BADGER
INCOME FUND

2007 QUARTERLY REPORT

CONTINUED ORGANIC GROWTH

For the Three and Nine Months Ended September 30, 2007

BADGER INCOME FUND ANNOUNCES THIRD QUARTER 2007 RESULTS, WHICH INCLUDES A 25 PERCENT QUARTERLY INCREASE IN REVENUES

Badger Income Fund (the "Fund" or "Badger") is pleased to announce its results for the third quarter of 2007. Overall revenues increased by approximately 25 percent to $31.7 million for the three months ended September 30, 2007 from $25.3 million for the same period in 2006, due to a 29 percent increase in Canadian revenues and an 18 percent increase in United States revenues. As a result of the increase in revenues, EBITDA and funds generated from operations also increased over the same period of 2006. Badger's EBITDA increased to $9.2 million in the third quarter from $7.5 million in the same quarter of 2006.

FINANCIAL HIGHLIGHTS

($ thousands, except per unit results and total units outstanding figures)	**Three Months Ended Sept. 30, 2007**	Three Months Ended Sept. 30, 2006	**Nine Months Ended Sept. 30, 2007**	Nine Months Ended Sept. 30, 2006
Revenues	**31,742**	25,324	**84,332**	72,749
EBITDA (1)	**9,202**	7,504	**23,393**	21,589
Earnings before income taxes	**6,225**	5,281	**15,020**	14,987
Taxes				
Current	**296**	194	**619**	504
Future	**793**	1,112	**3,495**	2,646
Net earnings	**5,136**	3,975	**10,906**	11,837
Net earnings per unit – diluted ($)	**0.48**	0.37	**1.01**	1.10
Funds generated from operations (2)	**9,219**	7,269	**23,312**	21,035
Funds generated from operations per unit – diluted ($)	**0.86**	0.68	**2.17**	1.96
Maintenance capital expenditures (3)	**624**	1,272	**2,255**	3,170
Long-term debt repayments	**27**	27	**82**	82
Cash available for growth and distribution (4)	**8,567**	6,153	**21,236**	18,497
Cash distributions declared	**3,390**	3,388	**10,168**	9,858
Growth capital expenditures (3)	**2,120**	2,870	**7,185**	10,653
Total units outstanding, end of period	**10,761,668**	10,758,618	**10,761,668**	10,758,618

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 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 are 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 September 30, 2007, Badger added 12 units to the fleet and removed two from service. As a result, ten of the units added during the three months ended September 30, 2007 represent growth capital expenditures, while two of the units added represent maintenance capital expenditures. During the nine months ended September 30, 2007 Badger added 45 units to the fleet, of which seven 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. 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.

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OPERATIONAL SUMMARY

1. Badger's Western Canada operations experienced a good level of activity with improved weather conditions and infrastructure projects resulting in a strong increase of revenue in the quarter. Corporate operations have benefited from increased management focus.

2. In Eastern Canada Badger saw improved revenue in the quarter leading to acceptable results but less than what was originally forecast.

3. The United States continued its revenue growth in the third quarter. During the year Badger added four more corporate locations in the eastern part of the United States, which the Fund anticipates will help growth in 2008.

4. Monthly revenue per hydrovac truck was $30,600 in the third quarter of 2007, compared to $30,200 for the same period of 2006. Badger budgets an overall fleet average of $25,000 per truck per month.

5. Badger had 323 daylighting units at the end of the third quarter of 2007, reflecting the addition of 45 units to the fleet during the first three quarters of 2007 and the retirement of seven units. The Fund had 285 units at December 31, 2006.

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis 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 Management's Discussion and Analysis included in Badger Income Fund's 2006 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 Management's Discussion and Analysis focuses primarily on the year-over-year changes during the third quarter. However, unless otherwise indicated, year-over-year variances for the nine months ended September 30, 2007 and 2006 are explained by the same general factors, which contributed to the third quarter variance.

This Management's Discussion and Analysis has been prepared taking into consideration information available to November 12, 2007.

Disclaimer

This quarterly report contains forward-looking statements subject to various risk factors and uncertainties, which may cause the actual results, performance or achievements of Badger to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such 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 the quarterly report should not be 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 of $31.7 million for the three months ended September 30, 2007 were 25 percent higher than the $25.3 million in revenues generated during the comparable period of 2006. This increase is attributable to the following:

1. In the United States revenues increased to $9.9 million from $8.4 million period-over-period. This 18 percent increase was due to Badger's continued focus in certain geographical areas and market segments, which resulted in a growing customer base and increased demand for hydrovac services. The other major contributing factor was the increased activity related to oil field service in the United States. Oil field service-related revenue in the United States accounted for approximately 55 percent of the Fund's total United States revenue generated during the nine months ended September 30, 2007.

2. Western Canada hydrovac revenue increased by $2.6 million or 22 percent in the third quarter of 2007 over the third quarter of 2006. The main reason was pent-up demand from the second quarter when wet weather delayed work in certain areas. Also during the third quarter Badger provided services on some major projects.

3. Eastern Canada revenue, excluding the added revenue from the Benko acquisition, increased by 10 percent due to improved territorial coverage and customer development.

Badger's average monthly revenue per hydrovac truck during the three months ended September 30, 2007 was $30,600, versus $30,200 for the three months ended September 30, 2006. This brought average monthly revenue per truck to $28,700 for the nine months ended September 30, 2007, versus $29,900 for the nine months ended September 30, 2006.

Included in revenues was approximately $555,000 of truck placement and franchise fees for the three months ended September 30, 2007, versus $276,000 of such fees for the three months ended September 30, 2006.

Direct Costs

Direct costs for the quarter ended September 30, 2007 were $19.6 million compared to $16.0 million for the quarter ended September 30, 2006. This was an increase of 23 percent, versus the 25 percent increase in revenues, resulting in an increased gross margin during the third quarter of 2007 compared to the third quarter of 2006.

Gross Margin

Gross margin was 38.2 percent for the quarter ended September 30, 2007 versus 36.8 percent for the quarter ended September 30, 2006. The main reasons for the increase in gross margin were the increase in revenues and the running of a larger number of corporate locations in Canada, which resulted from the acquisition of service rights from certain Canadian Operating Partners.

Amortization

Amortization was $2.6 million for the three months ended September 30, 2007, or $0.4 million higher than the $2.2 million for the three months ended September 30, 2006. The increase reflects a larger number of hydrovac units in the fleet. Included in this figure is approximately $49,000 related to the amortization of the intangible assets acquired with Benko Sewer Service.

Interest Expense

Interest expense was $285,000 for the quarter ended September 30, 2007 versus $108,000 for the quarter ended September 30, 2006. The higher interest expense is attributable to maintaining a higher balance of debt during the third quarter of 2007 than in the third quarter of 2006. The increased debt was used to fund growth capital expenditures and business acquisitions.

Selling, General and Administrative

Selling, general and administrative expenses were $2.5 million for the quarter ended September 30, 2007 compared to $1.8 million for the quarter ended September 30, 2006. As a percentage of revenues, selling, general and administrative expenses were 8.0 percent for the third quarter of 2007 versus 7.2 percent for the third quarter of 2006. The increase was due to hiring additional personnel to manage growth in the United States, compensation increases required to retain quality personnel in a competitive labour environment, additional costs associated with the acquisition of Benko Sewer Service and higher general office costs to support the growth in business. The amount for the three months ended September 30, 2007 also included a $231,000 charge for non-cash compensation expense related to unit options granted versus $58,000 for the comparable period in 2006.

Foreign Exchange Loss (Gain)

The Fund's foreign exchange loss increased to $366,000 in the third quarter of 2007 from $9,000 in the same quarter in 2006 due to the United States dollar weakening against the Canadian dollar to a larger extent in the third quarter of 2007 than in the third quarter of 2006 and an overall increase in the Fund's United States operations, which resulted in an increase in the Fund's net monetary assets denominated in United States dollars. The foreign exchange loss is a non-cash expense which does not impact cash available for growth capital expenditures and distributions.

Income Taxes

Badger recorded an income tax expense of $1.1 million in the third quarter of 2007 versus $1.3 million in the third quarter of 2006.

With the June 2007 substantive enactment of Bill C-52, a new 31.5 percent tax will be applied to distributions from Canadian public trusts starting in 2011. As a result, in the second quarter of 2007 Badger recorded an additional $1.6 million in future income tax expense and a corresponding future income tax liability related to the differences between the accounting and tax basis of the Fund's assets. Prior to this legislation, Badger's future income taxes reflected only those temporary differences in the Fund's subsidiaries. While net earnings in the second quarter of 2007 were reduced significantly by this future tax adjustment, there was no impact on cash flow provided by operating activities or on cash available for growth capital expenditures and distribution.

Liquidity

Funds generated from operations for the quarter ended September 30, 2007 increased to $9.2 million from $7.3 million for the comparable period in 2006 due to stronger Canadian and United States activity levels.

The Fund had working capital of $19.2 million at September 30, 2007 compared to $9.4 million at December 31, 2006. Good levels of cash flow from operations allowed Badger to build new daylighting units while maintaining a healthy working capital position.

The following table outlines the cash available to fund growth and pay distributions to unitholders for the three and nine months ended September 30, 2007:

	Three Months Ended Sept. 30, 2007	Nine Months Ended Sept. 30, 2007
Cash provided by operating activities	$ 3,059,986	$ 16,710,577
Add (deduct): net change in non-cash working capital	6,158,569	6,601,463
Funds generated from operations	9,218,555	23,312,040
Add: proceeds on disposal of property, plant and equipment	–	260,639
Less: required repayments of long-term debt	(27,192)	(81,576)
Less: maintenance capital expenditures (*)	(623,961)	(2,254,861)
Cash available for growth capital expenditures and distributions	$ 8,567,402	$ 21,236,242
Growth capital expenditures (*)	$ 2,119,874	$ 7,184,749
Cash distributions declared	$ 3,389,926	$ 10,168,494

(*) Total maintenance and growth capital expenditures for the three and nine months ended September 30, 2007 were $2,743,835 and $9,439,610, respectively.

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; maintenance and growth capital expenditure requirements for the purchase of property, plant and equipment; and number of units outstanding. It may also be impacted by the future tax treatment of income trusts.

The majority of the cash provided by operating activities was used to finance maintenance and growth capital expenditures and to pay distributions to unitholders. As outlined in the chart above, cash not distributed to unitholders was used to finance growth capital expenditures.

If maintenance capital expenditures increase in future periods, the Fund's cash available for growth capital expenditures and distributions 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 cash provided by operations will be sufficient to fund the maintenance capital expenditures in the future.

Badger's cash available for growth capital expenditures and distributions has been negatively impacted by the weakening of the United States dollar relative to the Canadian dollar as the funds generated from operations has been reduced. On the positive side approximately one third of the capital costs incurred to build the hydrovac units is denominated in United States dollars thereby reducing the cost of manufacturing the hydrovac units.

Badger is restricted from declaring distributions and distributing cash if it is in breach of the covenants under its credit facility. 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.

The revolving credit facility is used to fund working capital requirements and finance capital expenditures, of which $22.4 million was used at September 30, 2007. The Fund will maintain an appropriate mix of flexible debt and equity to finance its maintenance capital expenditures and growth initiatives.

Capital Resources

The Fund spent $2.7 million on property, plant and equipment for the three months ended September 30, 2007 compared to $4.1 million for the three months ended September 30, 2006. The Fund added 12 hydrovac units to the fleet in the third quarter of 2007, compared to 12 units in the third quarter of 2006. The decrease of $1.4 million in capital expenditures was due to Badger incurring certain costs prior to the commencement of the third quarter which related to the build of the units in the third quarter of 2007.

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 and distributions to unitholders.

Number of Daylighting Units

During the three-month period ended September 30, 2007 Badger added four units to the Canadian fleet and removed one from service, bringing the total to 213 units operating in Canada at September 30, 2007. In the United States, Badger added eight units and removed one from service, bringing the total to 110 units in the United States at September 30, 2007.

Contractual Obligations and Committed Capital Investment

The Fund intends to meet its contractual obligations through funds generated by operating activities. The Fund's contractual obligations for the next five years, relating to repayment of long-term debt, are as follows (assuming the extendable revolving credit facility is not renewed on June 30, 2008):

October 1, 2007 to December 31, 2007	$ 27,192
2008	108,768
2009	22,425,881
2010	108,768
2011	108,768
Thereafter	571,066
Total	$ 23,350,443

In addition to the contractual obligations above, at September 30, 2007 the Fund had committed to certain capital expenditures totalling approximately $5.7 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 payments for these financial obligations.

Unitholders' Capital

The total units outstanding at September 30, 2007 were 10,761,668. There was no subsequent change to the balance as of November 12, 2007.

Selected Quarterly Financial Information

Quarter ended	**2007**			2006				2005
	Sept. 30	**June 30**	**Mar. 31**	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31
Revenues ($)	**31,741,950**	**25,015,707**	**27,574,051**	25,621,658	25,324,030	21,696,318	25,728,890	23,093,735
Net earnings ($)	**5,136,223**	**1,539,755**	**4,229,918**	4,659,784	3,974,958	2,841,459	5,020,254	3,468,113
Net earnings per unit – basic ($)	**0.48**	**0.14**	**0.39**	0.43	0.37	0.26	0.47	0.32
Net earnings per unit – diluted ($)	**0.48**	**0.14**	**0.39**	0.43	0.37	0.26	0.47	0.32

Change in Accounting Policies

As of January 1, 2007, the Fund prospectively adopted the Canadian Institute of Chartered Accountants' (CICA) Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges". Under the new standards a new financial statement, the Consolidated Statement of Comprehensive Income, has been introduced that provides for certain gains and losses and other amounts arising from changes in fair value, to be temporarily recorded outside the income statement. In addition, all financial instruments, including derivatives, are to be included in the Fund's Consolidated Balance Sheets and measured, in most cases, at fair values, and requirements for hedge accounting have been further clarified. There is no material impact to the Fund's consolidated financial statements as a result of implementing the new standards. As required by the new standards, prior periods have not been restated.

As of January 1, 2007 the Fund adopted revised CICA Section 1506 "Accounting Changes", which provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or when the change results in more relevant and reliable information. There is no material impact to the Fund's consolidated financial statements as a result of implementing this new standard.

For a detailed discussion about the accounting policies adopted, please refer to note 2 of the interim consolidated financial statements for the nine- and three-month periods ended September 30, 2007.

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 September 30, 2007 that have materially affected or are reasonably likely to materially affect the ICFR. No such changes were identified through their evaluation.

Business Risks

The Management's Discussion and Analysis for the year ended December 31, 2006, which is included in the Fund's 2006 Annual Report, includes an overview of business risks associated with the Fund. Those business risks remain in effect and readers are referred to this document. Reference should also be made to Badger's 2006 Annual Information Form.

Outlook

Badger expects revenue growth to continue in the fourth quarter of 2007. This is based on a good level of infrastructure activity in Western Canada, an expected strong finish to the construction season in Ontario, a large number of projects in the Eastern United States requiring Badger's service and a continued good level of activity in the oil field service sector in the Western United States.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

	September 30, 2007	December 31, 2006
	$	$
ASSETS		
Current		
Cash	**1,662,308**	1,319,912
Accounts receivable	**27,694,112**	22,873,841
Inventories	**1,707,490**	1,399,661
Prepaid expenses	**1,128,360**	679,675
	32,192,270	26,273,089
Property, plant and equipment	**68,020,775**	62,367,823
Intangible assets (note 3)	**3,907,344**	1,551,336
Goodwill (note 3)	**1,621,000**	–
	105,741,389	90,192,248
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**11,558,470**	14,951,723
Income taxes payable	**173,725**	671,544
Distributions payable	**1,129,975**	1,129,655
Current portion of long-term debt	**108,768**	108,768
	12,970,938	16,861,690
Long-term debt	**23,241,675**	8,516,284
Future income taxes (note 7)	**13,754,936**	10,259,536
	49,967,549	35,637,510
Unitholders' equity		
Unitholders' capital (note 4)	**43,538,255**	43,488,255
Contributed surplus (note 5)	**1,405,300**	973,600
Retained earnings	**10,830,285**	10,092,883
	55,773,840	54,554,738
	105,741,389	90,192,248

See accompanying notes.

Unaudited Consolidated Statements of Earnings and Comprehensive Income and Retained Earnings

	Three Months Ended Sept. 30, 2007 $	Three Months Ended Sept. 30, 2006 $	**Nine Months Ended Sept. 30, 2007 $**	Nine Months Ended Sept. 30, 2006 $
Revenues	**31,741,950**	25,324,030	**84,331,708**	72,749,238
Direct costs	**19,628,697**	15,998,845	**53,049,127**	45,746,720
Gross margin	**12,113,253**	9,325,185	**31,282,581**	27,002,518
Expenses				
Amortization	**2,647,386**	2,186,232	**7,603,382**	6,325,107
Loss (gain) on sale of property, plant and equipment	**44,456**	(71,021)	**40,636**	(319)
Interest				
Long-term	**284,692**	17,766	**728,671**	51,411
Current	**–**	89,939	**–**	225,675
Selling, general and administrative	**2,544,677**	1,812,901	**7,104,631**	5,328,671
Foreign exchange loss (gain)	**366,390**	8,532	**785,026**	84,960
	5,887,601	4,044,349	**16,262,346**	12,015,505
Earnings before income taxes	**6,225,652**	5,280,836	**15,020,235**	14,987,013
Income taxes				
Current	**296,029**	194,158	**618,939**	504,442
Future (note 7)	**793,400**	1,111,720	**3,495,400**	2,645,900
	1,089,429	1,305,878	**4,114,339**	3,150,342
Net earnings and comprehensive income for the period	**5,136,223**	3,974,958	**10,905,896**	11,836,671
Retained earnings, beginning of period	**9,083,988**	8,234,834	**10,092,883**	6,842,902
Cash distributions	**(3,389,926)**	(3,387,728)	**(10,168,494)**	(9,857,509)
Retained earnings, end of period	**10,830,285**	8,822,064	**10,830,285**	8,822,064
Net earnings per unit (note 6)				
Basic	**0.48**	0.37	**1.01**	1.10
Diluted	**0.48**	0.37	**1.01**	1.10

See accompanying notes.

Unaudited Consolidated Statements of Cash Flows

	Three Months Ended Sept. 30, 2007 $	Three Months Ended Sept. 30, 2006 $	**Nine Months Ended Sept. 30, 2007 $**	Nine Months Ended Sept. 30, 2006 $
OPERATING ACTIVITIES				
Net earnings for the period	**5,136,223**	3,974,958	**10,905,896**	11,836,671
Non-cash items:				
Amortization	**2,647,386**	2,186,232	**7,603,382**	6,325,107
Future income taxes	**793,400**	1,111,720	**3,495,400**	2,645,900
Unit-based compensation	**230,700**	58,200	**481,700**	142,790
Foreign exchange loss (gain)	**366,390**	8,532	**785,026**	84,960
Loss (gain) on sale of property, plant and equipment	**44,456**	(71,021)	**40,636**	(319)
	9,218,555	7,268,621	**23,312,040**	21,035,109
Net change in non-cash working capital relating to operating activities	**(6,158,569)**	(3,118,390)	**(6,601,463)**	(1,318,715)
	3,059,986	4,150,231	**16,710,577**	19,716,394
FINANCING ACTIVITIES				
Proceeds from units issued	**–**	59	**–**	59
Proceeds from long-term debt	**2,783,986**	–	**14,806,967**	–
Repayment of long-term debt	**(27,192)**	(27,192)	**(81,576)**	(81,509)
Distributions to unitholders	**(3,389,926)**	(3,387,110)	**(10,168,174)**	(9,780,258)
Increase (decrease) in bank indebtedness	**–**	3,057,855	**–**	3,279,512
	(633,132)	(356,388)	**4,557,217**	(6,582,196)
INVESTING ACTIVITIES				
Purchase of Benko Sewer Service (note 3)	**–**	–	**(4,101,000)**	–
Purchase of service rights (note 3)	**–**	–	**(3,994,007)**	–
Purchase of property, plant and equipment	**(2,743,835)**	(4,142,223)	**(9,439,610)**	(13,823,485)
Proceeds on disposal of property, plant and equipment	**–**	183,765	**260,639**	713,377
Net change in non-cash working capital relating to investing activities	–	–	**(3,651,420)**	–
	(2,743,835)	(3,958,458)	**(20,925,398)**	(13,110,108)
Increase (decrease) in cash during the period	**(316,981)**	(164,615)	**342,396**	24,090
Cash, beginning of period	**1,979,289**	1,379,103	**1,319,912**	1,190,398
Cash, end of period	**1,662,308**	1,214,488	**1,662,308**	1,214,488

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 ("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 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, 2006, 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, 2006.

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 nine months and three months ended September 30, 2007 and 2006.

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

2. Changes in Accounting Policies

(a) Goodwill represents the excess of the purchase price over fair value of net assets acquired and liabilities assumed. Goodwill is not subject to amortization, but is tested for impairment on an annual basis, or more frequently if events or circumstances indicate the asset may be impaired. The impairment test for goodwill includes the application of a fair value test, with an impairment loss recognized as an expense where the carrying amount of the asset exceeds its fair value. The Fund utilizes the capitalized maintainable earnings in application of the fair value test. Any goodwill impairment will be recognized as an expense in the period the impairment is determined.

b) As of January 1, 2007 the Fund adopted the Canadian Institute of Chartered Accountants' (CICA) Handbook Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges". 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.

Comprehensive Income

The new standards introduce comprehensive income, which consists of net earnings and other comprehensive income (OCI). Upon adoption of Section 1530, the Fund revised its Consolidated Statements of Earnings and Accumulated Earnings to include the newly required statement of comprehensive income by creating a combined statement.

The adoption of comprehensive income has been made in accordance with the applicable transitional provisions and no amounts have been reclassified to accumulated other comprehensive income.

Financial Instruments

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related-party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as “held-for-trading”, “available-for-sale”, “held-to-maturity”, “loans and receivables”, or “other financial liabilities” as defined by the standard.

Financial assets and financial liabilities “held-for-trading” are measured at fair value with changes in those fair values recognized in net earnings. Financial assets “available-for-sale” are measured at fair value, with changes in those fair values recognized in OCI. Financial assets “held-to-maturity”, “loans and receivables” and “other financial liabilities” are measured at amortized cost using the effective interest method of amortization. The methods used by the Fund in determining fair value of financial instruments are unchanged as a result of implementing the new standard.

Accounts receivable are designated as “loans and receivables”. Accounts payable and accrued liabilities, cash distributions payable and long-term debt are designated as “other liabilities”. Risk management assets and liabilities are derivative financial instruments classified as “held-for-trading”.

Accounting Changes

As of January 1, 2007, the Fund adopted revised CICA Section 1506 “Accounting Changes”, which provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or when the change results in more relevant and reliable information. There is no material impact to the Fund’s consolidated financial statements as a result of implementing this new standard.

3. Acquisitions

a) Benko Sewer Service

On April 1, 2007 the Fund acquired all of the operating assets and business of Benko Sewer Service for cash consideration of $4.1 million. Benko Sewer Service is an Ontario-based hydrovac excavation and sewer maintenance service provider.

The purchase price was allocated as follows:

	($)
Property, plant and equipment	1,500,000
Intangible assets	980,000
Goodwill	1,621,000
	4,101,000

Intangible assets acquired consist of customer relationships, the trade name and a non-compete agreement, all of which will be amortized straight-line over their estimated useful lives of five years.

b) Service Rights Acquired

During the quarter the Fund acquired the service rights and operating assets from three of its Canadian agents for cash consideration of $4.0 million.

The purchase price was allocated as follows:

	($)
Property, plant and equipment	2,520,000
Intangible assets (service rights)	1,474,007
	3,994,007

Intangible assets acquired consist of service rights, which management determined have an indefinite life and therefore are not amortized.

4. Unitholders' Capital

	Units	Amount ($)
December 31, 2006	10,758,618	43,488,255
Units issued to non-management trustees	3,050	50,000
September 30, 2007	10,761,668	43,538,255

The Fund declared distributions of $0.105 per unit for each of the months of January through September for a total of $10,168,494 million.

5. Unit-Based Compensation

A summary of the unit option transactions for the nine months ended September 30, 2007 is as follows:

	Nine Months Ended Sept. 30, 2007	
	Units	Weighted average exercise price $
Outstanding at beginning of period	345,000	17.49
Granted	295,000	16.41
Exercised	–	–
Forfeited	(135,000)	17.50
Outstanding at end of period	505,000	16.86

	Options Outstanding			Options Exercisable	
Range of prices	Outstanding at Sept. 30, 2007	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at Sept. 30, 2007	Weighted average exercise price
$ 17.50	160,000	3.6	$ 17.50	–	–
$ 17.45	50,000	3.8	$ 17.45	–	–
$ 16.41	295,000	4.6	$ 16.41	–	–

In May 2007 the Fund granted 295,000 fund unit options at an exercise price of $16.41 per unit.

The Fund recorded compensation expense, included as part of selling, general and administrative expenses, of $431,700 with an offsetting increase to contributed surplus for the nine months ended September 30, 2007.

The weighted average estimated fair value at the date of the grant for fund unit options granted for the nine months ended September 30, 2007 was $7.66 per unit option. The fair value of each unit option grant was estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions:

Weighted average assumptions	Nine Months Ended Sept. 30, 2007
Dividend yield	7.60%
Discount for forfeiture	0
Risk-free interest rate	3.75%
Expected life options	5 years
Expected volatility factor of the future expected market price of fund units	101.00%

6. Net Earnings per Unit

Basic per unit calculations for the nine and three months ended September 30, 2007 were based on the weighted average number of units outstanding of 10,760,070 and 10,761,668, respectively. Basic per unit calculations for the nine and three months ended September 30, 2006 were based on the weighted average units outstanding of 10,748,796 and 10,754,138, respectively. Diluted per unit calculations for the nine and three months ended September 30, 2007 were based on the weighted average number of units outstanding of 10,760,070 and 10,761,668, respectively. Diluted per unit calculations for the nine and three months ended September 30, 2006 were based on the weighted average number of units outstanding of 10,748,796 and 10,754,138, respectively. The difference between the basic and diluted units was attributable to the dilutive effect of the unit options outstanding.

7. Future Income Taxes

On June 12, 2007, Bill C-52, the Budget Implementation Act, 2007 was substantively enacted by the Canadian federal government. The act contains legislation to tax publicly traded trusts in Canada. As a result, a new 31.5 percent tax will be applied to distributions from Canadian public income trusts. The new tax is not expected to apply to Badger until 2011 as a transition period applies to publicly traded trusts that existed prior to November 1, 2006. As a result of this substantive enactment of trust taxation, Badger recorded an additional $1.6 million in future income tax expense and increased its future income tax liability in the second quarter of 2007. The future income tax adjustment represents the taxable temporary differences of Badger's Fund tax-effected at 31.5 percent, which is the rate that will be applicable in 2011 under the current legislation and Badger's current corporate structure.

8. Segmented Information

The Fund operates in two geographic/reportable segments providing daylighting services to each of these segments. The following is selected information for the nine and three months ended September 30, 2007 and 2006 based on these geographic segments.

	Three Months Ended Sept. 30, 2007			Three Months Ended Sept. 30, 2006		
	Canada ($)	**USA ($)**	**Total ($)**	Canada ($)	USA ($)	Total ($)
Revenues	**21,867,718**	**9,874,232**	**31,741,950**	16,973,396	8,350,634	25,324,030
Direct costs	**13,333,755**	**6,294,942**	**19,628,697**	10,719,691	5,279,154	15,998,845
Selling, general and administrative	**1,834,458**	**710,219**	**2,544,677**	1,160,183	652,718	1,812,901
Amortization	**1,771,835**	**875,551**	**2,647,386**	1,567,359	618,873	2,186,232
Earnings before income taxes	**4,632,137**	**1,593,515**	**6,225,652**	3,493,290	1,787,546	5,280,836
Capital expenditures	**393,689**	**2,350,146**	**2,743,835**	1,469,128	2,673,095	4,142,223

	Nine Months Ended Sept. 30, 2007			Nine Months Ended Sept. 30, 2006		
	Canada ($)	**USA ($)**	**Total ($)**	Canada ($)	USA ($)	Total ($)
Revenues	**56,158,754**	**28,172,954**	**84,331,708**	51,815,467	20,933,771	72,749,238
Direct costs	**35,179,411**	**17,869,716**	**53,049,127**	32,177,762	13,568,958	45,746,720
Selling, general and administrative	**4,595,462**	**2,509,169**	**7,104,631**	3,589,626	1,739,045	5,328,671
Amortization	**5,190,685**	**2,412,697**	**7,603,382**	4,658,883	1,666,224	6,325,107
Earnings before income taxes	**10,524,429**	**4,495,806**	**15,020,235**	11,209,563	3,777,450	14,987,013
Property, plant and equipment	**45,180,970**	**22,839,805**	**68,020,775**	41,400,653	16,175,462	57,576,115
Intangible assets	**3,907,344**	**–**	**3,907,344**	–	–	–
Goodwill	**1,621,000**	**–**	**1,621,000**	–	–	–
Total assets	**72,498,000**	**33,243,389**	**105,741,389**	60,422,543	24,251,330	84,673,873
Capital expenditures	**2,204,595**	**7,235,015**	**9,439,610**	5,405,014	8,418,471	13,823,485

9. Subsequent Event

On October 1, 2007 Badger completed the acquisition of service rights from one of its Canadian Operating Partners for cash consideration of $1.3 million.

Corporate Information

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