirements change, liquidity risks may necessitate the need for the Fund to raise capital by issuing equity or obtaining additional debt financing. The Fund also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

At June 30, 2008, the Fund had available \$9.9 million of authorized borrowing capacity on the extendable revolving facility. The Fund believes it has sufficient funding through operations and the use of this facility to meet foreseeable financial obligations.

Market Risk

The significant market risk exposures affecting the financial instruments held by the Fund are those related to interest rates and foreign currency exchange rates which are explained as follows:

Interest Rate Risk

The Fund is exposed to interest rate risk in relation to interest expense on its long-term debt. Interest is calculated at prime to prime plus for certain of its borrowing facilities. The prime interest rate is subject to change. The Fund does not currently use interest rate hedges or fixed interest rate contracts to manage the Fund's exposure to interest rate fluctuations.

Foreign Exchange Risk

The Fund has United States operations and its Canadian operations purchase certain products in United States dollars. As a result, fluctuations in the value of the Canadian dollar relative to the United States dollar can result in foreign exchange gains and losses. The Fund does not currently have any agreements to fix the exchange rate of the Canadian dollar to the United States dollar.

7. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current period's presentation.

8. SEGMENTED INFORMATION

The Fund operates in two geographic/reportable segments, providing daylighting services in each of these segments. The following is selected information for the six-month and three-month periods ended June 30, 2008 and 2007 based on these geographic segments:

| | Three months ended June 30, 2008 | | | Three months ended June 30, 2007 | | |
|-------------------------------------|----------------------------------|-------------------|-------------------|----------------------------------|-----------|------------|
| | Canada (\$) | U.S. (\$) | Total (\$) | Canada (\$) | U.S. (\$) | Total (\$) |
| Revenues | 20,831,129 | 12,311,685 | 33,142,814 | 16,143,373 | 8,872,334 | 25,015,707 |
| Direct costs | 13,510,526 | 8,218,043 | 21,728,569 | 10,542,604 | 5,804,437 | 16,347,041 |
| Selling, general and administrative | 2,045,020 | 637,828 | 2,682,848 | 1,357,547 | 637,570 | 1,995,117 |
| Amortization | 1,909,279 | 1,214,194 | 3,123,473 | 1,757,198 | 806,967 | 2,564,165 |
| Earnings before income taxes | 3,121,310 | 2,246,137 | 5,367,447 | 2,364,492 | 1,212,873 | 3,577,365 |
| Capital expenditures | 9,811,468 | 4,307,611 | 14,119,079 | 1,556,844 | 2,343,750 | 3,900,594 |

| | Six months ended June 30, 2008 | | | Six months ended June 30, 2007 | | |
|-------------------------------------|--------------------------------|-------------------|--------------------|--------------------------------|------------|-------------|
| | Canada (\$) | U.S. (\$) | Total (\$) | Canada (\$) | U.S. (\$) | Total (\$) |
| Revenues | 44,300,741 | 23,616,407 | 67,917,148 | 34,291,036 | 18,298,722 | 52,589,758 |
| Direct costs | 28,127,568 | 15,703,023 | 43,830,591 | 21,845,656 | 12,071,562 | 33,917,218 |
| Selling, general and administrative | 3,959,290 | 1,302,026 | 5,261,316 | 2,761,004 | 1,302,162 | 4,063,166 |
| Amortization | 3,783,319 | 2,231,833 | 6,015,152 | 3,418,850 | 1,537,146 | 4,955,996 |
| Earnings before income taxes | 7,812,678 | 4,332,053 | 12,144,731 | 5,892,292 | 2,902,291 | 8,794,583 |
| Property, plant and equipment | 53,531,080 | 31,102,883 | 84,633,963 | 46,570,532 | 21,349,251 | 67,919,783 |
| Intangible assets | 4,889,512 | – | 4,889,512 | 3,956,343 | – | 3,956,343 |
| Goodwill | 1,621,000 | – | 1,621,000 | 1,621,000 | – | 1,621,000 |
| Total assets | 82,877,018 | 43,457,874 | 126,334,892 | 69,829,998 | 31,587,635 | 101,417,633 |
| Capital expenditures | 11,855,984 | 7,714,564 | 19,570,548 | 1,835,709 | 4,884,869 | 6,720,578 |

Corporate Information

TRUSTEES

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CriticalControl Solutions Corp.

David Calnan, LL.B

Partner
Shea Nerland Calnan LLP

Martin Margolis, CA

Chartered Accountant

Glen D. Roane

Corporate Director

J. Richard Couillard

Independent Businessman

Tor Wilson

President & CEO

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Toronto Stock Exchange

Trading Symbol "BAD.UN"

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