



MARKET DIVERSIFICATION AND DISCIPLINED GROWTH



2009 QUARTERLY REPORT

For the three and nine months
ended September 30, 2009

Q3

Badger Income Fund (the "Fund" or "Badger") is pleased to announce its financial and operating results for the three-month and nine-month periods ended September 30, 2009. Revenues for the three months ended September 30, 2009 decreased by approximately 12 percent to \$35.0 million from \$40.0 million for the same period in 2008, due to a 21 percent decrease in Canadian revenues partially offset by a 3 percent increase in United States revenues. As a result of the decrease in revenues, the Fund's quarterly EBITDA and funds generated from operations also decreased from the same period of 2008. Badger's EBITDA decreased to \$9.9 million for the three months ended September 30, 2009 from \$12.2 million in the same quarter of 2008, while funds generated from operations decreased to \$8.3 million in the third quarter of 2009 from \$11.3 million in the comparable quarter of 2008.

Badger had 413 daylighting units at September 30, 2009, reflecting the addition of 26 daylighting units to the fleet to date in 2009 and the retirement of 26 units. The Fund had 413 daylighting units at December 31, 2008.

FINANCIAL HIGHLIGHTS

(\$ thousands, except per unit and total units outstanding information)	Three months ended		Nine months ended	
	2009	2008	2009	2008
Revenues	35,005	39,957	101,847	107,874
EBITDA ⁽¹⁾	9,900	12,178	27,666	31,044
Earnings before income taxes	6,179	8,544	16,895	20,689
Taxes				
Current	538	355	1,559	770
Future	845	1,229	1,940	3,669
Net earnings	4,796	6,960	13,396	16,250
Net earnings per unit – diluted (\$)	0.44	0.64	1.24	1.49
Funds generated from operations ⁽²⁾	8,311	11,280	24,114	29,478
Funds generated from operations per unit – diluted (\$)	0.77	1.04	2.23	2.71
Maintenance capital expenditures ⁽³⁾	1,573	–	6,162	631
Required long-term debt repayments	108	108	325	218
Cash available for growth and distribution ⁽⁴⁾	6,718	11,238	18,857	29,459
Cash distributions declared	3,405	3,399	10,210	10,188
Growth capital expenditures ⁽³⁾	–	7,592	–	26,532
Total units outstanding	10,808,503	10,790,744	10,808,503	10,790,744

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 are any amounts 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 extend 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, 2009, Badger added six units to the fleet and removed nine from service. As a result, none of the units added during the three months ended September 30, 2009 represent growth capital expenditures, while all of the units added represent maintenance capital expenditures. During the nine months ended September 30, 2009 Badger added 26 units to the fleet, all of which 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.

Interim Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) should be read in conjunction with the attached unaudited interim consolidated financial statements of Badger Income Fund (the "Fund" or "Badger"). Readers should also refer to the audited consolidated financial statements and MD&A included in Badger Income Fund's 2008 Annual Report. Additional information is also available on the Fund's website (www.badgerinc.com) 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 third quarter. However, unless otherwise indicated, year-over-year variances for the nine months ended September 30, 2009 and 2008 are explained by the same general factors which contributed to the third-quarter variance.

This MD&A has been prepared taking into consideration information available to November 11, 2009.

DISCLAIMER

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

SHORT-TERM ECONOMIC IMPACT AND OPERATIONAL OVERVIEW

The slowdown in activity in the oil and natural gas industry continues to have a negative impact on Badger's two western regions. Badger does not expect activity levels to increase significantly in these areas in the near future. The economic downturn had a smaller impact on Badger's business in the third quarter and it appears that government stimulus spending has started to have a positive impact at least in Badger's Eastern Canada market.

During the third quarter and the first nine months of 2009 Badger was able to increase or maintain the gross margin earned in all of its regions with the exception of one (Western Canada – corporate). This resulted in a small reduction in overall gross margin percentage in the business in the first nine months of 2009 compared to the same period of 2008.

Badger's focus remains on adding customers, diversifying its customer base and achieving good utilization of its capital assets.

Comments on Badger's four regions are as follows:

Western Canada – Badger expects the market in Western Canada to remain slow for the rest of the year and into 2010. The lower activity in oil and gas infrastructure projects has had a negative impact on Badger's fleet utilization.

Eastern Canada – This market has experienced only a minor negative impact from the economic slowdown. Badger continues to benefit from utility-based work in Eastern Canada, which is expected to finish 2009 with similar results to 2008. Government infrastructure spending is expected to have a positive impact on this market over the next several months.

Western United States – Business remained at a depressed level for Badger in this area during the last quarter. The slowdown in the oil and natural gas industry has reduced activity in certain areas, which has affected the regional economy as a whole. Badger is working on expanding its non-oil and gas customer base in this region.

Eastern United States – Good project work in this region in the third quarter drove good overall quarterly results in the United States. The longevity of this work is difficult to predict and when it slows down Badger must have other work to go to or revenue per truck will suffer. Badger's focus in the region is to increase its customer base and the number of service locations it has to mitigate the anticipated effects project slowdowns will have on its results.

Badger's overall actions and focus remain the same going forward. The task is to focus on business development to gain more customers to improve the utilization of Badger's assets. At the same time, Badger continues to manage the cost side of the business.

RESULTS OF OPERATIONS

REVENUES

Revenues were \$35.0 million for the three months ended September 30, 2009, 12 percent lower than the \$40.0 million generated during the comparable period of 2008. The decrease is attributable to the following:

1. In the United States third quarter revenues increased to \$14.4 million from \$14.0 million in the comparative 2008 period. This modest increase was due to foreign exchange rate changes. Ignoring the impact of foreign exchange fluctuations, United States revenues were almost unchanged comparing the third quarter of 2008 to the third quarter of 2009. A decrease in revenues due to lower oil and gas service activity in the Western United States region was offset by an increase in revenues attributable to good project work in the Eastern United States region.
2. In Western Canada revenues decreased by \$3.7 million or 23 percent in the third quarter of 2009 from the third quarter of 2008. The decrease was due to a general decrease in demand for hydrovac services in various areas as a result of reduced oil and natural gas commodity prices, resulting in less plant work and fewer pipeline projects.
3. Eastern Canada revenues decreased by \$0.9 million or 10 percent in the third quarter of 2009 from the third quarter of 2008. The decrease was due to wet weather in the current reporting period and the completion of a large project in the third quarter of 2008.

Badger's average revenue per truck per month during the three months ended September 30, 2009 was \$25,300 versus \$29,800 for the three months ended September 30, 2008. This brings the average revenue per truck per month to \$24,700 for the nine months ended September 30, 2009, which compares to \$28,900 for the nine months ended September 30, 2008. The decrease for each period is due to reduced revenue and the increase in the size of the fleet.

Included in revenues is approximately \$303,000 of truck placement and franchise fees for the three months ended September 30, 2009, versus \$688,000 for the three months ended September 30, 2008.

DIRECT COSTS

Direct costs for the quarter ended September 30, 2009 were \$22.7 million compared to \$25.5 million for the quarter ended September 30, 2008. This decrease of 11 percent is less than the decrease in revenues of 12 percent due to reduced margins in certain of the Western Canada corporate locations, which were attributable to extra costs associated with growth-oriented investments in new areas and poor cost control in certain locations.

GROSS MARGIN

Gross margin was 35.1 percent for the quarter ended September 30, 2009, a decrease from 36.2 percent for the quarter ended September 30, 2008. The reduced margin was the result of lower revenue and reduced margins in certain of the Western Canada corporate operations, which were attributable to extra costs associated with growth-oriented investments in new areas and poor cost control in certain locations.

AMORTIZATION

Amortization of property, plant and equipment was \$3.4 million for the three months ended September 30, 2009, \$0.2 million higher than the \$3.2 million incurred for the three months ended September 30, 2008. This increase reflects the larger number of hydrovac units in the fleet, which increased to 413 hydrovac units at September 30, 2009 from 395 hydrovac units at September 30, 2008. Included in this figure is approximately \$49,000 related to amortization of intangible assets with a limited life.

INTEREST EXPENSE

Interest expense was \$325,000 for the quarter ended September 30, 2009 versus \$479,000 for the quarter ended September 30, 2008. The lower interest expense is attributable to reduced interest rates and a reduction in long-term debt outstanding.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were \$2.4 million for the quarter ended September 30, 2009 compared to \$2.6 million for the quarter ended September 30, 2008. As a percentage of revenues, selling, general and administrative expenses were 6.9 percent for the third quarter of 2009 versus 6.5 percent for the third quarter of 2008. The moderate increase in the percentage was due to the reduced revenues in Canada.

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.

INCOME TAXES

The effective tax rate for the nine months ended September 30, 2009 and 2008 was 21 percent. The minimal effective tax rate overall is due to the trust structure, which results in tax-deductible distributions being made to unitholders.

LIQUIDITY AND CAPITAL RESOURCES

Funds generated from operations for the quarter ended September 30, 2009 decreased to \$8.3 million from \$11.3 million for the comparable period in 2008, due primarily to weaker Canadian activity levels.

The Fund had working capital of \$28.9 million at September 30, 2009 compared to \$21.8 million at December 31, 2008. The increase was predominantly due to the Fund remitting payment for all of the cab and chassis that had been acquired prior to December 31, 2008, with the amount being included in the accounts payable and accrued liabilities figure.

The Fund has a \$40 million extendable revolving credit facility which is used to fund working capital requirements and finance capital expenditures, of which \$32.4 million was drawn at September 30, 2009. It should be noted that as at September 30, 2009 Badger's cash balance was \$6.5 million. The facility matures on June 26, 2010. To the extent the credit facility is not renewed on June 26, 2010, interest is payable on the credit facility for 364 days after which the entire amount is to be repaid. Depending on certain financial ratios, the credit facility bears interest, at Badger's option, at the bank's prime rate plus 0.25 percent or bankers' acceptance rate plus 1.75 percent.

The Fund spent \$1.6 million on property, plant and equipment for the three months ended September 30, 2009 compared to \$7.6 million for the three months ended September 30, 2008. The Fund built six daylighting units in the third quarter

of 2009 compared to 23 in the third quarter of 2008. The costs to build a daylighting unit increased by approximately 12 percent comparing the third quarter of 2009 to the full year 2008. The main reasons for the increase were the increased cost of acquiring cab and chassis which are purchased in United States dollars and the reduced build rate resulting in fixed overhead costs being allocated to fewer units.

Badger has spent \$6.2 million on maintenance capital expenditures for the nine months ended September 30, 2009 versus \$0.6 million for the comparable period in 2008.

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

In addition to the above, as at September 30, 2009 the Fund had committed to certain capital expenditures totalling approximately \$1.7 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 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 September 30, 2009 Badger added two units to the Canadian fleet, transferred four to the United States and removed six from service, bringing the total to 232 units operating in Canada as at September 30, 2009. In the United States, Badger added four units, received four from Canada and removed three from service, bringing the total number of units in the United States fleet to 181 at September 30, 2009.

DISTRIBUTIONS

The following table outlines the cash available to fund growth and pay distributions to unitholders for the three and nine months ended September 30, 2009:

	Three months ended September 30, 2009	Nine months ended September 30, 2009
Cash provided by operating activities	\$ 5,121,141	\$ 25,364,101
Add (deduct): net change in non-cash working capital	3,190,074	(1,250,397)
Funds generated from operations	8,311,215	24,113,704
Add: proceeds on disposal of property, plant and equipment	87,934	1,230,140
Deduct: required repayments of long-term debt	(108,441)	(325,323)
Deduct: maintenance capital expenditures	(1,572,624)	(6,161,999)
Cash available for growth capital expenditures and distributions	\$ 6,718,084	\$ 18,856,522
Growth capital expenditures	\$ —	\$ —
Cash distributions declared	\$ 3,404,677	\$ 10,209,517

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 of cash provided by operating activities and net earnings over cash distributions declared during the nine months ended September 30, 2009 and 2008 and the year ended December 31, 2008:

	Nine months ended Sept. 30, 2009	Nine months ended Sept. 30, 2008	Year ended December 31, 2008
	\$	\$	\$
Cash provided by operating activities	25,364,101	24,912,371	35,231,938
Net earnings	13,395,804	16,249,698	18,981,890
Cash distributions declared	10,209,517	10,187,509	13,586,593
Excess of cash provided by operating activities over cash distributions declared	15,154,584	14,724,862	21,645,345
Excess of net earnings over cash distributions declared	3,186,287	6,062,189	5,395,297

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

The Fund maintains a strong balance sheet and has sufficient debt facilities to manage its short-term funding needs as well as planned equipment additions. The debt management strategy includes retaining sufficient funds from available distributable cash to finance maintenance capital expenditures as well as working capital needs. Growth capital expenditures will generally be financed through existing debt facilities or cash retained from operating activities. The majority of the cash provided by operating activities was used to finance maintenance 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 estimates it will remove approximately 30 hydrovac units from the fleet in 2009. Badger expects that cash provided by operations and cash available for growth capital expenditures and distributions will be sufficient to fund the required maintenance capital expenditures in the future.

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

UNITHOLDERS' CAPITAL

The total units outstanding at September 30, 2009 were 10,808,503. There was no change to the balance as of November 11, 2009.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Quarter Ended							
	2009			2008				2007
	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31
Revenues (\$)	35,004,725	29,459,240	37,383,305	40,471,059	39,957,349	33,142,814	34,774,334	33,356,010
Net earnings (\$)	4,795,804	2,926,670	5,673,330	2,732,192	6,960,013	4,006,788	5,282,897	5,816,949
Net earnings per unit – basic (\$)	0.44	0.27	0.53	0.25	0.64	0.37	0.49	0.54
Net earnings per unit – diluted (\$)	0.44	0.27	0.53	0.25	0.64	0.37	0.49	0.54

CHANGES IN ACCOUNTING POLICIES

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

CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

In January 2006, the Canadian Accounting Standards Board (AcSB) adopted a strategic plan for the direction of accounting standards in Canada. In February 2008, as part of its strategic plan, the AcSB confirmed that Canadian publicly accountable entities will be required to report under International Financial Reporting Standards (IFRS), which will replace Canadian GAAP for years beginning on or after January 1, 2011.

The IFRS conversion project consists of three phases, the steps of which consist of: completing a preliminary impact assessment, developing a project plan, identifying accounting policy alternatives, selecting accounting policies, drafting consolidated pro-forma financial statements, drafting position papers, assessing system impacts and implementing financial statement changes.

The Fund has completed the first phase of its transition plan which entailed a review of the major differences between Canadian GAAP and IFRS and has identified International Accounting Standard (IAS) 16 – Property, Plant and Equipment, IAS 36 – Impairment of Assets and IFRS 1 – First-time Adoption of International Financial Reporting Standards as the standards expected to have the most significant impact on the Fund.

The Fund's IFRS project is progressing according to plan. The Fund continues to monitor new and amended standards that are to be issued by the International Accounting Standards Board. The quantitative impacts, if any, to the Fund's consolidated financial statements on the adoption of IFRS have not yet been determined and will depend on the circumstances prevailing on January 1, 2011 as well as the accounting policy choices made by Badger.

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, 2009 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, 2008, which is included in the Fund's 2008 Annual Report, includes an overview of business risks associated with the Fund. Those business risks remain. The reader is also referred to Badger's 2008 Annual Information Form.

OUTLOOK

Although there is a great deal of uncertainty in the marketplace it appears that activity levels in most areas are showing signs of improvement. Infrastructure spending commitments are leading to more bids in general and oil and natural gas activity has at least stabilized in most areas. It is hard to predict when the oil and natural gas industry will improve, but eventually it is very likely to do so. Badger's focus remains on building a bigger customer base, especially in the United States, to diversify the markets it serves and to maximize achievable margins by exercising effective control over its costs.

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 CICA for a review of interim financial statements by an entity's auditor.

Unaudited Consolidated Balance Sheets

	September 30, 2009	December 31, 2008
	\$	\$
ASSETS		
Current		
Cash	6,459,514	2,656,144
Accounts receivable	32,143,109	35,830,748
Inventories	1,744,307	2,197,611
Prepaid expenses	1,017,158	778,661
	41,364,088	41,463,164
Property, plant and equipment	92,854,071	97,653,365
Intangible assets	4,844,512	4,791,512
Goodwill	1,621,000	1,621,000
	140,683,671	145,529,041
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	10,158,698	18,043,971
Income taxes payable	687,136	58,135
Distributions payable	1,134,893	1,133,028
Current portion of long-term debt	433,768	433,768
	12,414,495	19,668,902
Long-term debt	37,097,374	39,147,594
Future income taxes	21,421,806	21,262,936
	70,933,675	80,079,432
Unitholders' equity		
Unitholders' capital (note 4(a))	44,387,955	44,183,155
Contributed surplus (note 4(c))	3,523,150	2,613,850
Retained earnings	21,838,891	18,652,604
	69,749,996	65,449,609
	140,683,671	145,529,041

See accompanying notes.

Unaudited Consolidated Statements of Earnings and Comprehensive Income and Retained Earnings

	Three months ended Sept. 30, 2009 \$	Three months ended Sept. 30, 2008 \$	Nine months ended Sept. 30, 2009 \$	Nine months ended Sept. 30, 2008 \$
Revenues	35,004,725	39,957,349	101,847,270	107,874,497
Direct costs	22,714,571	25,510,733	65,995,965	69,341,324
Gross margin	12,290,154	14,446,616	35,851,305	38,533,173
Expenses				
Amortization	3,385,733	3,198,094	9,990,847	9,213,246
Loss (gain) on sale of property, plant and equipment	9,825	(42,888)	(112,694)	(114,207)
Interest – long-term	324,733	478,789	893,445	1,255,850
Selling, general and administrative	2,422,148	2,586,072	8,463,303	7,847,388
Foreign exchange loss (gain)	(31,717)	(317,507)	(278,423)	(357,891)
	6,110,722	5,902,560	18,956,478	17,844,386
Earnings before income taxes	6,179,432	8,544,056	16,894,827	20,688,787
Income taxes				
Current	538,478	354,783	1,558,553	769,829
Future	845,150	1,229,260	1,940,470	3,669,260
	1,383,628	1,584,043	3,499,023	4,439,089
Net earnings and comprehensive income for the period	4,795,804	6,960,013	13,395,804	16,249,698
Retained earnings, beginning of period	20,447,764	15,758,568	18,652,604	13,257,307
Cash distributions	(3,404,677)	(3,399,085)	(10,209,517)	(10,187,509)
Retained earnings, end of period	21,838,891	19,319,496	21,838,891	19,319,496
Net earnings per unit (note 5)				
Basic	0.44	0.64	1.24	1.51
Diluted	0.44	0.64	1.24	1.49

See accompanying notes.

Unaudited Consolidated Statements of Cash Flows

	Three months ended Sept. 30, 2009 \$	Three months ended Sept. 30, 2008 \$	Nine months ended Sept. 30, 2009 \$	Nine months ended Sept. 30, 2008 \$
Operating activities				
Net earnings and comprehensive income for the period	4,795,804	6,960,013	13,395,804	16,249,698
Add (deduct) items not involving cash:				
Amortization	3,385,733	3,198,094	9,990,847	9,213,246
Future income taxes	845,150	1,229,260	1,940,470	3,669,260
Unit-based compensation	292,000	253,100	959,300	817,750
Foreign exchange loss (gain)	(31,717)	(317,507)	(278,423)	(357,891)
Unrealized foreign exchange gain on future income taxes	(985,580)	-	(1,781,600)	-
Loss (gain) on sale of property, plant and equipment	9,825	(42,888)	(112,694)	(114,207)
	8,311,215	11,280,072	24,113,704	29,477,856
Net change in non-cash working capital relating to operating activities	(3,190,074)	(2,194,089)	1,250,397	(4,565,485)
	5,121,141	9,085,983	25,364,101	24,912,371
Financing activities				
Proceeds received on the exercise of unit options	-	-	-	246,150
Proceeds from long-term debt	2,021,619	3,003,539	-	12,603,369
Repayment of long-term debt	(108,441)	(108,442)	(2,050,220)	(217,828)
Distributions to unitholders	(3,404,677)	(3,399,085)	(10,207,652)	(10,184,456)
	(1,491,499)	(503,988)	(12,257,872)	2,447,235
Investing activities				
Purchase of property, plant and equipment	(1,572,624)	(7,591,925)	(10,332,999)	(27,162,473)
Purchase of service rights	-	-	(200,000)	-
Proceeds on disposal of property, plant and equipment	87,934	66,465	1,230,140	830,037
	(1,484,690)	(7,525,460)	(9,302,859)	(26,332,436)
Increase in cash during the period	2,144,952	1,056,535	3,803,370	1,027,170
Cash, beginning of period	4,314,562	1,447,713	2,656,144	1,477,078
Cash, end of period	6,459,514	2,504,248	6,459,514	2,504,248

See accompanying notes.

Notes to the Unaudited Consolidated Financial Statements

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 for the nine and three months ended September 30, 2009 and 2008 have been prepared following the same accounting policies and methods of application as the audited consolidated financial statements of the Fund for the fiscal year ended December 31, 2008, except as noted below in Note 2. The disclosures provided below are incremental to those included in the Fund’s annual audited consolidated financial statements. The unaudited interim consolidated financial statements and the related notes should be read in conjunction with the audited consolidated financial statements and the related notes in the Fund’s Annual Report for the year ended December 31, 2008.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end and the results of operations for the interim periods shown in these statements are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the accompanying unaudited interim consolidated financial statements include all adjustments necessary to present fairly the consolidated results of the Fund’s operations and cash flows for the nine and three months ended September 30, 2009 and 2008.

2. CHANGES IN ACCOUNTING POLICIES

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

3. FUTURE CHANGES IN ACCOUNTING POLICIES

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

4. UNITHOLDERS' EQUITY

(A) UNITHOLDERS' CAPITAL

	Units	Amount (\$)
December 31, 2008	10,790,744	44,183,155
Units issued under the Incentive Plan	17,759	204,800
September 30, 2009	10,808,503	44,387,955

The Fund declared distributions of \$0.105 per unit for each of January through September for a total of \$10,209,517.

(B) UNIT OPTION PLAN

A summary of the unit option transactions for the nine months ended September 30, 2009 is as follows:

	Units	Weighted average exercise price \$
Outstanding at beginning of period	605,375	18.03
Granted	184,125	13.69
Exercised	—	—
Forfeited	(24,000)	18.68
Outstanding at end of period	765,500	16.97

Price	Options Outstanding			Options Exercisable		
	Outstanding at Sept. 30, 2009	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at Sept. 30, 2009	Weighted average exercise price	
\$17.50	160,000	1.6	\$17.50	160,000	\$17.50	
\$17.45	50,000	1.9	\$17.45	50,000	\$17.45	
\$16.41	255,000	2.6	\$16.41	166,667	\$16.41	
\$22.45	116,375	3.7	\$22.45	38,791	\$22.45	
\$13.69	184,125	4.7	\$13.69	—	—	

In May 2009 the Fund granted 184,125 fund unit options at an exercise price of \$13.69.

The estimated weighted average fair value of fund unit options granted for the nine months ended September 30, 2009 was \$1.46 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:

	Nine months ended Sept. 30, 2009
Weighted average assumptions	
Dividend yield	9.20%
Discount for forfeiture	0
Risk-free interest rate	2.16%
Expected life of options	5 years
Expected volatility factor of the future expected market price of fund units	32%

(C) CONTRIBUTED SURPLUS

	\$
December 31, 2008	2,613,850
Unit-based compensation expense	909,300
September 30, 2009	3,523,150

(D) PERFORMANCE TRUST UNITS PLAN

The Fund has established a Performance Trust Units (PTU) plan to reward officers and employees. The number of fund units earned is dependent upon the achievement of certain financial targets over a three-year period. The PTUs are earned over the same three-year period and vest on the third anniversary of the grant, at which time the holder is entitled to cash equal to the aggregate current market value of the number of fund units subject to the PTUs. Distributions per PTU are added to the entitlement after the PTUs are earned. Compensation expense is based on the estimated fair value of the award determined at the end of each quarter and recognized on a straight-line basis throughout the term of the vesting period, with a corresponding increase to accrued liabilities. The Fund has granted awards pursuant to the plan and recorded \$141,000 as compensation expense for the nine months ended September 30, 2009 as part of selling, general and administrative expenses.

5. NET EARNINGS PER UNIT

Basic per unit calculations for the nine and three months ended September 30, 2009 were based on the weighted average number of units outstanding of 10,802,591 and 10,808,503, respectively. Basic per unit calculations for the nine and three months ended September 30, 2008 were based on the weighted average number of units outstanding of 10,777,745 and 10,790,744, respectively. Diluted per unit calculations for the nine and three months ended September 30, 2009 were based on the weighted average number of units outstanding of 10,802,591 and 10,808,503, respectively. Diluted per unit calculations for the nine and three months ended September 30, 2008 were based on the weighted average number of units outstanding of 10,872,245 and 10,885,244, respectively. The difference between the basic and diluted units was attributable to the dilutive effect of the unit options outstanding.

6. GEOGRAPHIC SEGMENTED INFORMATION

The Fund operates in two geographic/reportable segments, providing daylighting services within each of these segments. The following is selected information for the nine-month and three-month periods ended September 30, 2009 and 2008 based on these geographic segments.

	Three months ended Sept. 30, 2009			Three months ended Sept. 30, 2008		
	Canada (\$)	U.S. (\$)	Total (\$)	Canada (\$)	U.S. (\$)	Total (\$)
Revenues	20,557,133	14,447,592	35,004,725	25,933,377	14,023,972	39,957,349
Direct costs	13,082,234	9,632,337	22,714,571	16,323,071	9,187,662	25,510,733
Selling, general and administrative	1,970,365	451,783	2,422,148	1,799,639	786,433	2,586,072
Amortization	1,975,265	1,410,468	3,385,733	1,963,000	1,235,094	3,198,094
Earnings before income taxes	3,281,241	2,898,191	6,179,432	5,417,301	3,126,755	8,544,056
Capital expenditures	786,620	786,004	1,572,624	3,581,838	4,010,087	7,591,925

	Nine months ended Sept. 30, 2009			Nine months ended Sept. 30, 2008		
	Canada (\$)	U.S. (\$)	Total (\$)	Canada (\$)	U.S. (\$)	Total (\$)
Revenues	58,174,100	43,673,170	101,847,270	70,234,118	37,640,379	107,874,497
Direct costs	37,646,387	28,349,578	65,995,965	44,450,639	24,890,685	69,341,324
Selling, general and administrative	5,648,337	2,814,966	8,463,303	5,758,929	2,088,459	7,847,388
Amortization	5,862,123	4,128,724	9,990,847	5,746,319	3,466,927	9,213,246
Earnings before income taxes	8,241,526	8,653,301	16,894,827	13,229,979	7,458,808	20,688,787
Property, plant and equipment	52,143,054	40,711,017	92,854,071	55,173,825	33,879,392	89,053,217
Intangible assets	4,844,512	–	4,844,512	4,840,512	–	4,840,512
Goodwill	1,621,000	–	1,621,000	1,621,000	–	1,621,000
Total assets	81,037,258	59,646,413	140,683,671	89,974,852	48,361,141	138,335,993
Capital expenditures	4,551,458	1,610,541	6,161,999	15,437,822	11,724,651	27,162,473

7. SUBSEQUENT EVENT

On November 1, 2009, Badger sold a building and land for gross proceeds of \$3.2 million and recorded a pre-tax gain of \$1.1 million. The proceeds were used to reduce long-term debt.

Corporate Information

TRUSTEES

George Watson
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Partner
Shea Nerland Calnan LLP

Garry P. Mihaichuk
President
GWM Resources Ltd.

Glen D. Roane
Corporate Director

J. Richard Couillard
President & Chief Executive Officer
Rockwell Petroleum Inc.

Tor Wilson
President & CEO

OFFICERS AND MANAGEMENT

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Vice President Finance & CFO

Derek Dillon
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SOLICITORS

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Bose McKinney & Evans LLP
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STOCK EXCHANGE LISTING

Toronto Stock Exchange
Trading Symbol "BAD.UN"

WEBSITE

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