



**PRESS RELEASE  
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**March 16, 2009**

**BADGER INCOME FUND ANNOUNCES RECORD RESULTS FOR THE  
YEAR ENDED DECEMBER 31, 2008**

Calgary, Alberta – Badger Income Fund (“Badger” or the “Fund”) is pleased to announce its results for the year and three months ended December 31, 2008.

***Management’s Discussion and Analysis***

The following Management’s Discussion and Analysis (MD&A) should be read in conjunction with the consolidated financial statements of Badger Income Fund (the “Fund” or “Badger”) and related notes and material contained in other parts of the annual report. Readers should also refer to the Annual Information Form for the year ended December 31, 2008. Additional information relating to Badger, including the Fund’s Annual Information Form, may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

This MD&A has been prepared taking into consideration information available to March 13, 2009.

**Forward-Looking Statements**

Certain statements in this press release 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 press release 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.

## Financial Highlights

(\$ thousands, except per unit and total units outstanding information)

	<b>Three months ended December 31, 2008</b>	<b>Three months ended December 31, 2007</b>	<b>Year ended December 31, 2008</b>	<b>Year ended December 31, 2007</b>
Revenues	40,471	33,356	148,346	117,688
EBITDA <sup>(1)</sup>	9,262	8,901	40,306	32,294
Earnings before income taxes	5,479	5,762	26,168	20,783
Taxes				
Current	617	199	1,387	818
Future	2,130	(254)	5,799	3,242
Net earnings	2,732	5,817	18,982	16,723
Net earnings per unit – diluted	0.25	0.54	1.75	1.55
Funds generated from operations <sup>(2)</sup>	9,503	8,506	38,981	31,818
Funds generated from operations per unit – diluted	0.88	0.79	3.60	2.96
Maintenance capital expenditures <sup>(3)</sup>	1,166	964	1,797	3,219
Required long-term debt repayments	108	27	326	109
Cash available for growth and distribution <sup>(4)</sup>	8,253	7,777	37,712	29,013
Cash distributions declared	3,399	3,390	13,587	13,558
Growth capital expenditures <sup>(3)</sup>	10,740	5,573	37,271	12,758
Total units outstanding	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:

<sup>(1)</sup> 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).

<sup>(2)</sup> 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.

<sup>(3)</sup> Maintenance capital expenditures is defined as the amount incurred during the period to keep the 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 December 31, 2008 Badger added 21 units to the fleet and removed three from service. As a result, 18 of the units added during the three months ended December 31, 2008 represent growth capital expenditures, while three of the units represent maintenance capital expenditures. During the year ended December 31, 2008 Badger added 84 units to the fleet, of which five 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-and-a-half years. During the year growth capital expenditures include \$4.3 million in purchases of land and buildings and certain plant expenditures incurred on the Red Deer facility. Growth capital expenditures exclude acquisitions made during the period.

<sup>(4)</sup> 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.

## Overview

Highlights for the year ended December 31, 2008 are as follows:

- The Fund generated improved year-over-year operating and financial results. Revenues increased by 26 percent to \$148.3 million in 2008 from \$117.7 million in 2007, while EBITDA increased by 25 percent to \$40.3 million in 2008 from \$32.3 million in 2007.
- EBITDA margins were consistent at 27 percent year-over-year.
- Cash available for growth and distribution increased by 30 percent to \$37.7 million in 2008 from \$29.0 million in 2007.
- Long-term debt increased to \$39.6 million at December 31, 2008 from \$26.3 million at December 31, 2007 due to the financing of the 2008 capital expenditure program, which included adding new hydrovac units and a \$4.3 million acquisition of land and buildings.
- The Fund increased its extendable, revolving credit facility from \$30 million to \$40 million as of May 2008, which provides added financial capacity to assist in financing Badger's growth capital expenditure program.
- The Fund added 84 new hydrovac units and removed five from service, exiting the year with 413 hydrovac units. Of the total, 238 units are operating in Canada and 175 in the United States. The growth in hydrovac units was financed from cash generated from operations and existing credit facilities.

## Selected Annual Financial Information

(\$)	Year ended December 31,		
	2008	2007	2006
Revenues	148,345,556	117,687,718	98,370,896
Net earnings	18,981,890	16,722,845	16,496,455
Net earnings per unit – basic	1.76	1.55	1.53
Net earnings per unit – diluted	1.75	1.55	1.53
Total assets	145,529,041	110,798,162	90,192,248
Total long-term debt <sup>(1)</sup>	39,581,362	26,254,010	8,625,052
Distributions declared	13,586,593	13,558,421	13,246,474

(1) Includes the current portion of long-term debt.

### **Short-Term Economic Impact**

The current economic downturn and the great uncertainty it has created in all markets will have a negative effect on Badger's business. The effects on actual Badger work are expected to vary greatly by segment. The various government announcements concerning increased infrastructure spending are potentially positive to Badger's operations given Badger's involvement with infrastructure projects where excavation is required. However, the impact of the economic downturn on the oil and natural gas industry is negative for Badger, especially in the Western United States. The actual future impact is unknown at this time. The list of opportunities for customers to use Badger services has shrunk, but opportunities still exist. Badger's obvious focus is to go after all opportunities on this list. Badger has never had long visibility on its future workflow, and this remains true today. To maintain its workflow Badger has traditionally relied on having a long customer list and the fact that there is always excavation occurring which must be done safely. Badger's fleet flexibility allows Badger to go wherever the work is. In response to these economic times, Badger has increased its focus on business development, the results of which are unknown at this time.

### **Overall Performance for the Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007**

#### ***Results of Operations***

##### Revenues

Revenues were \$148.3 million for the year ended December 31, 2008 compared to \$117.7 million for the year ended December 31, 2007. The increase is attributable to the following:

- Canadian revenues increased by 20 percent from \$78.9 million in 2007 to \$95.0 million in 2008. Western Canada hydrovac revenue increased by 17 percent due to better coverage, positive performance of corporate operations and several good projects. Eastern Canada revenue increased by 23 percent year-over-year due to a general increase in activity; and
- United States revenues increased by 38 percent to \$53.4 million in 2008 from \$38.7 million in 2007. Revenue growth reflects the Fund's continued focus on 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 increased activity related to oilfield service in the United States and a couple of major projects in the Eastern United States.

Badger's average revenue per truck per month for 2008 was \$29,200, virtually unchanged from the \$29,300 generated during 2007. The very slight decrease was due to the large increase in the hydrovac fleet. The Badger business model works well with an overall fleet average of \$25,000 or more per truck per month.

Included in revenues is \$2.1 million of truck placement and franchise fees for 2008, versus \$1.8 million for 2007.

### Direct Costs

Direct costs were \$96.2 million in 2008, an increase of \$19.8 million from the \$76.4 million recorded in 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 have also been reclassified to conform to the current period's presentation.

### Gross Margin

Gross margin for 2008 was 35.2 percent, similar to 2007.

### Amortization

Amortization was \$12.5 million in 2008 or \$2.1 million higher than the \$10.4 million in 2007. The increase reflects the larger number of hydrovac units in the fleet. Included in this figure is approximately \$196,000 related to amortization of intangible assets with a limited life.

### Interest Expense

Interest expense was \$1.7 million in 2008 versus \$1.2 million in 2007. The higher interest expense is attributable to maintaining a higher balance of debt throughout 2008 than in 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 \$3.0 million higher at \$11.2 million in 2008 compared to \$8.2 million in 2007. As a percentage of revenues, selling, general and administrative expenses were 7.6 percent in 2008 versus 7.0 percent in 2007. The increased expenses are due to the following:

- Badger hired additional personnel to support the growth of the business;
- Badger increased compensation in order to retain high-quality personnel in a competitive labour environment;
- Non-cash compensation expense was \$1.1 million versus \$0.6 million in 2007;
- Professional fees associated with the Fund's regulatory compliance activities were higher; and,
- General office costs increased.

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 have also been reclassified to conform to the current period's presentation.

### Foreign Exchange Loss

The foreign exchange loss results from converting the balance sheet and earnings statement related to the United States operations into Canadian currency. The foreign exchange loss was \$0.6 million for the year ended 2008 versus a \$0.8 million loss in 2007. During the year there was a significant increase in the United States future income tax liability and expense amounts. In translating these amounts to Canadian currency a foreign exchange loss of \$1.9 million was recorded. In translating the remaining United States balance sheet and income statement items, there was an exchange gain of \$1.3 million recorded.

### Income Taxes

The effective tax rate for 2008 was 27 percent versus 20 percent for 2007. The increase was due to generating more earnings in the United States which are taxed at a higher rate, as well as incurring withholding taxes on the payment of a dividend from the United States to Canada.

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

### ***Liquidity and Distributions***

Funds generated from operations increased to \$39.0 million in 2008 from \$31.8 million in 2007 due to higher Canadian and United States activity levels. The Fund uses its cash to make distributions to unitholders, build additional hydrovac units, invest in maintenance capital expenditures and repay long-term debt.

The Fund had working capital of \$21.8 million at December 31, 2008 compared to \$19.7 million at December 31, 2007. Included in accounts payable and accrued liabilities is \$4.2 million owing for cab and chassis purchased prior to December 31, 2008. 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 in 2008 compared to 2007:

	<b>Year ended December 31, 2008</b>	<b>Year ended December 31, 2007</b>
	\$	\$
Cash provided by operating activities	35,231,938	24,432,856
Add (deduct): net change in non-cash working capital	<u>3,748,988</u>	<u>7,384,823</u>
Funds generated from operations	38,980,926	31,817,679
Add: proceeds on disposal of property, plant and equipment	854,746	523,122
Deduct: required repayments of long-term debt	(326,269)	(108,768)
Deduct: maintenance capital expenditures	<u>(1,797,099)</u>	<u>(3,219,330)</u>
Cash available for growth capital expenditures and distributions	<u>37,712,304</u>	<u>29,012,703</u>
Growth capital expenditures	<u>37,271,481</u>	<u>12,758,244</u>
Cash distributions declared	<u>13,586,593</u>	<u>13,558,421</u>

In determining cash available for distributions the Fund excludes non-cash working capital changes for the year 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 periods. 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 years ended December 31, 2008 and 2007:

	<b>Year ended December 31, 2008</b>	<b>Year ended December 31, 2007</b>
	\$	\$
Cash provided by operating activities	35,231,938	24,432,856
Net earnings	18,981,890	16,722,845
Cash distributions declared	13,586,593	13,558,421
Excess of cash provided by operating activities over cash distributions declared	21,645,345	10,874,435
Excess of net earnings over cash distributions declared	5,395,297	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 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 distributions will be negatively affected. Due to Badger's growth rate in recent years, the majority of the hydrovac units are relatively new, with an average age of approximately four-and-a-half years. As a result, Badger is currently experiencing relatively low levels of maintenance capital expenditures. Over time, Badger would expect to incur annual maintenance capital expenditures in an amount that approximates the amortization expense reported in the year. For the fiscal year 2009 Badger estimates it will remove approximately 40 hydrovac units from the fleet. Badger expects that 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 MD&A 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.

Currently the Fund has a \$40 million extendable, revolving facility to fund working capital requirements and finance capital expenditures, of which \$34.1 million was used at December 31, 2008. The Fund's practice is to utilize an appropriate mix of debt and equity to finance its maintenance capital expenditures and growth initiatives.

### ***Capital Resources***

#### Investing

In 2008 the Fund spent \$39.1 million on property, plant and equipment compared to \$16.0 million in 2007. Included in 2008 spending is \$4.3 million in purchases of land and buildings and certain plant expenditures incurred on the Red Deer facility. Also included in this figure is \$4.2 million worth of cab and chassis acquired prior to December 31, 2008, which has been included in equipment under construction. During 2008, the Fund added 84 new hydrovac units compared to 56 new hydrovac units built in 2007. The costs to build a hydrovac unit were similar in each year. The 2008 capital expenditures figure includes maintenance capital expenditures of \$1.8 million. Generally speaking, maintenance capital expenditures are incurred during a period to keep the hydrovac fleet at the same number of units, which was five for 2008, plus any other capital expenditures required to maintain the existing business.

#### Financing

On May 9, 2008 Badger renewed its extendable, revolving credit facility and increased the amount of the facility from \$30 million to \$40 million. The facility has been used and will continue to be used to assist in financing Badger's capital expenditure program and general corporate activities. The facility has no required principal repayments. It expires on June 27, 2009 and is renewable at Badger's option for an additional 364-day period. If not renewed, interest is payable on the facility for 364 days, after which the entire amount must be repaid. The facility bears interest at the bank's prime rate or bankers' acceptance rate plus 1.00 percent plus 0 to 200 basis points depending on Badger's ratio of funded-debt-to-EBITDA.

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 bank prime plus 0.25 percent.

During 2008 Badger repaid \$0.3 million of long-term debt pursuant to regularly scheduled repayments. As a result of these principal payments and the proceeds received from the revolving credit facility and mortgage financing, the Fund's long-term debt, including the current portion, was \$39.6 million at year-end 2008 versus \$26.3 million at year-end 2007. The increased debt was the result of financing the 2008 and 2007 capital expenditure programs and acquisition of land and buildings.

At December 31, 2008 the Fund had a long-term debt-to-equity ratio of 0.60:1 and a long-term debt-to-trailing-funds-generated-from-operations ratio of 1.02:1. Management believes that the Fund's healthy balance sheet 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.

#### 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 (assuming the extendable revolving credit facility is not renewed on June 27, 2009) and lease payments for shop and office premises are as follows:

(\$000s)	Total	2009	2010-2011	2012-2013	Thereafter
Long-term debt	39,581	434	35,003	867	3,277
Shop and office leases	1,612	778	775	59	-
Total contractual obligations	41,193	1,212	35,778	926	3,277

In addition to the contractual obligations above, at year-end 2008 the Fund had committed to certain capital expenditures totalling approximately \$2.2 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.

### Unitholders' Capital

Unitholders' capital increased by \$0.6 million to \$44.1 million at December 31, 2008. This was the result of issuing the following units:

- 11,751 fund units from the long-term incentive plan as payment for 2007 management performance bonuses;
- 2,325 fund units from the long-term incentive plan as partial payment of 2008 fees to non-management trustees; and
- 15,000 funds units issued on the exercise of unit options.

Units outstanding at December 31, 2008 were 10,790,744. There was no change to the balance as of March 13, 2009.

### Off-Balance-Sheet Arrangements

At December 31, 2008 and 2007, the Fund had no off-balance-sheet arrangements.

### Transactions with Related Parties

Shea Nerland Calnan LLP provides legal services to Badger at market rates. David Calnan, a Trustee and the Corporate Secretary of the Fund, is a partner in the law firm of Shea Nerland Calnan LLP and is involved in providing and managing Badger's legal services. The total cost of these legal services in 2008 was \$283,000 compared to \$219,000 in 2007.

### Selected Quarterly Financial Information

	Quarter Ended							
	2008				2007			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Revenues (\$)	40,471,059	39,957,349	33,142,814	34,774,334	33,356,010	31,741,950	25,015,707	27,574,051
Net earnings (\$)	2,732,192	6,960,013	4,006,788	5,282,897	5,816,949	5,136,223	1,539,755	4,229,918
Net earnings per unit – basic (\$)	0.25	0.64	0.37	0.49	0.54	0.48	0.14	0.39
Net earnings per unit – diluted (\$)	0.25	0.64	0.37	0.49	0.54	0.48	0.14	0.39

## **Fourth Quarter Highlights**

- As a result of increased activity in Canada and the United States, revenue increased to \$40.5 million in the three months ended December 31, 2008 from \$33.4 million in the three months ended December 31, 2007. Canadian revenues increased by 9 percent due to a general increase in business in most areas. Badger's United States revenue increased to \$15.7 million from \$10.6 million quarter-over-quarter due to increased activity related to oilfield services and performing services on some major projects.
- Average revenue per truck per month was \$29,600 in the fourth quarter of 2008 compared to \$30,900 per month for the same period in 2007.
- Net earnings decreased from \$0.6 million for the three months ended December 31, 2007 to \$0.3 million for the three months ended December 31, 2008. The main reasons for the decrease were the increase in tax expense and impact of the foreign exchange loss comparing the fourth quarter of 2008 to the fourth quarter of 2007.
- The Fund added 21 hydrovac units to the fleet and removed three from service.

## **New Accounting Pronouncements**

### ***Section 3064, Goodwill and Intangible Assets***

In February 2008 the Canadian Institute of Chartered Accountants (CICA) issued Section 3064 "Goodwill and Intangible Assets", replacing Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". The new section establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from Section 3062. This section is effective for fiscal years beginning on or after October 1, 2008. The Fund does not expect the adoption of this standard will have a material impact on its consolidated financial statements.

### ***Convergence with International Financial Reporting Standards***

In January 2006, the Accounting Standards Board ("AcSB") of the Canadian Institute of Chartered Accountants adopted a strategic plan for the direction of accounting standards in Canada. On February 13, 2008, the AcSB has confirmed that effective for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canada's current Generally Accepted Accounting Principles ("GAAP") for all publicly accountable profit-oriented enterprises.

The Fund is currently evaluating the impact of this changeover on its Consolidated Financial Statements.

- The Fund engaged external consultants from Ernst & Young LLP to conduct an initial assessment of the impact of adopting IFRS within the Badger. This engagement was conducted in December 2008 to understand, identify and assess the overall effort required to adopt IFRS within the timelines outlined by the AcSB.
- The Fund plans to adopt IFRS according to the schedule recommended by the AcSB and is still evaluating the options and potential exemptions available upon initial adoption of IFRS. In addition to an increase in the amount of general disclosure

involved, based on the work done to date, the Fund expects the greatest potential impact of IFRS adoption to be within the following areas:

- Unitholders' capital – Under IFRS instruments must be evaluated to assess if they are debt or equity instruments with the related distributions being associated as either equity distributions or expenses.
- Property, plant and equipment – Under IFRS, each class of property, plant and equipment may be carried on the cost basis or at re-valued amounts less depreciation. In addition, the treatment of overhaul and replacement costs is different under IFRS.
- Impairment of Long-Lived Assets, Intangibles and Goodwill – IFRS requires a more elaborate impairment test than under GAAP, and this test must be applied at a more detailed level, to individual assets or groups of assets assessed to be Cash Generating Units for each reporting date. IFRS requires the reversal of impairment writedowns where previous adverse circumstances have changed and impairment tests must be completed upon transition to IFRS.
- Income taxes – The recognition and measurement of deferred tax assets and liabilities differs under IFRS and current GAAP. In addition, the recognition and treatment of temporary differences also differs.

Also expected to require changes, but with potentially lesser impact on existing reporting, are:

- Operating segments – IFRS does not recognise extraordinary items.
- Inventories – Depending on their nature, spare parts are treated differently under IFRS and GAAP.
- Foreign Currency – IFRS is more specific regarding the process used to assign a functional currency to each entity within a corporate group and does not distinguish between different types of foreign operations as GAAP currently does.
- Financial instruments – Under IFRS, the definition of 'closely related' in terms of embedded derivatives differs to that under GAAP.

The Fund anticipates smaller potential impacts in the following areas:

- Share based payments
- Business Combinations – for future acquisitions
- Cash flow statements
- Leases
- Revenue
- Borrowing costs
- Earnings per share
- Provisions
- Intangible assets

The Fund will use the results of the initial assessment to further evaluate each of the above areas as well as any new findings (the above list is not necessarily exhaustive) as it proceeds with the next phase of IFRS adoption efforts, while continuing to monitor ongoing changes in both IFRS and GAAP in the period leading up to adoption.

The impact on information technology, controls over financial reporting and disclosure controls is not expected to be significant. The Fund can complete the assessment of the impact to investor relations and external communication plans once the evaluation of the impact to the consolidated financial statements is complete.

### **Critical Accounting Estimates**

Management is responsible for applying judgement in preparing accounting estimates. Certain estimates and related disclosures included within the financial statements are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from management's current judgements. An accounting estimate is considered critical only if it requires the Fund to make assumptions about matters that are highly uncertain at the time the accounting estimate is made, and if different estimates the Fund could have used would have a material impact on Badger's financial condition, changes in financial condition or results of operations.

While there are several estimates and assumptions made by management in the preparation of financial statements in accordance with GAAP, the following critical accounting estimates have been identified by management:

#### *Amortization of the Hydrovac Units*

The accounting estimate that has the greatest effect on the Fund's financial results is the amortization of the hydrovac units. Amortization of the hydrovac units is carried out on the basis of their estimated useful lives. The Fund currently amortizes the hydrovac units over 10 years based on current knowledge and past experience. There is a certain amount of business risk that newer technology or some other unforeseen circumstance could lower this life expectancy. A change in the remaining life of the hydrovac units or the expected residual value will affect the amortization rate used to amortize the hydrovac units and thus affect amortization expense as reported in the Fund's statements of earnings and comprehensive income. These changes are reported prospectively when they occur.

#### *Tax Pools and Their Recoverability*

Badger has estimated its tax pools for the income tax provision. The actual tax pools the Fund may be able to use could be materially different in the future.

#### *Intangible Assets*

Intangible assets consist of service rights acquired from Badger's Operating Partners, customer relationships, trade name and non-compete agreements. The initial valuation of intangibles at the closing date of any acquisition requires judgement and estimates by management with respect to identification, valuation and determining the expected periods of benefit. Valuations are based on discounted expected future cash flows and other financial tools and models and are amortized over their expected periods of benefit or not amortized if it is determined the intangible asset has an indefinite life. Intangible assets are reviewed annually with respect to their useful lives or more frequently if events or changes in circumstances indicate that the assets might be impaired. The impairment test includes the application of a fair value test, with an impairment loss recognized when the carrying amount of the intangible asset exceeds its estimated fair value. Impairment provisions are not reversed if there is a subsequent increase in the fair value of the intangible asset.

### Goodwill

Goodwill is the amount that results when the cost of acquired assets exceeds their fair values at the date of acquisition. Goodwill is recorded at cost, not amortized and tested at least annually for impairment. The impairment test includes the application of a fair value test, with an impairment loss recognized when the carrying amount of goodwill exceeds its estimated fair value. Impairment provisions are not reversed if there is a subsequent increase in the fair value of goodwill.

### Impairment of Long-lived Assets

The carrying value of long-lived assets, which include property, plant and equipment and intangible assets, is assessed for indications of impairment when events or circumstances indicate that the carrying amounts may not be recoverable from estimated cash flows. Estimating future cash flows requires assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

### Collectibility of Accounts Receivable

The Fund estimates the collectibility of its accounts receivable. The Fund continually reviews its accounts receivable balances and makes an allowance when a receivable is deemed uncollectible. The actual collectibility of accounts receivable could differ materially from the estimate.

### Unit-based Compensation

Compensation expense associated with unit options at grant date is an estimate based on various assumptions such as volatility, annual distribution yield, risk-free interest rate and expected life. Badger uses the Black-Scholes methodology to produce an estimate of the fair value of such compensation.

## **Financial Instruments and Risk Management**

### Fair Values

The Fund's financial instruments recognized on the 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 December 31, 2008, the Fund had available \$5.9 million of authorized borrowing capacity on the extendable revolving facility. The credit facility has no required principal repayment. The credit facility expires on June 27, 2009 renewable at the Fund's option for an additional 364 day period. If not renewed, interest is payable on the facility for 364 days after which the entire amount is to be repaid. The 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. A sensitivity analysis would indicate that net earnings for the year ended December 31, 2008 would have been affected by approximately \$242,000 if the average interest rate changed by one percent. 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.

## **Disclosure Controls and Procedures and Internal Control over Financial Reporting**

### Disclosure Controls and Procedures

Badger's President and CEO and the VP Finance and CFO have designed, or caused to be designed under their direct supervision, Badger's disclosure controls and procedures (as defined by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, adopted by the Canadian Securities Administrators) to provide reasonable assurance that (i) material information relating to Badger, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual

filings are being prepared; and (ii) material information required to be disclosed in the annual filings is recorded, processed, summarized and reported on a timely basis. Further, they have evaluated, or caused to be evaluated under their direct supervision, the effectiveness of Badger's disclosure controls and procedures at December 31, 2008 and concluded that they were effective.

#### Internal Control over Financial Reporting

Badger's President and CEO and the VP Finance and CFO have also designed, or caused to be designed under their direct supervision, Badger's internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Further, using the criteria established in Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission, they have evaluated, or caused to be evaluated under their direct supervision, the effectiveness of Badger's internal control over financial reporting at December 31, 2008 and concluded that it was effective.

#### Changes in Internal Control over Financial Reporting

No changes were made to the design of Badger's internal control over financial reporting during the year ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

#### Inherent Limitations

Notwithstanding the foregoing, because of its inherent limitations a control system can provide only reasonable assurance that the objectives of the control system are met and may not prevent or detect misstatements. Management's estimates may be incorrect, or assumptions about future events may be incorrect, resulting in varying results. In addition, management has attempted to minimize the likelihood of fraud. However, any control system can be circumvented through collusion and illegal acts.

#### **Business Risks**

(Reference is also made to Badger's Annual Information Form.)

#### Reliance on the Oil and Natural Gas Sector

The oil and natural gas sector accounts for approximately 60% of the Fund's revenues. The petroleum service industry relies heavily on the volume of capital expenditures made by oil and natural gas explorers and producers and is also affected by certain adverse weather conditions. These spending decisions are based on several factors including, but not limited to: hydrocarbon prices, production levels of current reserves, and access to capital, all of which can vary greatly. The Badger operating region with the greatest exposure to oil and natural gas service activity is the Western United States. To minimize the impact of the oil and natural gas industry cycles, the Fund also focuses on generating revenue from the utility and general contracting market segments.

#### Competition

The Fund operates in a highly competitive environment for hydrovac services in Canada and the United States. In order to remain the leading provider of hydrovac services in this region, Badger continually enhances its safety and operational procedures to ensure that they meet or exceed customer expectations. Badger also has the in-house capabilities to continuously improve its daylighting units so that they remain the most productive and efficient hydrovacs in

the business. There can be no assurance that Badger's competitors will not achieve greater market acceptance due to pricing, efficiency, safety and other factors.

#### United States Operations

Badger also faces risks associated with doing business in the United States. The Fund has made a significant investment in the United States to develop the hydrovac market. The growth rate of the United States market is very hard to predict.

#### Safety

Safety is one of the Fund's primary concerns. Badger has implemented programs to ensure its operations meet or exceed current hydrovac safety standards. The Fund also employs safety advisors in each region who are responsible for maintaining and developing the Fund's safety policies. In addition, these regional safety advisors monitor the Fund's operations to ensure they are operating in compliance with such policies.

#### Amortization of Daylighting Units

The Fund currently amortizes the hydrovac units over 10 years, a policy that is based on its current knowledge and past experience. There is a certain amount of business risk that newer technology or some other unforeseen circumstance could lower this life expectancy.

#### Dependence on Key Personnel

Today, Badger has a strong, stable employee base. Badger relies on its ability and the ability of its agents/franchisees to attract and retain key personnel necessary to maintain and grow its business. Any loss of services of key personnel could have a material adverse effect on the business and operations of the Fund. The ability to secure the services of additional personnel is constrained in times of strong industry activity.

#### Reliance on Key Suppliers

Badger has established relationships with key suppliers. There can be no assurance that current sources of equipment, parts, components or relationships with key suppliers will be maintained. If these are not maintained, Badger's ability to manufacture its hydrovac units may be impaired.

#### Fluctuations in Weather and Seasonality

Badger's operating results have been, and are expected to continue to be, subject to quarterly and other fluctuations due to a variety of factors including changes in weather conditions and seasonality. For example, in Western Canada Badger's results may be negatively affected if there is an extended spring break-up period since oil and natural gas industry sites may not be accessible during such periods. In Eastern Canada, Badger has in the past experienced increased use of its equipment during cold winters, thus improving the results of its operations during such times. The Fund may then experience a slow period during spring thaw.

In the Western United States, Badger has from time-to-time been restricted by the imposition of government regulations from conducting its work in environmentally sensitive areas during the winter mating seasons of certain mammals and birds. This has had a negative effect on Badger's results of operations. As such, changes in the weather and seasonality may, depending on the location and nature of the event, have either a positive or negative effect on Badger's results of operations.

#### Fluctuations in the Economy and Political Landscape

Operations could be adversely affected by a general economic downturn, changes in the political landscape or limitations on spending. The current economic downturn plus uncertainty

will have a negative impact on Badger's business. The impact at this time is unknown. Badger will look for opportunities to replace revenue lost due to the downturn. The success of the company's efforts is unknown.

#### Compliance with Government Regulations

While Badger believes it is currently in compliance with all applicable government standards and regulations, there can be no assurance that all of Badger's business will be able to continue to comply with all applicable standards and regulations.

#### Access to Additional Financing

Badger may find it necessary in the future to obtain additional debt or equity to support ongoing operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance additional financing will be available to Badger when needed or on terms acceptable to Badger. Badger's inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit the Fund's growth and may have a material adverse effect upon the Fund.

#### Self-Insurance

Due to the magnitude of insurance premiums, the Fund decided to self-insure against any physical damage it could incur on the Canadian hydrovac units. This decision will be re-evaluated periodically as circumstances change. The United States hydrovac units continue to have insurance purchased by Badger.

### **Outlook**

Two-thousand eight was very good year for Badger. Badger profitably grew its business and added to its fleet. The year ahead will be a challenge. The economic downturn and uncertainty will tighten market conditions, meaning that Badger expects there to be less work available in general, with pricing pressures accompanying the reduced level of available work. Of particular concern is the slowdown of oil and natural gas service activity in the Western United States. With the announced infrastructure spending by various governments in Canada and the United States, and Badger's fleet flexibility (because the hydrovacs can travel to do work), Badger's management team is focused on finding opportunities to utilize the fleet. Badger's service offering is second to none, the balance sheet is strong and the management team believes Badger will come out of this downturn stronger than before.

**BADGER INCOME FUND**  
**Unaudited Consolidated Balance Sheets**

	December 31, 2008 \$	December 31, 2007 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash	2,656,144	1,477,078
Accounts receivable	35,830,748	28,318,106
Inventories	2,197,611	1,690,133
Prepaid expenses	778,661	1,031,513
	<u>41,463,164</u>	<u>32,516,830</u>
<b>Property, plant and equipment</b>	97,653,365	71,672,820
<b>Intangible assets</b>	4,791,512	4,987,512
<b>Goodwill</b>	1,621,000	1,621,000
	<u>145,529,041</u>	<u>110,798,162</u>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	18,043,971	11,269,139
Income taxes payable	58,135	212,540
Distributions payable	1,133,028	1,129,975
Current portion of long-term debt	433,768	218,768
	<u>19,668,902</u>	<u>12,830,422</u>
<b>Long-term debt</b>	39,147,594	26,035,242
<b>Future income taxes</b>	21,262,936	13,500,936
	<u>80,079,432</u>	<u>52,366,600</u>
<b>Unitholders' equity</b>		
Unitholders' capital	44,183,155	43,538,255
Contributed surplus	2,613,850	1,636,000
Retained earnings	18,652,604	13,257,307
	<u>65,449,609</u>	<u>58,431,562</u>
	<u>145,529,041</u>	<u>110,798,162</u>

**BADGER INCOME FUND****Unaudited Consolidated Statements of Earnings and Comprehensive Income and Retained Earnings**

	Dec. 31/08	Dec. 31/07
	\$	\$
<b>Revenues</b>	148,345,556	117,687,718
<b>Direct costs</b>	96,179,154	76,405,264
<b>Gross margin</b>	52,166,402	41,282,454
<b>Expenses</b>		
Amortization	12,506,492	10,427,356
Loss (gain) on sale of property, plant and equipment	(77,203)	(94,402)
Interest - long-term	1,708,864	1,178,295
Selling, general and administrative	11,232,411	8,180,601
Foreign exchange loss	628,048	808,080
	25,998,612	20,499,930
<b>Earnings before income taxes</b>	26,167,790	20,782,524
<b>Income taxes</b>		
Current	1,386,951	818,279
Future	5,798,949	3,241,400
	7,185,900	4,059,679
<b>Net earnings and comprehensive income for the year</b>	18,981,890	16,722,845
<b>Retained earnings, beginning of year</b>	13,257,307	10,092,883
<b>Cash distributions</b>	(13,586,593)	(13,558,421)
<b>Retained earnings, end of year</b>	18,652,604	13,257,307
<b>Net earnings per unit</b>		
Basic	1.76	1.55
Diluted	1.75	1.55

**BADGER INCOME FUND**  
**Unaudited Consolidated Statements of Cash Flows**

	Dec. 31/08	Dec. 31/07
	\$	\$
<b>Operating activities</b>		
Net earnings and comprehensive income for the year	18,981,890	16,722,845
Add (deduct) items not involving cash:		
Amortization	12,506,492	10,427,356
Future income taxes	5,798,949	3,241,400
Unit-based compensation	1,142,750	712,400
Foreign exchange loss	628,048	808,080
Loss (gain) on sale of property, plant and equipment	(77,203)	(94,402)
	<u>38,980,926</u>	<u>31,817,679</u>
Net change in non-cash working capital relating to operating activities	<u>(3,748,988)</u>	<u>(7,384,823)</u>
	<u>35,231,938</u>	<u>24,432,856</u>
<b>Financing activities</b>		
Proceeds received on the exercise of unit options	246,150	-
Proceeds from long-term debt	13,653,621	17,737,726
Repayment of long-term debt	(326,269)	(108,768)
Distributions to unitholders	(13,583,540)	(13,558,101)
	<u>(10,038)</u>	<u>4,070,857</u>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(34,897,580)	(19,628,994)
Purchase of Benko Sewer Service	-	(4,101,000)
Purchase of service rights	-	(5,139,675)
Proceeds on disposal of property, plant and equipment	854,746	523,122
	<u>(34,042,834)</u>	<u>(28,346,547)</u>
<b>Increase (decrease) in cash during the year</b>	1,179,066	157,166
<b>Cash, beginning of year</b>	<u>1,477,078</u>	<u>1,319,912</u>
<b>Cash, end of year</b>	<u>2,656,144</u>	<u>1,477,078</u>
<b>Interest paid</b>	<u>1,708,864</u>	<u>1,199,319</u>
<b>Income taxes paid (received)</b>	<u>786,325</u>	<u>1,271,334</u>
<b>Property, plant and equipment financed by accounts payable and accrued liabilities</b>	<u>4,171,000</u>	<u>-----</u>

## GEOGRAPHIC 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 year and three months ended December 31, 2008 and 2007 based on these geographic segments:

	Three months ended Dec. 31, 2008			Three months ended Dec. 31, 2007		
	Canada (\$)	USA (\$)	Total (\$)	Canada (\$)	USA (\$)	Total (\$)
Revenues	24,738,706	15,732,353	40,471,059	22,786,736	10,569,274	33,356,010
Direct costs	16,718,919	10,118,911	26,837,830	15,315,100	7,072,837	22,387,937
Selling, general and administrative	1,875,575	1,509,448	3,385,023	1,472,858	571,312	2,044,170
EBITDA (*)	6,217,819	3,044,448	9,262,267	5,941,421	2,959,428	8,900,849
Amortization	1,967,313	1,325,933	3,293,246	1,870,651	953,323	2,823,974
Earnings before income taxes	3,767,981	1,711,022	5,479,003	3,767,042	1,995,247	5,762,289
Capital expenditures	7,457,034	4,449,073	11,906,107	3,532,176	3,005,788	6,537,964

	Twelve months ended Dec. 31, 2008			Twelve months ended Dec. 31, 2007		
	Canada (\$)	USA (\$)	Total (\$)	Canada (\$)	USA (\$)	Total (\$)
Revenues	94,972,824	53,372,732	148,345,556	78,945,490	38,742,228	117,687,718
Direct costs	61,169,558	35,009,596	96,179,154	50,739,593	25,665,671	76,405,264
Selling, general and administrative	7,634,504	3,597,907	11,232,411	5,823,238	2,357,363	8,180,601
EBITDA (*)	26,219,932	14,086,011	40,305,943	22,424,546	9,869,227	32,293,773
Amortization	7,713,632	4,792,860	12,506,492	7,061,336	3,366,020	10,427,356
Earnings before income taxes	16,997,960	9,169,830	26,167,790	14,291,471	6,491,053	20,782,524
Property, plant and equipment	60,682,964	36,970,401	97,653,365	46,469,797	25,203,023	71,672,820
Intangible assets	4,791,512	-	4,791,512	4,987,512	-	4,987,512
Goodwill	1,621,000	-	1,621,000	1,621,000	-	1,621,000
Total assets	92,423,910	53,105,131	145,529,041	75,070,511	35,727,651	110,798,162
Capital expenditures	22,894,856	16,173,724	39,068,580	5,736,771	10,240,803	15,977,574

(\*) 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 taxes 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).

*Badger Income Fund is an open-ended trust that is North America's largest provider of non-destructive excavating services. Badger traditionally works for contractors and facility owners in the utility and petroleum industries. Our key technology is the Badger Hydrovac, which is used primarily for safe digging in congested grounds and challenging conditions. The Badger Hydrovac uses a pressurized water stream to liquefy the soil cover, which is then removed with a powerful vacuum system and deposited into a storage tank. Badger manufactures its truck-mounted hydrovac units.*

*Badger Income Fund's business model involves the provision of excavating services through two distinct entities: the Operating Partners (franchisees in the United States and agents in Canada), and Badger Corporate. Badger Corporate works with its Operating Partners to provide Hydrovac service to the end user. In this partnership, Badger provides the expertise, the trucks, and North American marketing and administration support. The Operating Partners deliver the service by operating the equipment and developing their local markets. All work is invoiced by Badger and then shared with the Operating Partner based upon a revenue sharing formula. In certain locations Badger has established corporate run operations to market and deliver the service in the local area.*

The Toronto Stock Exchange has neither approved nor disapproved the information contained herein.

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