



2010 QUARTERLY REPORT



Q1 — For the three months ended March 31, 2010

Badger Income Fund (the “Fund” or “Badger”) announces its financial and operating results for the quarter ended March 31, 2010. Revenues for the three months ended March 31, 2010 decreased by approximately 19 percent to \$30.3 million from \$37.4 million for the comparable quarter of 2009, due to a 14 percent decrease in Canadian revenues and a 24 percent decrease 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 in 2009. Badger’s EBITDA decreased to \$7.7 million for the three months ended March 31, 2010 from \$11.3 million in the same quarter of 2009, while funds generated from operations decreased to \$6.9 million from \$10.2 million in the comparable quarter of 2009.

Badger had 407 daylighting units at the end of the first quarter of 2010, reflecting the addition of four daylighting units to the fleet to date in 2010 and the retirement of four units. Of the total, 229 units are operating in Canada and 178 in the United States. The Fund had 407 daylighting units at December 31, 2009.

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) should be read in conjunction with the attached unaudited interim consolidated financial statements of Badger. Readers should also refer to the audited consolidated financial statements and MD&A included in Badger's 2009 Annual Report. Additional information is also available on the Fund's website (www.badgerinc.com) and all previous public filings, including the Fund's Annual Information Form, may be found on SEDAR at www.sedar.com.

This MD&A has been prepared taking into consideration information available to May 11, 2010.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain statements and information contained in this MD&A and other continuous disclosure documents of the Fund referenced herein, including statements related to the Fund's capital expenditures, projected growth, view and outlook toward margins, cash distributions, customer pricing, future market opportunities and statements, and information that contain words such as "could", "should", "can", "anticipate", "expect", "believe", "will", "may" and similar expressions relating to matters that are not historical facts, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation. These statements and information involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements and information. The Fund believes the expectations reflected in such forward-looking statements and information are reasonable, but no assurance can be given that these expectations will prove to be correct. Such forward-looking statements and information included in this MD&A should not be unduly relied upon. These forward-looking statements and information speak only as of the date of this MD&A.

In particular, forward-looking information and statements include:

- Expectations that the Eastern Canada and the Eastern United States regions will have good performance for the rest of the year as they move into the construction season following winter;
- The anticipated benefits of the addition of key personnel in operations, who should add value as the year progresses;
- The expectation of conversion to a corporate structure during 2010 and anticipation of remitting a dividend between 75 percent and 100 percent of the current level of the Fund's annual distribution (\$1.26 per unit);
- The expectation that Badger will own three more facilities and will upgrade one part of its manufacturing facility at a cost of \$5.3 million in 2010. These capital expenditures are expected to be paid for with mortgage financing, the existing extendable revolving credit facility and cash flow from operating activities;
- Estimates that the Fund will remove approximately 20 hydrovac units from the fleet in 2010;
- Badger's belief that investments made in the Western United States region will provide a return during the remainder of 2010; and
- Anticipation of renewing the extendable revolving credit facility during 2010 for an additional 364-day period.

The forward-looking statements rely on certain expected economic conditions and a certain assumed level of overall demand for Badger's services and are based on certain assumptions. The assumptions used to generate forward-looking statements are that, among other things:

- Badger has the ability to achieve its internal revenue, net earnings and cash flow forecasts for 2010;
- There will be long-term demand for hydrovac services provided in support of oil refineries, petro-chemical plants, power plants and other large industrial facilities throughout North America;
- Over the short term, there will be increased variability in recurring industrial maintenance and production support services throughout 2010;
- Badger will maintain relationships with current customers and develop successful relationships with new customers;
- The Fund will collect customer obligations in a timely manner; and
- Badger will execute its growth strategy.

Risk factors and other uncertainties that could cause actual results to differ materially from those anticipated in such forward-looking statements include, but are not limited to: supply-demand fluctuations for oil and natural gas and related products and services; political and economic conditions; industry competition; Badger's ability to attract and retain key personnel; the availability of future debt and equity financing; changes in laws or regulations, including taxation and environmental regulations; and fluctuations in foreign exchange or interest rates.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other factors that could affect the Fund's operations and financial results is included in reports on file with the Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) or at the Fund's website. The forward-looking statements and information contained in this MD&A are expressly qualified by this cautionary statement. The Fund does not undertake any obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

NON-GAAP FINANCIAL MEASURES

This MD&A contains references to certain financial measures, including some that do not have any standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP) and that may not be comparable to similar measures presented by other corporations or entities. These financial measures are identified and defined below:

"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 as well as to expand the daylighting fleet or make acquisitions. 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.

"EBITDA" is earnings before interest, taxes, depreciation and amortization (EBITDA) and 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). It is calculated as follows:

Three months ended March 31,	2010 \$	2009 \$
Net earnings and comprehensive income	3,542,807	5,673,330
Add (deduct):		
Income taxes	696,110	2,014,295
Interest – long-term	214,591	337,943
Gain on sale of property, plant and equipment	(84,237)	(92,445)
Amortization	3,304,099	3,380,969
	7,673,370	11,314,092

“Funded debt” is a measure of Badger’s long-term debt position. Funded debt is long-term debt.

“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 derived from the Consolidated Statements of Cash Flows and is calculated as follows:

Three months ended March 31,	2010 \$	2009 \$
Cash provided by operating activities	9,654,099	7,097,578
Add (deduct):		
Net change in non-cash working capital relating to operating activities	(2,803,611)	3,136,046
	6,850,488	10,233,624

“Growth capital expenditures” are capital expenditures that are intended to improve Badger’s efficiency, productivity or overall capacity and thereby to allow Badger to access new markets. They generally represent any net additions to the daylighting fleet. Growth capital expenditures exclude acquisitions made during the period.

“Maintenance capital expenditures” are any amounts incurred during a reporting period to keep the Fund’s daylighting fleet at the same number of units, plus any other capital expenditures required to maintain the capacities of the existing business. They also include 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.

The terms cash available for growth and distribution, EBITDA, funded debt, funds generated from operations, growth capital expenditures and maintenance capital expenditures used throughout this document have the meanings set out above.

FINANCIAL HIGHLIGHTS

(\$ thousands, except per unit and total units outstanding information)	Three months ended March 31, 2010	Three months ended March 31, 2009
Revenues	30,334	37,383
EBITDA	7,673	11,314
Earnings before income taxes	4,239	7,688
Taxes		
Current	426	772
Future	270	1,243
Net earnings	3,543	5,673
Net earnings per unit - diluted (\$)	0.33	0.53
Funds generated from operations	6,850	10,234
Funds generated from operations per unit - diluted (\$)	0.63	0.95
Maintenance capital expenditures	1,690	2,484
Required long-term debt repayments	81	108
Cash available for growth and distribution	5,274	8,430
Cash distributions declared	3,405	3,401
Growth capital expenditures	910	-
Total units outstanding	10,808,503	10,804,753

OVERVIEW AND OUTLOOK

Results for the first quarter of 2010 basically met Badger's predictions for the start of 2010. The current quarter was not as good as the previous year's first quarter due to the number of good projects Badger still had to complete in the first quarter of 2009 which had been started in the strong economic times. Such projects were far fewer at the start of 2010. Although the first quarter of 2010 is disappointing compared to the results of the same quarter last year, Badger's business outlook has improved over the last quarter of 2009.

Results in the Fund's two eastern regions in the first quarter were stable when compared to last year's first quarter and Badger expects both regions to have good performance for the rest of the year as they move into the construction season after the winter.

Both western regions were impacted by less work in the oil and natural gas industry which was partially due to fewer energy infrastructure projects ongoing and also to less overall activity in key producing areas in the western United States.

Looking ahead, Badger is seeing signs of improvement in certain market areas. Badger's focus on business development is starting to pay off and the Fund has been able to add several key personnel in operations who should add value as the year progresses.

During the three-month period ended March 31, 2010 Badger added four new hydrovac units and removed four from service, exiting the quarter with 407 hydrovac units. These capital expenditures are considered to be maintenance capital expenditures as there were no net additions to the daylighting fleet during the first quarter of 2010. The new units were financed from cash generated from operations.

With the federal legislation dealing with income trusts coming into force in 2011, on March 19, 2010 Badger announced its intention to convert to a dividend-paying corporation before the end of 2010. The Board of Directors will make the final decision on the level and timing of the dividend at the time of conversion. The basic plan is to have a dividend of a gross magnitude between 75 percent and 100 percent of the current level of the Fund's annual distribution, which is \$1.26 per unit. More will be known by the end of 2010 and details will be announced in due course.

Badger expects to own three more facilities in 2010, one of which was purchased in February 2010, where the Fund will run corporate operations. Badger is also doing a capital upgrade on one part of its manufacturing facility. The total capital cost for these additions is estimated to be approximately \$5.3 million. Badger normally prefers to lease these facilities for its operating centres but in these three cases it made more sense to own them. Two of the three are being built to Badger's specifications. These capital expenditures will be funded by a combination of a mortgage financing, the extendable revolving credit facility and cash flow from operating activities.

RESULTS OF OPERATIONS

REVENUES

Revenues of \$30.3 million for the three months ended March 31, 2010 were 19 percent lower than the \$37.4 million generated during the comparable period in 2009. The decrease is attributable to the following:

- Canadian revenues decreased by 14 percent from \$20.7 million in the first quarter of 2009 to \$17.7 million in the first quarter of 2010. Western Canada hydrovac revenue decreased by 19 percent due to a general decrease in demand for hydrovac services in various areas as the result of a slowdown in the oil and natural gas industry, resulting in less plant work and fewer pipeline projects. Also, with the decreased activity levels there was added pricing pressure resulting in a reduction in the hydrovac rates being charged. Eastern Canada revenue increased by 7 percent quarter-over-quarter due to an increase in some project work; and
- United States revenues went from \$16.7 million for the three months ended March 31, 2009 to \$12.6 million for the three months ended March 31, 2010. Removing the effect of the change in the foreign exchange rate, revenues decreased by 9 percent. The decrease is primarily due to a lower volume of work in the oil and natural gas sector in the United States west than in the first quarter of 2009. Badger does see an increase in levels of activity when compared to the last quarter of 2009.

Badger's average revenue per truck per month during the three months ended March 31, 2010 was \$22,000 versus \$27,300 for the three months ended March 31, 2009. The decrease is due to reduced revenue.

Included in revenues is \$330,000 of truck placement and franchise fees for the three months ended March 31, 2010, versus \$546,000 for the three months ended March 31, 2009.

DIRECT COSTS

Direct costs for the quarter ended March 31, 2010 were \$19.6 million compared to \$23.5 million for the quarter ended March 31, 2009. This decrease of 17 percent is less than the decrease in revenues of 19 percent due to reduced efficiency in the operations as a result of less project work as project work tends to increase the utilization levels of the hydrovac units.

GROSS MARGIN

Gross margin was 35.2 percent for the quarter ended March 31, 2010, a decrease from 37.0 percent for the quarter ended March 31, 2009. The Canadian gross margin percentage increased slightly from 36.5 percent for the three months ended March 31, 2009 to 37.2 percent for the three months ended March 31, 2010 due to better cost control in certain Western Canada corporate locations. United States gross margin decreased from 37.7 percent for the three months ended March 31, 2009 to 32.5 percent for the three months ended March 31, 2010 due to lower revenue in the United States west along with only minor cost reductions associated with the decreased revenue. Badger believes investments made in start up areas in the United States west will provide returns during the remainder of 2010.

AMORTIZATION

Amortization was \$3.3 million for the three months ended March 31, 2010, slightly lower than the \$3.4 million for the three months ended March 31, 2009 due to the reduced number of hydrovac units in the fleet. Included in this figure is approximately \$49,000 related to amortization of intangible assets with a limited life.

INTEREST EXPENSE

Interest expense was \$215,000 for the quarter ended March 31, 2010 versus \$338,000 for the quarter ended March 31, 2009. The lower interest expense was mainly due to having a lower average debt balance quarter-over-quarter.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were marginally higher at \$2.9 million for the quarter ended March 31, 2010 compared to \$2.8 million for the quarter ended March 31, 2009. As a percentage of revenues, selling, general and administrative expenses were 9.5 percent for the first quarter of 2010 versus 7.5 percent for the first quarter of 2009. The increase in the percentage was due to the reduced revenues.

FOREIGN EXCHANGE LOSS (GAIN)

The foreign exchange loss or gain results from converting the balance sheet and earnings statement related to the United States operations into Canadian currency.

INCOME TAXES

The effective tax rate for the quarter ended March 31, 2010 was 16 percent versus 26 percent for the quarter ended March 31, 2009. The decrease was due to generating lower earnings in the United States, which are taxed at a higher rate.

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

LIQUIDITY AND DISTRIBUTIONS

Funds generated from operations decreased to \$6.9 million for the quarter ended March 31, 2010 from \$10.2 million for the comparable period in 2009 due primarily to lower 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 \$27.0 million at March 31, 2010, which is virtually unchanged from the \$26.6 million at December 31, 2009. The increase was due to the cash flow from operations exceeding capital expenditures and distributions to unitholders.

The following table outlines the cash available to fund growth and pay distributions to unitholders for the three months ended March 31, 2010:

	(\$)
Cash provided by operating activities	9,654,099
Add (deduct): net change in non-cash working capital	(2,803,611)
Funds generated from operations	6,850,488
Add: proceeds on disposal of property, plant and equipment	194,157
Deduct: required repayments of long-term debt	(80,943)
Deduct: maintenance capital expenditures	(1,689,886)
Cash available for growth capital expenditures and distributions	5,273,816
Growth capital expenditures	909,802
Cash distributions declared	3,404,678

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 quarter ended March 31, 2010 and the year ended December 31, 2009:

	Three months ended March 31, 2010 (\$)	Year ended December 31, 2009 (\$)
Cash provided by operating activities	9,654,099	33,775,825
Net earnings	3,542,807	19,653,128
Cash distributions declared	3,404,678	13,614,197
Excess of cash provided by operating activities over cash distributions declared	6,249,421	20,161,628
Excess of net earnings over cash distributions declared	138,129	6,038,931

The Fund makes regular monthly cash distributions to its 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.

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

If maintenance capital expenditures increase in future periods, the Fund's cash available for growth capital expenditures and 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. Badger estimates it will remove approximately 20 hydrovac units from the fleet in 2010. Badger expects that cash provided by operations and cash available for growth capital expenditures and distributions will be sufficient to fund its 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.

CAPITAL RESOURCES

INVESTING

The Fund spent \$2.6 million on property, plant and equipment for the three months ended March 31, 2010 compared to \$2.5 million for the three months ended March 31, 2009. The Fund added four new hydrovac units, acquired a facility for \$0.7 million and incurred construction costs of \$0.9 million during the three months ended March 31, 2010. The costs to build a hydrovac unit increased by approximately 7 percent from fiscal 2009 to the first quarter of 2010. The main reason for the increase was the reduced build rate resulting in fixed overhead costs being allocated to fewer units.

Maintenance capital expenditures are incurred during a period to keep the hydrovac fleet at the same number of units, which applied to all of the units that joined the fleet in the first quarter of 2010, plus any other capital expenditures required to maintain the existing business. As a result \$1.7 million of first-quarter 2010 capital expenditures has been reflected as maintenance capital expenditures, with \$0.9 million being reflected as growth capital expenditures.

Based on the current build rate of the hydrovac units, Badger has enough cabs and chassis for the planned first-half 2010 build. This will lower the cash requirement to build daylighting units for the foreseeable future.

FINANCING

The Fund has in place a \$40 million extendable revolving facility, of which \$28.3 million was drawn at March 31, 2010. 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 26, 2010 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 plus ¼ percent or bankers' acceptance rate plus 1.75 percent plus 0 to 1 percent depending on Badger's funded-debt-to-EBITDA ratio. At this time the Fund does not anticipate any issues with the facility being renewed.

The Fund continues to reduce the net debt outstanding. As at March 31, 2010 Badger's cash and short-term deposits were \$10.9 million resulting in net debt of \$20.9 million versus net debt of \$24.8 million at December 31, 2009. The decrease in net debt was the result of cash flow generated from operations and proceeds received on the disposal of property, plant and equipment.

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. The Fund's practice is to utilize an appropriate mix of debt and equity to finance its maintenance capital expenditures and growth initiatives.

Badger is in compliance with all financial covenants under the credit facility agreement. Financial performance relative to the financial ratio covenants under the extendable revolving credit facility is reflected in the table below:

Ratio	March 31, 2010	December 31, 2009	Threshold
Current ⁽¹⁾	3.23:1	3.01:1	1.20:1 minimum
Funded Debt ⁽²⁾ to EBITDA ⁽³⁾	0.95:1	0.87:1	2.00:1 maximum
Fixed Charge Coverage ⁽⁴⁾	2.30:1	2.49:1	1.00:1 minimum
Distribution ⁽⁵⁾	0.74:1	0.65:1	1.00:1 maximum

1 Current ratio means the ratio of the consolidated current assets to consolidated net current liabilities (excluding the current portion of long-term debt).

2 Funded debt is long-term debt.

3 Funded debt to EBITDA means the ratio of consolidated funded debt to the aggregated EBITDA for the trailing 12 months. Funded debt is defined as long-term debt including any current portion thereof. EBITDA is defined as the trailing 12 months of EBITDA for the Fund.

4 Fixed charge coverage ratio means the trailing 12-month EBITDA less unfinanced capital expenditures and cash taxes, plus the unused portion of the extendable revolving credit facility, to the sum of the aggregate of scheduled long-term debt principal payments, interest and distributions.

5 Distribution ratio means distributions for the trailing 12-month period to the sum of funds generated from operations less scheduled long-term debt principal payments and maintenance capital expenditures.

In addition to the above the Fund had committed to certain capital expenditures totalling approximately \$1.8 million. These capital expenditures will be financed with existing credit facilities and funds generated from operations. There are no set terms for remitting payment for these financial commitments.

UNITHOLDERS' CAPITAL

There was no change to unitholders' capital during the first quarter of 2010. Units outstanding at March 31, 2010 were 10,808,503. There was no change to this balance as of May 11, 2010.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Quarter Ended							
	2010		2009			2008		
	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30
Revenues (\$)	30,333,959	33,123,204	35,004,725	29,459,240	37,383,305	40,471,059	39,957,349	33,142,814
Net earnings (\$)	3,542,807	6,257,324	4,795,804	2,926,670	5,673,330	2,732,192	6,960,013	4,006,788
Net earnings per unit - basic (\$)	0.33	0.58	0.44	0.27	0.53	0.25	0.64	0.37
Net earnings per unit - diluted (\$)	0.33	0.58	0.44	0.27	0.53	0.25	0.64	0.37

CHANGES IN ACCOUNTING POLICIES

In January 2009, the Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards (IFRS). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. This standard will impact the Fund's consolidated financial statements if the Fund enters a business combination in the future.

The CICA concurrently issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests" which replaced Section 1600 "Consolidated Financial Statements". Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling

interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are adopted early, at the same time as Section 1582 “Business Combinations”. The adoption of these standards is not expected to have any material impact on the Fund’s financial statements except if the Fund enters into a business combination in the future.

CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

In January 2006, Canada’s Accounting Standards Board (AcSB) adopted a strategic plan for the direction of accounting standards in Canada. On February 13, 2008, the AcSB 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 GAAP for all publicly accountable profit-oriented enterprises.

The Fund has developed a conversion plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information relating to 2010. As part of the IFRS conversion project, the Fund has engaged external consultants to assist and advise in the Fund’s transition to IFRS.

The conversion project consists of three phases:

Phase 1 Preliminary Impact Assessment – This phase involves the high-level identification and assessment of the differences between IFRS and Canadian GAAP that will impact the Fund.

Phase 2 Detailed Evaluation – This phase involves performing a detailed impact assessment of the differences between IFRS and Canadian GAAP, reviewing and approving accounting policy choices, identifying impacts on systems and business processes, preparing position papers for areas of significant judgement, quantifying IFRS conversion adjustments and drafting IFRS-compliant consolidated financial statements.

Phase 3 Implementation – This phase involves embedding changes to systems, processes and internal controls, drafting the transitional opening balance sheet and preparing pro-forma IFRS-compliant consolidated interim and annual consolidated financial statements for the 2011 fiscal year including comparatives.

The Fund completed Phase 1 during the third quarter of 2008 and is currently in Phase 2. Phase 2 is scheduled to be completed in the second quarter of 2010 at which time the Fund will commence Phase 3.

Based on the work completed to date, the Fund expects the greatest potential impact of IFRS adoption to be within the following areas:

FIRST-TIME ADOPTION OF IFRS (“IFRS 1”)

IFRS 1 provides the framework for the first-time adoption of IFRS and outlines that, in general, an entity shall apply the principles under IFRS retrospectively and that adjustments arising on conversion to IFRS shall be directly recognized in retained earnings. However, IFRS 1 also provides a number of optional exemptions from retrospective application of certain IFRS requirements as well as mandatory exceptions which prohibit retrospective application of standards. There are currently 15 elective exemptions and four mandatory exceptions that need to be considered.

The Fund currently expects to apply the following elective exemptions:

Impacted Area	Summary of Exemption Available
Business combinations	<p>The Fund may elect, on transition to IFRS, to either restate all past business combinations in accordance with IFRS 3 – Business Combinations (“IFRS 3”) or to apply an elective exemption from applying IFRS 3 to past business combinations.</p> <p>If the elective exemption is chosen, specific requirements must be met, such as: maintaining the classification of the acquirer and the acquiree, recognizing or derecognizing certain acquired assets or liabilities as required under IFRSs and re-measuring certain assets and liabilities at fair value.</p>
Share-based payments	<p>The Fund may elect not to apply IFRS 2 – Share-Based Payment (“IFRS”) to equity instruments granted on or before November 7, 2002 or which vested before the Fund’s date of transition to IFRS. The Fund may also elect not to apply IFRS 2 to liabilities arising from share-based payment transactions which settled before the date of transition to IFRS.</p>
Foreign exchange	<p>On transition, cumulative translation gains or losses in accumulated other comprehensive income can be reclassified to retained earnings at the Fund’s election. If not elected, all cumulative translation differences must be recalculated under IFRSs from inception.</p>
Borrowing costs	<p>The Fund may elect to apply International Accounting Standard (IAS) 23 – Borrowing Costs (“IAS 23”) prospectively from the Fund’s date of transition to IFRS. If not elected, all past borrowing costs incurred in relation to the construction of a qualifying asset must be capitalized to the cost of the asset.</p>

The Fund is not expecting to apply an elective exemption that relates to the deemed cost of items of property, plant and equipment (PP&E). Under this exemption, the Fund may elect to report items of PP&E in its opening consolidated statement of financial position on the transition date at a deemed cost instead of the actual cost that would be determined under IFRS. The deemed cost of an item may be either its fair value at the date of transition to IFRS or an amount determined by a previous revaluation under Canadian GAAP.

The remaining elective exemptions have limited or no applicability to the Fund.

PROPERTY, PLANT AND EQUIPMENT

Canadian GAAP requires the Fund to break down its assets into significant components only when practicable. Under IAS 16 – Property, Plant and Equipment, the Fund is explicitly required to allocate the amount initially recognized in respect of an item of PP&E to its significant components and depreciate separately each of these components. Where a significant component has a useful life and depreciation method that is the same as the useful life and depreciation method of another significant component of the same item of PP&E, such components may be grouped together in determining the depreciation charge.

IMPAIRMENT OF ASSETS

Canadian GAAP impairment testing involves two steps, the first of which compares the asset’s carrying value with undiscounted future cash flows to determine whether impairment exists. If the carrying value exceeds the amount recoverable on an undiscounted basis, then the cash flows are discounted to calculate the amount of the impairment and the carrying value is written down to estimated fair value.

PP&E and intangibles, including goodwill, are tested for impairment in accordance with IAS 36 – Impairment of Assets (“IAS 36”). IAS 36 requires that assets, other than goodwill and indefinite-life intangibles, be subjected to an impairment test if there are indicators of impairment. For goodwill and indefinite-life intangibles, IAS 36 requires that the Fund perform impairment tests on an annual basis.

Under IFRS an asset is impaired when the recoverable amount of that asset is less than the carrying amount. If there is any indication that an asset may be impaired, the recoverable amount should be estimated for individual assets. The recoverable amount is defined as the higher of the fair value less costs to sell and the value in use. Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s-length transaction between knowledgeable and willing parties. The value in use is the present value of the future cash flows (i.e. discounted cash flows) expected to be derived from an asset.

If it is not possible to estimate the recoverable amount for the individual asset other than goodwill, the Fund must determine the recoverable amount for the cash-generating unit (CGU) to which that asset can be allocated. A CGU is the smallest group of assets that generates cash inflows largely independent of other assets or groups of assets. Management is therefore required to determine all of the CGUs of the Fund.

Impairment will be recognized more frequently under IFRS as Canadian GAAP does not require the discounting of cash flows when assessing the recoverability of an asset’s carrying value. However, IAS 36 requires the reversal of an impairment loss for an asset, other than goodwill, where there is an indication that circumstances have changed and that the impairment loss no longer exists or may have decreased. This is not allowed under Canadian GAAP.

The Fund is currently analyzing its operations in order to determine the CGUs to be used for the purpose of impairment testing, and impairment models are being assessed to ensure compliance with IFRS.

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 and interim filings are being prepared; and (ii) material information required to be disclosed in the annual and interim 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, 2009 and identified the material weakness as outlined below.

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, 2009 and identified the material weakness as outlined below.

MATERIAL WEAKNESS

Badger has identified that it does not have sufficient accounting personnel with the appropriate tax expertise to allow for an effective review over the accuracy of its accounting for income taxes and the determination of the income tax provision. Management and the Board of Directors have determined that it is not economically feasible to maintain such personnel in-house or to engage an external tax consultant to perform an independent review. This material weakness could result in a misstatement in various tax-related accounts that could result in a material misstatement to Badger's annual and interim consolidated financial statements and disclosures that would not be prevented or detected.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes were made to the design of Badger's internal control over financial reporting during the quarter ended March 31, 2010 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

The MD&A for the year ended December 31, 2009, which is included in the Fund's 2009 Annual Report, includes an overview of business risks associated with the Fund. Those business risks remain. The reader is also referred to Badger's 2009 Annual Information Form.

Unaudited Consolidated Balance Sheets

	March 31, 2010 \$	December 31, 2009 \$
ASSETS		
Current		
Cash and short-term deposits	10,861,116	7,516,605
Accounts receivable	25,682,157	30,205,878
Inventories	1,938,205	1,792,708
Prepaid expenses	1,055,888	776,997
	39,537,366	40,292,188
Property, plant and equipment	90,390,105	91,155,437
Intangible assets	4,746,513	4,795,512
Goodwill	1,621,000	1,621,000
	136,294,984	137,864,137
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	11,089,555	11,364,134
Income taxes payable	31,595	907,377
Distributions payable	1,134,893	1,134,893
Current portion of long-term debt	323,768	323,768
	12,579,811	13,730,172
Long-term debt	31,461,117	31,960,496
Future income taxes	18,940,587	19,280,129
	62,981,515	64,970,797
Unitholders' equity		
Unitholders' capital (note 4(a))	44,387,955	44,387,955
Contributed surplus (note 4(c))	4,095,850	3,813,850
Retained earnings	24,829,664	24,691,535
	73,313,469	72,893,340
	136,294,984	137,864,137

See accompanying notes

Unaudited Consolidated Statements of Earnings and Comprehensive Income and Retained Earnings

	Three Months ended March 31, 2010 \$	Three Months ended March 31, 2009 \$
Revenues	30,333,959	37,383,305
Direct costs	19,646,283	23,537,428
Gross margin	10,687,676	13,845,877
Expenses		
Amortization	3,304,099	3,380,969
Gain on sale of property, plant and equipment	(84,237)	(92,445)
Interest - long-term	214,591	337,943
Selling, general and administrative	2,868,945	2,814,815
Foreign exchange loss (gain)	145,361	(283,030)
	6,448,759	6,158,252
Earnings before income taxes	4,238,917	7,687,625
income taxes		
Current	425,710	771,795
Future	270,400	1,242,500
	696,110	2,014,295
Net earnings and comprehensive income for the period	3,542,807	5,673,330
Retained earnings, beginning of period	24,691,535	18,652,604
Cash distributions	(3,404,678)	(3,400,555)
Retained earnings, end of period	24,829,664	20,925,379
Net earnings per unit (note 5)		
Basic	0.33	0.53
Diluted	0.33	0.53

See accompanying notes

Unaudited Consolidated Statements of Cash Flows

	Three Months ended March 31, 2010 \$	Three Months ended March 31, 2009 \$
Operating activities		
Net earnings and comprehensive income for the period	3,542,807	5,673,330
Add (deduct) items not involving cash:		
Amortization	3,304,099	3,380,969
Future income taxes	270,400	1,242,500
Unit-based compensation	282,000	312,300
Foreign exchange loss (gain)	145,361	(283,030)
Unrealized foreign exchange gain on future income taxes	(609,942)	-
Gain on sale of property, plant and equipment	(84,237)	(92,445)
	6,850,488	10,233,624
Net change in non-cash working capital relating to operating activities	2,803,611	(3,136,046)
	9,654,099	7,097,578
Financing activities		
Proceeds from long-term debt	-	580,342
Repayment of long-term debt	(499,379)	(108,441)
Distributions to unitholders	(3,404,678)	(3,399,084)
	(3,904,057)	(2,927,183)
Investing activities		
Purchase of property, plant and equipment	(2,599,688)	(6,110,317)
Purchase of service rights	-	(200,000)
Proceeds on disposal of property, plant and equipment	194,157	788,435
	(2,405,531)	(5,521,882)
Increase in cash and short-term deposits during the period	3,344,511	(1,351,487)
Cash and short-term deposits, beginning of period	7,516,605	2,656,144
Cash and short-term deposits, end of period	10,861,116	1,304,657

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 three months ended March 31, 2010 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, 2009, 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, 2009.

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 three months ended March 31, 2010 and 2009.

2. CHANGES IN ACCOUNTING POLICIES

In January 2009, the Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 1582 “Business Combinations” to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards (IFRS). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. This standard will impact the Fund’s consolidated financial statements if the Fund enters a business combination in the future.

The CICA concurrently issued Section 1601 “Consolidated Financial Statements” and Section 1602 “Non-Controlling Interests” which replaced Section 1600 “Consolidated Financial Statements”. Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are adopted early, at the same time as Section 1582 “Business Combinations”. The adoption of these standards is not expected to have any material impact on the Fund’s financial statements unless the Fund enters into a business combination in the future.

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 effects conversion to IFRS will have on its financial statements and notes thereto.

4. UNITHOLDERS' EQUITY

(A) UNITHOLDERS' CAPITAL

	Units	Amount (\$)
March 31, 2010 and December 31, 2009	10,808,503	44,387,955

The Fund declared distributions of \$0.105 per unit for each of January, February and March 2010 for a total of \$3,404,678.

(B) UNIT OPTION PLAN

A summary of the unit option transactions for the three months ended March 31, 2010 is as follows:

	Units	Weighted average exercise price \$
Outstanding at beginning of period	765,500	16.97
Granted	-	-
Exercised	-	-
Forfeited/Expired	-	-
Outstanding at end of period	765,500	16.97

Options Outstanding			Options Exercisable		
Price	Outstanding at March 31, 2010	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at March 31, 2010	Weighted average exercise price
\$17.50	160,000	1.1	\$17.50	160,000	\$17.50
\$17.45	50,000	1.4	\$17.45	50,000	\$17.45
\$16.41	255,000	2.1	\$16.41	166,667	\$16.41
\$22.45	116,375	3.2	\$22.45	38,791	\$22.45
\$13.69	184,125	4.2	\$13.69	-	-

(C) CONTRIBUTED SURPLUS

	\$
December 31, 2009	3,813,850
Unit-based compensation expense	282,000
March 31, 2010	4,095,850

(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 \$115,000 as compensation expense for the three months ended March 31, 2010 as part of selling, general and administrative expenses.

5. NET EARNINGS PER UNIT

Basic per unit calculations for the three months ended March 31, 2010 and 2009 were based on the weighted average number of units outstanding of 10,808,503 and 10,792,612, respectively. Diluted per unit calculations for the three months ended March 31, 2010 and 2009 were based on the weighted average number of units outstanding of 10,828,308 and 10,792,612, 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 to each of these segments. The following is selected information for the three months ended March 31, 2010 and 2009 based on these geographic segments.

	Three months ended March 31, 2010			Three months ended March 31, 2009		
	Canada (\$)	U.S. (\$)	Total (\$)	Canada (\$)	U.S. (\$)	Total (\$)
Revenues	17,715,594	12,618,365	30,333,959	20,683,642	16,699,663	37,383,305
Direct costs	11,129,865	8,516,418	19,646,283	13,139,701	10,397,727	23,537,428
Selling, general and administrative	2,130,286	738,659	2,868,945	1,603,595	1,211,220	2,814,815
Amortization	1,885,202	1,418,897	3,304,099	1,952,768	1,428,201	3,380,969
Earnings before income taxes	2,461,244	1,777,673	4,238,917	3,721,044	3,966,581	7,687,625
Property, plant and equipment	50,346,322	40,043,783	90,390,105	55,535,981	40,573,542	96,109,523
Intangible assets	4,746,513	–	4,746,513	4,942,512	–	4,942,512
Goodwill	1,621,000	–	1,621,000	1,621,000	–	1,621,000
Total assets	74,185,710	62,109,274	136,294,984	84,580,070	57,785,454	142,365,524
Capital expenditures	2,426,521	173,167	2,599,688	1,894,598	589,519	2,484,117

Corporate Information

TRUSTEES

George Watson	Executive Chairman CriticalControl Solutions Corp.
David Calnan, LL.B	Partner Shea Nerland Calnan LLP
Garry Mihaichuk	President GWM Resources Ltd.
Glen D. Roane	Corporate Director
J. Richard Couillard	President & Chief Executive Officer RockWell Petroleum Inc.
Tor Wilson	President & Chief Executive Officer

OFFICERS AND MANAGEMENT

Tor Wilson	President & CEO
Greg Kelly, CA	Vice President Finance & Chief Financial Officer
Derek Dillon	Vice President Operations
David Calnan, LL.B	Corporate Secretary

HEAD OFFICE

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Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Investor Services
Calgary, Alberta

SOLICITORS

Shea Nerland Calnan LLP
Calgary, Alberta

Robins Appleby & Taub LLP
Toronto, Ontario

Bose McKinney & Evans LLP
Indianapolis, Indiana

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Trading Symbol "BAD.UN"

WEBSITE

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