the leading

NORTH AMERICAN

provider of

NON-DESTRUCTIVE

excavation services

BADGER *Daylighting Inc.*

2002 annual report

TSX Symbol

"B A D"

Annual General Meeting

The 2002 annual general meeting will be held on Thursday, May 22 at 2:00 pm in the Royal Room of the Metropolitan Centre, 333 – 4th Avenue SW, Calgary, Alberta.

Contents

CORPORATE Profile

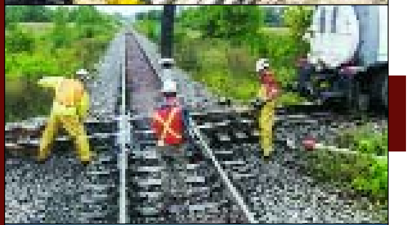
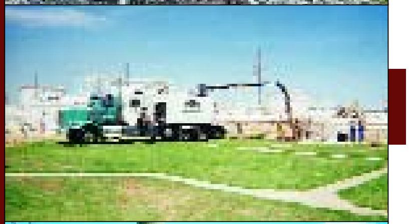
Badger Daylighting Inc. is North America's largest provider of non-destructive excavating services. Badger traditionally works for contractors and facility owners in the utility and petroleum industries. Our key technology is the Badger Hydrovac, which is used primarily for safe digging in congested 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 Daylighting Inc.'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 Partners based upon a revenue sharing formula. In limited locations Badger has established corporate run operations to market and deliver the service in the local area.

Selected Financial Data

Years ended November 30 ($ thousands, except per share information)	2002	2001
Revenues	50,085	58,102
Income from continuing operations before amortization of goodwill	585	5,181
Income per share from continuing operations before amortization of goodwill	0.03	0.26
Cash flow from continuing operations	7,457	8,744
Long-term debt	9,459	11,075
Shareholders' equity	34,647	34,133




MARKETS Served

Oil and Gas Sector

Transmission, pipeline, facilities and refineries

Utility Sector

Electrical – power generation and distribution
Telecommunications – fibre-optic, telephone and cable
Water and sewer
Gas distribution
Municipal
Landscaping

Transportation Sector

Railway
Airports – Military, commercial and private
Department of Transportation
City transit systems

Industrial Sector

Petrochemical
Plants and facilities
Construction

Engineering Sector

Consulting engineering
Subsurface Utility Engineering (S.U.E.)

OUR Business

What is Daylighting? Daylighting is the uncovering and exposing of underground utilities and pipelines to the daylight. The Badger Hydrovac system is a non-destructive method of excavating. It uses pressurized water and a vacuum system to safely excavate around utilities and pipelines.

The process. Badger's hydrovac system is a unique combination of systems – water, pressure and vacuum – combined in one self-contained, mobile unit. Water is pressurized and injected into the ground through a handheld wand to safely break up the soil from underground infrastructure. The resulting slurry is simultaneously vacuumed from the excavation through a large debris hose and temporarily stored in a debris tank.

Why is it used? This non-destructive type of excavating is recognized as a best practice when working in areas with underground utility congestion and frozen ground. The Badger Hydrovac virtually eliminates any chance of damaging utilities, which may often be inaccurately located and marked on the surface. All aspects of Badger's service and equipment are designed to enhance safety on the job site, increase productivity and raise the level of customer service.

Core competencies. Badger has many strengths which provide a sustainable competitive advantage and create value for our customers. These core competencies are daylighting expertise, technology and truck development, distribution and market development and fleet management.

Our value proposition gives us an edge over our competitors

1 Safety

Badger's work practices incorporate the most stringent safety standards. Crews work safely around any type of utility, including energized cables. Badger works with many of the major utilities.

2 Productivity

The Badger Hydrovac truck has over 50 features to enhance safety and improve productivity. The unit outperforms all other types of vacuum excavators while staying within safe operating limits.

3 Efficiency and Cost Savings

Our trucks surpass the productivity of trailer units, industrial cleaning units or sewer flushing trucks, and can deliver the highest excavating efficiency.

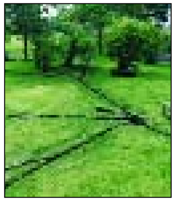
4 All-season Versatility

Badger Hydrovacs have been designed for extreme winter conditions and any depth of ground frost. All key components are protected and heated and a coiled heater produces hot water on demand.

FIELD Applications

Daylighting/Potholing

- Visual confirmation of buried lines
- Service and splice pits
- Directional drilling test holes
- Cathodic anode installation
- Pipeline and utility crossings
- Subsurface Utility Engineering (S.U.E.)

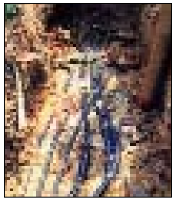


Slot Trenching

- Pipeline tie-ins
- Investigative slot trenching
- Installation slot trenching
- Drain tile trenching
- Line fault repairs

Debris Removal/Cleanouts

- Road and box culvert cleanouts
- Pipe-rammed casing cleanouts
- Material removal from inside structures and buildings



Pits

- Maintenance pits
- Installation service pits

Pole/Piling Holes

- Utility poles, traffic signals, light standards and sign posts
- Pole removals and replacements
- End-bearing piles
- Pilot holes for friction piles
- Spread footing piles
- Well monitor installations

Shoring

- Shoring shields and cages
- Minimal ground disturbance
- Maintains ground integrity
- Installation in limited access sites
- Prevents sloughing and cave-ins
- Lower restoration costs
- Safe access to buried infrastructure

and allows contractors to lower costs while enhancing safety.

5 Badger's Network

Badger has the largest and most reliable hydrovac fleet available in the United States and Canada on a 24/7 basis. Badger's toll-free, central dispatch delivers a well coordinated effort on every job.

6 Clean, Precise, Professional

The Badger Hydrovac can excavate quickly while leaving a clean hole, which requires less restoration. Our managers devise the most appropriate solutions for any project or location.

7 Remote Excavating

Badger Hydrovacs are also capable of excavating at distances over 400 feet from the truck, enabling crews to work in areas with limited access.

8 Outsourcing

It makes economic sense for construction companies to outsource hydrovac projects. Badger hires and trains the operators and builds and maintains the equipment.

LETTER to Shareholders

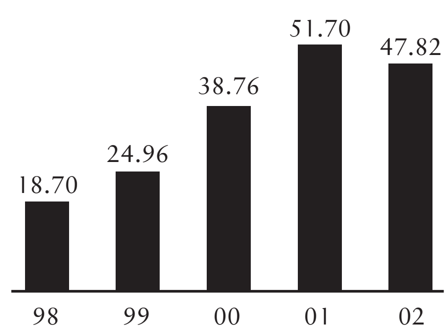
Tor Wilson
President & CEO

Two thousand and two was a challenging year for oil and gas service companies generally in North America, as the energy sector faced relatively weak commodity prices through the first half of the year and the U.S. economy continued to struggle. Nonetheless, Badger Daylighting put in place a number of initiatives aimed at enhancing our competitive advantage and positioning the Company to exploit what promises to be one of the busiest oil and natural gas drilling seasons in Canada. We are a strong company with a promising outlook.

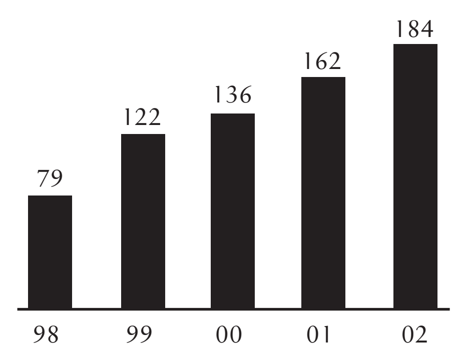
Our financial and operating results were mixed in 2002. Badger continued to advance as an organization and marketed its services aggressively in both Canada and the United States. Our efforts met with continued success in Canada and a disappointing lack of growth in the United States. However, we continue to learn more about the potential for our service and have been fine-tuning our operating strategy to take advantage of improving markets on both sides of the border.

Today, we are very pleased with our Canadian business and the outlook for improved revenues and net earnings. Badger has been in business for 10 years in Canada, where the hydrovac service business has made consistent progress.

In the United States, the story is quite different. Although I have no doubt that the market potential is enormous, market acceptance is weak compared to Canada mainly due to the lack of awareness of the hydrovac's advantages. On an encouraging note, there are several indications that this is changing. Damage prevention and pipeline integrity are high profile topics which are helping to increase awareness for our service. Badger is the leading provider of non-destructive excavation services in Canada and the United States. Our goal is to build on this market position.



Daylighting Revenue ($ millions)



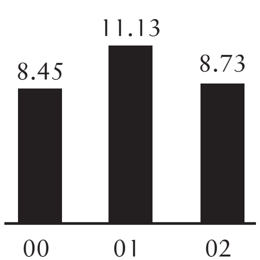
Badger Units

2002 Goals and Results

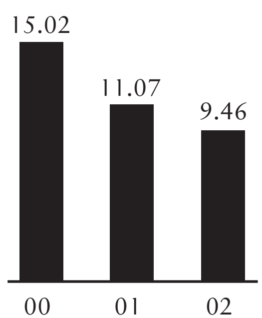
In last year's annual report we outlined our plan and goals for 2002. Our results and 2003 outlook are presented as follows:

Continue to build our Canadian business: As previously discussed we were able to improve our Canadian business in 2002, which translated into EBITDA of $10.1 million versus $9.8 million in 2001. As a result of our 2002 efforts, Badger now has better coverage of the Western Canadian market and a presence in Quebec. We also enhanced our safety program by hiring more safety personnel and adding training capacity. Both initiatives will help us become more competitive in 2003.

Strengthen Badger's U.S. operations further to take advantage of the large U.S. market opportunity: This was our initial approach in the United States during 2002. However, over the course of the year our strategy changed. The U.S. economy continued to be weak and oil and gas and construction activity was slow. These factors, combined with the decline in the telecommunications market, left us with too many assets and too much organizational infrastructure for the available market. While we attempted to use these resources to develop a market in other targeted sectors, we could not replace the lost revenue and had to absorb the costs of the infrastructure. We did not obtain this particular goal, but have made adjustments to both our asset base and infrastructure in the United States and we anticipate improved prospects for late 2003.



EBITDA ($ millions)



Long-term Debt ($ millions)

Add 20 to 25 units to the North American fleet: Badger added 22 units to its fleet in 2002, all of which are being used in Canada.

Continue to focus on core competencies and business processes, which will help maintain or improve our competitive advantage: We upgraded our administration systems, enhanced our safety program and improved our U.S. customer database, work that will continue in 2003.

Badger's Markets

Badger divides the North American market into four areas: Western Canada, Eastern Canada, United States West and United States East. Each area has a distinctive customer base and is in a different stage of development.

Western Canada: Badger started in Western Canada 10 years ago. After a slow initial market development phase, the business has grown and our operations are strong. Our main market in Western Canada is related to the oil and natural gas sector. Badger has a well established network of Operating Partners (Agents) in Western Canada that provide quality service. The market was more challenging in 2002 compared to the prior year, mainly because of lower commodity prices and less activity in the energy sector. Despite this tougher market, Badger's financial results remained mostly unchanged. We were able to penetrate some previously unserviced areas in 2002. In 2003, we will continue to add to our geographic coverage.

Eastern Canada: Badger experienced a much tighter market in Eastern Canada in 2002. After growing revenues by 70 percent in 2001, our target was to maintain that level. Telecommunications and general construction projects – strong markets for the Company in 2001 – were down significantly in 2002. Nonetheless, we were able to expand our customer base to offset the slowdown. At the end of 2002, Badger established a presence in the Quebec market. We expect that it will take some time to develop a strong market in Quebec, but our investment in that province will be worthwhile over the longer term.

United States

For years, Badger has talked about the large potential of the U.S. market. Although the potential exists, the reality is that the advantages of the hydrovac remain largely unrecognized. We also acknowledge that we made several mistakes in trying to establish ourselves in the United States.

First, Badger greatly underestimated the time and investment necessary to establish a market. We still need to overcome many hurdles to gain acceptance of this technology. However, we expect that our business will grow as awareness of hydrovac technology increases.

Our second mistake was to spread our scarce resources over too large an area. Instead, we need to target a few industries in a limited number of geographic areas. Once we establish an initial presence within these industries and regions, we will be able to evaluate additional targets. We are continuing to implement this revised strategy.

A third mistake was building infrastructure and an asset base in the United States to handle the volume of work created by the telecommunications boom of the late 1990s and early 2000. Like many other companies, Badger believed that this sector offered several more years of work. When the sector came to a crashing halt, we were left with too many resources and too much overhead. Although we worked hard to establish other markets, we could not immediately replace the lost revenue from the telecommunications market. This led to lower revenues in 2002.

Badger entered 2003 much wiser about the U.S. market. Our approach is simple:

1. Focus on three main sectors:
    a. The energy sector where we have substantial experience and a strong reputation;
    b. Utilities, which offers numerous opportunities for steady work; and
    c. General contracting, which requires specialized excavating in sensitive areas.
2. Close areas where we are unprofitable and where there is little short-term potential. This process is underway.

Specific U.S. Markets

United States West: This region has a mixed customer base. The Rocky Mountain states are heavily focused on oil and natural gas, while the other areas are predominantly driven by utilities and general construction. Activity in the oil and natural gas industry was fairly weak for Badger in 2002. We believe 2003 results will be stronger due to higher commodity prices.

United States East: The Eastern United States offers mainly utility and general construction customers. Our goal in this region of the United States is to participate in large maintenance and expansion projects underway at the large industrial plants in the region. Badger offers excellent value for this segment, with many applications for our safe excavation process.

Badger 2003 Goals

In 2003 we will continue to improve our core business of non-destructive excavation. Specific goals in 2003 include:

Continue building our Canadian business: This goal remains unchanged from last year. Essentially, we will continue to seek opportunities that allow us to better penetrate the market.

Adjust U.S. infrastructure and assets to return to profitability: Our overall strategy has been adjusted to return our U.S. operation to profitability. We have reduced our infrastructure and assets to fit the current levels of revenue. We will see the benefits of these initiatives later this year. We will focus on developing three main sectors of the economy: energy, utilities and general contracting.

Obtain a fleet average revenue of $25,000 per truck, per month: It is very important that Badger achieve this measurement to ensure an adequate return on our assets. We will build trucks as required to replace aging units or to open new markets.

Continue to focus on core competencies and business processes that will help maintain or even increase our competitive advantage: This goal remains unchanged from last year. Targets include improvements to the Badger unit, increased emphasis on safety and more focused marketing efforts in the United States.

Outlook

In 2003 our focus will be much the same as 2002 with the exception of our revised strategy in the United States. We believe the Canadian operations will continue to develop, while our recent moves in the United States will provide at minimum, break-even results for the United States business in the second half of the year.

Our Board of Directors provided their usual strong support, which we greatly appreciated. Our employees worked hard to overcome many obstacles and to improve our business. I thank both groups for their support. We also appreciate the loyalty of our shareholders.

On behalf of the Board of Directors and management,

“Signed”

Tor Wilson
President and Chief Executive Officer
March 31, 2003

MANAGEMENT'S Discussion and Analysis

Greg Kelly, CA
Vice President
Finance & CFO

The management's discussion and analysis focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties relating to the industrial, utility and oilfield service industries. This management's discussion and analysis should not be considered all inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This management's discussion and analysis of the financial condition and results of operations for the year ended November 30, 2002 should be read in conjunction with the consolidated financial statements and related notes and material contained in other parts of this annual report.

Overview

Highlights for the year include:

The Company reported positive earnings in fiscal 2002 on the strength of our Canadian daylighting business. Canadian daylighting revenues increased by 2 percent from $35.0 million in fiscal 2001 to $35.9 million in fiscal 2002.

The Company incurred a significant loss in the United States due to the collapse of the telecommunications market. We were unable to replace the lost revenue with business from other market segments.

During November 2002 the Company moved 12 underutilized daylighting units from the United States to work in Western Canada.

Other revenues declined to $2.3 million in fiscal 2002 from $6.4 million in fiscal 2001 as we continued to focus on our daylighting business.

During the year 22 daylighting units were added to the fleet, bringing the total number to 184 units at year-end.

Results of Operations

Revenues

Revenues were $50.1 million in 2002 compared to $58.1 million in 2001. This 14 percent decrease was largely due to the following:

The U.S. daylighting revenues decreased from $16.7 million in fiscal 2001 to $11.9 million in fiscal 2002. The main reason for the 28 percent decrease was the impact of the collapse of the telecommunications market in the United States. In fiscal 2001 the telecommunications market accounted for 50 percent of the daylighting revenue generated in the United States versus 2 percent in fiscal 2002. Although we have been working hard to develop business in other market segments we did not replace the lost revenue from the telecommunications market.

Other business revenues decreased from $6.4 million in 2001 to $2.3 million in 2002. The 65 percent decline reflects the change in strategic direction of the Company during fiscal 2001 to focus on daylighting and our decision to no longer put any significant effort into external manufacturing.

Direct Costs

Direct costs were $33.5 million in 2002, a 15 percent decrease over 2001's $39.5 million. The decrease is proportionate to lower revenues, resulting in a relatively consistent gross margin percentage year-over-year.

Amortization of Capital Assets

Amortization of capital assets was $5.3 million in 2002, or 19 percent higher than the $4.4 million in 2001. This reflects an increased capital asset base due to adding units to the daylighting fleet during fiscal 2002 and 2001.

Interest Expense

Interest expense was $1.1 million in 2002 versus $1.5 million in 2001, a decrease of 26 percent. The lower interest expense resulted from carrying lower debt levels for a portion of the year prior to drawing on a $3.5 million capital loan facility in April 2002. Another reason for the reduced interest expense was the reduction of the balances on certain loans payable, which have higher interest rates.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $7.9 million in 2002 compared to $7.3 million in 2001. This increase of 7 percent resulted from our U.S. operations for two reasons: first, U.S. salaries and benefits increased as a result of the overhead incurred from having more corporate stores throughout fiscal 2002 compared to fiscal 2001; second, Badger wrote off a higher amount of U.S. accounts receivable, which were generated as the result of certain fibre-optic projects the Company fulfilled.

Selling, general and administrative expenses include salaries and benefits for office and sales staff, rent, utilities, and communications in the Company's segments and corporate head office. These expenses also include costs to maintain the Company's public listing and professional fees. At November 30, 2002 the Company had 112 employees.

Income Taxes

Income taxes on continuing operations before the amortization of goodwill increased from $40,000 in fiscal 2001 to $1.8 million in fiscal 2002. The high effective tax rate of 75 percent in fiscal 2002 is the result of no tax recovery being recorded for the U.S. losses due to the uncertainty of realizing the benefit of the U.S. losses in future years. The low effective tax rate in fiscal 2001 reflects a reduction of future income taxes as a result of the Federal and Alberta governments lowering their income tax rates. In addition, future income taxes were reduced by recognizing certain non-capital loss tax assets, which materialized in the fourth quarter of fiscal 2001 due to the completion of certain tax restructuring initiatives.

Amortization of Goodwill, Net of Tax

During the second quarter of 2001, the Company wrote off the balance of goodwill that remained after the sale of the pipeline construction division. The goodwill was primarily attributable to the acquisition of the assets of Bomega Metals Ltd. on November 30, 1996 which was aimed at giving the Company additional capacity to manufacture the hydrovac units and to generate revenue from external manufacturing projects. As a result of a change in strategic focus, Badger decided not to invest any further effort in external manufacturing and consequently we assessed the value of the goodwill to be nil on a go-forward basis.

Loss from Discontinued Operations, Net of Tax

This amount represents the operational loss, net of tax, from the pipeline construction division, which was sold in the second quarter of 2001.

Loss on Sale of Assets of Discontinued Operations, Net of Tax

During the second quarter of 2001 the Company sold the land, building, equipment and inventory of its pipeline construction division for total proceeds of $9.95 million. The accounting loss, net of tax, was $6.3 million.

Financial Condition and Liquidity

Cash Flow from Continuing Operations

Cash flow from continuing operations was $7.5 million in 2002 versus $8.7 million in 2001, a decrease of 15 percent. Increased losses in the United States were the main reason for the reduction. Cash flow from continuing operations in Canada increased by approximately 20 percent as evidenced by the increase in Canadian EBITDA and the decrease in both interest expense and current income taxes.

Financing

Net cash received from financing activities was $0.7 million in 2002 compared to the $13.7 million net reduction in 2001. The difference was due to the following:

During fiscal 2001 the Company closed three debt financings, which resulted in net proceeds of $12.5 million versus the $3.5 million in proceeds the Company realized from a draw on a capital loan facility in April 2002.

During fiscal 2001 the Company repaid $26.3 million of debt from a portion of the proceeds received on the three debt financings referred to above, as well as from the proceeds received on the sale of certain assets of the pipeline construction division. During fiscal 2002 the $4.2 million reduction of debt was pursuant to regularly scheduled principal repayments.

Investing

Net cash used in investing activities was $6.3 million in 2002 compared to $10.2 million in 2001, excluding the $9.95 million received on the sale of certain assets of the pipeline construction division during fiscal 2001. The main reason for the decrease was the reduced number of hydrovac units added to the fleet. During fiscal 2002 the Company added 22 new hydrovac units, compared to 32 in fiscal 2001.

Liquidity and Capital Resources

Working capital was $3.1 million at November 30, 2002 compared to working capital of $3.6 million at November 30, 2001. The reduction is mainly attributable to the decreased cash flow from continuing operations, which was the result of the losses incurred in the United States.

The Company's long-term debt, including the current portion, was $14.0 million at November 30, 2002 compared to $14.7 million at November 30, 2001. The Company repaid $4.2 million of principal pursuant to regularly scheduled repayments during fiscal 2002, but increased its long-term debt balance with the proceeds realized from a $3.5 million draw on a capital loan facility.

At November 30, 2002 the Company had a long-term debt to equity ratio of 0.27 and a long-term debt to trailing cash flow from continuing operations of 1.27. The Company believes its healthy balance sheet and unutilized borrowing capacity, combined with the cash generated from continuing operations, will provide sufficient capital to fund its ongoing operations and future capital expenditures.

Business Risks and Management

The oil and gas sector accounts for approximately 53 percent of the Company's revenues. The petroleum service industry relies heavily on the volume of capital expenditures made by oil and natural gas explorers and producers. 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. To minimize the impact of the oil and natural gas industry cycles, the Company also focuses on generating revenue from the utility and general contracting market segments.

The Company operates in a highly competitive environment for hydrovac services in Western Canada. In order to remain the leading provider of hydrovac services in Western Canada, we continually enhance our safety and operational procedures to ensure they meet or exceed our customers' expectations. We also have the in-house capabilities to continuously improve our daylighting units so that they remain the most productive and efficient hydrovacs in the business.

In addition, there are risks associated with doing business in the United States for Badger. The Company has made a significant investment in the U.S. market to develop the franchise and corporate run operations. To date this investment has provided negative financial returns and is considered a start-up venture. The Company has been working hard to develop business in other sectors, but these efforts have not replaced the lost revenue from the telecommunications market.

The U.S. economy remains sluggish with delays in infrastructure projects. This will make it more difficult for the Company to build a market for its hydrovac services in the general contracting sector. As a result of these slow economic times, the Company moved 12 underutilized trucks from the United States in the latter part of fiscal 2002 to work in Western Canada.

Safety is one of the Company's key concerns and Badger has implemented programs to ensure it meets or exceeds current safety standards. The Company also employs regional safety managers who are responsible for maintaining and developing the Company's safety policies. In addition, these regional managers monitor the Company's operations to ensure they are operating in compliance with such policies.

The Company currently depreciates the daylighting units over 10 years, a policy that is based on our 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 expectation.

Accounting Standard Changes

In 2003 the Company will be required to adopt new Canadian accounting standards relating to stock based compensation and other stock based payments. The new standard is to be applied prospectively for stock based payments to non-employees and to employee awards that are direct awards of stock. For future awards, the Company will be required to follow the fair value method, as prescribed in the standard, and calculate a fair value of the stock granted and record that fair value as an expense over the term of the grant.

The new standard, however, permits the Company to continue the present policy that no expense is recorded on the grant of stock options to employees. All prior grants have been to employees and the Company does not expect the adoption of the new standard to have a material impact on the Company's financial condition or results of operations.

Outlook

The Company believes the Western Canadian daylighting business will continue to grow in 2003. Commodity prices for oil and gas have continued to climb and recent analysis of the reserves in North America suggests a need for increases in spending by the oil and gas explorers and producers in order to meet the demand as production declines. This should result in the need for increased infrastructure projects which will require hydrovac services. Also, with the upward pressure on commodity prices there has been continued spending on heavy oil projects, which will increase the demand for hydrovac services.

The Eastern Canadian market for daylighting services is forecast to grow slightly in 2003. This growth will be due to new applications of the technology plus a higher degree of usage by our current customers.

In the United States the Company will continue to evaluate its operations, building on strong areas and closing areas where there are few prospects for improvement. The Company continues to believe the United States represents an important market for daylighting business; however, the market is not developed. The Company will concentrate its U.S. resources on a smaller group of market and geographic segments in order to establish a strong presence in these areas.

MANAGEMENT'S Statement of Responsibility

The accompanying consolidated financial statements of Badger Daylighting Inc. have been prepared by management in accordance with generally accepted accounting principles. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded. All transactions are authorized and duly recorded, and financial records are properly maintained to provide reliable information for the preparation of financial statements in a timely manner. The Board of Directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the financial statements with management and the external auditors. Ernst & Young LLP, an independent firm of chartered accountants, appointed as external auditors by the shareholders, have audited the financial statements and their report is included herein.

"Signed"

Greg Kelly, CA
Vice President Finance & CFO
January 24, 2003

AUDITORS' Report

To the Shareholders of Badger Daylighting Inc.

We have audited the consolidated balance sheets of Badger Daylighting Inc. as at November 30, 2002 and 2001 and the consolidated statements of income (loss) and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Signed: Ernst & Young LLP"

Calgary, Canada
January 24, 2003

Chartered Accountants

CONSOLIDATED Balance Sheets

As at November 30	2002 $	2001 $
ASSETS [notes 5 and 6]		
Current		
Cash	720,489	657,517
Accounts receivable	13,019,992	13,511,356
Inventories	1,573,240	1,503,433
Prepaid expenses	525,533	139,965
	15,839,254	15,812,271
Capital assets [note 3]	44,161,718	43,198,484
	60,000,972	59,010,755
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness [note 5]	1,787,726	406,242
Accounts payable and accrued liabilities	6,357,676	7,917,611
Income taxes payable	40,188	308,513
Current portion of long-term debt [note 6]	4,577,892	3,619,208
	12,763,482	12,251,574
Long-term debt [note 6]	9,458,707	11,074,797
Future income taxes [note 8]	3,132,008	1,551,153
Shareholders' equity		
Share capital [note 7]	41,249,183	41,249,183
Contributed surplus	826,000	826,000
Deficit	(7,428,408)	(7,941,952)
	34,646,775	34,133,231
	60,000,972	59,010,755

See accompanying notes

On behalf of the Board:

"Signed: Martin Margolis" Director

"Signed: George Watson" Director

CONSOLIDATED Statements of Income (Loss) and Deficit

For the years ended November 30	**2002 $**	2001 $
Revenues	**50,084,908**	58,102,194
Direct costs	**33,480,253**	39,546,378
Gross margin	**16,604,655**	18,555,816
Expenses		
Amortization of capital assets	**5,288,297**	4,448,890
Loss on sale of capital assets	**3,060**	82,380
Interest		
Long-term	**983,742**	1,340,572
Current	**98,053**	114,945
Selling, general and administrative	**7,869,978**	7,347,693
	14,243,130	13,334,480
Income from continuing operations before income taxes	**2,361,525**	5,221,336
Income taxes (recovery) [note 8]		
Current	**195,752**	1,008,741
Future	**1,580,855**	(968,356)
	1,776,607	40,385
Income from continuing operations before goodwill amortization	**584,918**	5,180,951
Amortization of goodwill, net of tax [note 4]	**–**	(3,323,239)
Income from continuing operations	**584,918**	1,857,712
Loss from discontinued operations, net of tax	**(71,374)**	(935,049)
Loss on sale of assets of discontinued operations, net of tax [notes 4 and 9]	**–**	(6,299,366)
Net income (loss) for the year	**513,544**	(5,376,703)
Deficit, beginning of year	**(7,941,952)**	(363,223)
Change in method of accounting for income taxes	**–**	(2,202,026)
Deficit, end of year	**(7,428,408)**	(7,941,952)
Income per share from continuing operations before goodwill amortization		
Basic and diluted	**0.03**	0.26
Income per share from continuing operations		
Basic and diluted	**0.03**	0.09
Net income (loss) per share		
Basic and diluted	**0.03**	(0.27)

See accompanying notes

CONSOLIDATED Statements of Cash Flows

For the years ended November 30	2002 $	2001 $
Operating activities		
Income from continuing operations	**584,918**	1,857,712
Add (deduct) items not affecting cash:		
Amortization of capital assets	**5,288,297**	4,448,890
Amortization of goodwill, net of tax	**–**	3,323,239
Future income taxes (recovery)	**1,580,855**	(968,356)
Loss on sale of capital assets	**3,060**	82,380
Cash flow from continuing operations	**7,457,130**	8,743,865
Net change in non-cash working capital	**(1,792,271)**	4,211,612
	5,664,859	12,955,477
Discontinued operations		
Loss from discontinued operations, net of tax	**(71,374)**	(7,234,415)
Add items not affecting cash:		
Amortization	**–**	1,268,461
Loss on sale of capital assets	**–**	90,379
Loss on sale of assets of discontinued operations, net of tax	**–**	6,299,366
Cash flow from discontinued operations	**(71,374)**	423,791
	5,593,485	13,379,268
Financing activities		
Shares issued, net of share issue costs	**–**	48,100
Repayment of long-term debt	**(4,157,406)**	(18,682,431)
Proceeds from long-term debt	**3,500,000**	12,511,133
Increase (decrease) in bank indebtedness	**1,381,484**	(7,600,676)
	724,078	(13,723,874)
Investing activities		
Purchase of capital assets	**(6,402,329)**	(11,639,170)
Proceeds on disposal of capital assets	**147,738**	1,395,349
Proceeds on disposal of discontinued operations	**–**	9,950,000
	(6,254,591)	(293,821)
Increase (decrease) in cash and cash equivalents during the year	**62,972**	(638,427)
Cash, beginning of year	**657,517**	1,295,944
Cash, end of year	**720,489**	657,517
Interest paid	**1,081,795**	2,139,748
Income taxes paid (recovered)	**(806,279)**	164,791

See accompanying notes

NOTES to Consolidated Financial Statements

November 30, 2002 and 2001

1. Nature of Business

The Company is incorporated under the Business Corporations Act (Alberta) and operates as a service company in the petroleum and utility industries.

2. Summary of Significant Accounting Policies

These consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements necessarily involves the use of estimates and approximations which have been made using careful judgement. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned.

Inventories

Inventories are valued at the lower of cost and net realizable value, cost being defined to include laid-down cost for materials and actual cost for direct labour on a weighted average basis.

Capital Assets

Capital assets are recorded at cost. Amortization is provided on a straight-line basis to recognize the cost less estimated salvage value of the capital assets over the estimated useful lives as follows:

Land improvements	10%
Buildings	5%
Shoring equipment	5%
Small tools	10%
Shop and office equipment	10%
Trucks and trailers	7% – 10%
Leasehold improvements	20%
Computers	25%

Amortization of equipment under construction is not recorded until such time as the construction is completed and the assets have been put to use.

Goodwill

Goodwill arising from business acquisitions, which occurred prior to June 30, 2001, is being amortized on a straight-line basis over twenty years commencing at the time of acquisition. The evaluation for impairment of goodwill is based on a comparison of the carrying values of goodwill and associated operating assets to the estimated future net undiscounted cash flows. The balance was written off in 2001 [note 4].

Income Taxes

The Company has adopted the liability method of accounting for income taxes. Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences – the difference between the carrying amount of an asset and liability in the consolidated balance sheet and its tax basis and for the carry forward of unused tax losses and income tax reductions. Future income tax assets and liabilities are measured using income tax rates expected to apply on the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that the change is substantially enacted. Future income tax assets are evaluated and if realization is not considered "more likely than not", a valuation allowance is provided.

Daylighting Revenue Recognition

The Company recognizes revenue from daylighting services when the services are provided.

Manufacturing Revenue Recognition

The Company recognizes revenue from manufacturing using the completed contract method, whereby income is recognized when the contracts are completed or virtually completed.

Net Income (Loss) Per Share

Basic net income (loss) per share was calculated on the basis of the weighted average number of shares outstanding for the year.

The Company follows the treasury stock method of calculating diluted net income (loss) per share. The treasury stock method assumes any proceeds obtained upon exercise of options would be used to purchase common shares at the average market price during the year.

Net income (loss) per share calculations are based on net income (loss) as the numerator in the calculation and the weighted average number of common shares outstanding during the year (2002 – 20,107,945; 2001 – 20,077,000) as the denominator.

There are no significant differences between income and the weighted average number of shares used in the calculation of basic net income (loss) per share and that used in the calculation of diluted net income (loss) per share.

Options

The Company has one Stock Option Plan available to officers, directors, employees and consultants with grants under the Plan approved from time to time by the Board of Directors. Under the Plan, the exercise price of each option equals the market price of the Company's stock in accordance with Toronto Stock Exchange Guidelines, provides for vesting at the discretion of the Board and expiration of the options is five years from the date of grant. No compensation expense is recognized for grants under this Plan when stock or stock options are issued. Any consideration received by the Company on exercise of stock options is credited to share capital.

Foreign Currency Translation

The subsidiaries in the U.S. have been accounted for as integrated foreign operations and have been translated using the temporal method.

Monetary assets and liabilities are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Non-monetary items are translated at historical exchange rates, unless such items are carried at market, in which case they are translated at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at the average exchange rates for the fiscal period. Exchange gains or losses arising on translation are included in the consolidated statements of income (loss).

3. Capital Assets

		2002	
	Cost $	Accumulated Amortization $	Net Book Value $
Land	919,037	–	919,037
Land improvements	366,643	184,517	182,126
Buildings	3,354,188	887,913	2,466,275
Equipment under construction	6,662	–	6,662
Shoring equipment	2,269,481	551,399	1,718,082
Small tools	39,264	23,079	16,185
Shop and office equipment	1,420,432	692,840	727,592
Trucks and trailers	57,369,409	19,424,076	37,945,333
Leasehold improvements	135,048	124,699	10,349
Computers	660,111	490,034	170,077
	66,540,275	22,378,557	44,161,718

3. Capital Assets (continued)

	2001		
	Cost $	Accumulated Amortization $	Net Book Value $
Land	919,037	–	919,037
Land improvements	366,643	147,857	218,786
Buildings	3,330,107	720,757	2,609,350
Equipment under construction	1,044,677	–	1,044,677
Shoring equipment	2,314,565	465,172	1,849,393
Small tools	39,264	19,155	20,109
Shop and office equipment	1,406,208	561,638	844,570
Trucks and trailers	50,348,723	14,827,632	35,521,091
Leasehold improvements	135,048	121,666	13,382
Computers	539,785	381,696	158,089
	60,444,057	17,245,573	43,198,484

4. Goodwill

Included in the loss on sale of assets of discontinued operations is the write-off of goodwill related to those operations [note 9]. The balance of goodwill remaining after the sale related to the acquisition of Bomega Metals Ltd. on November 30, 1996. The main purpose of this acquisition was to allow the Company additional capacity to manufacture hydro-vacuum trucks and to generate revenue from external manufacturing projects. As a result of a change in strategic focus, the Company decided to no longer put any significant effort into external manufacturing and assessed the value of goodwill to be nil and therefore wrote-off the balance outstanding as a charge against income in fiscal 2001.

5. Bank Credit Facilities

The Company has bank credit facilities available up to $8,000,000 bearing interest at the bank's prime lending rate (November 30, 2002 – 4.5%; November 30, 2001 – 4%) or the bankers' acceptance rate plus 1.35% (November 30, 2002 – 4.14%; November 30, 2001 – 4.13%). A general assignment of book debts, inventories and corporate guarantees of companies within the group have been pledged as collateral for the bank credit facilities.

In addition, the bank has made an ancillary facility available, which will be used in the ordinary course of business. The ancillary facility is a forward foreign exchange facility, which allows the Company to enter into forward foreign exchange contracts of up to U.S.$500,000 for up to twelve months from the contract date. There are no balances due on this facility at November 30, 2002.

6. Long-term Debt

	2002 $	2001 $
Loan payable, repayable in monthly principal and interest payments of $108,063 until November 2004, bearing interest at 8.59% and collateralized by chattel mortgages on certain capital assets.	**2,382,543**	3,418,714
Loan payable, repayable in monthly principal and interest payments of $101,573 until July 2004 bearing interest at 8.08% and collateralized by chattel mortgages on certain capital assets.	**1,897,769**	2,918,139
Loan payable, repayable in monthly principal and interest payments of $164,943 until February 2006, bearing interest at the one month bankers' acceptance rate plus 3.15% and collateralized by chattel mortgages on certain capital assets (November 30, 2002 – 5.94%; November 30, 2001 – 5.93%).	**5,166,579**	6,807,152
Loan payable, repayable in monthly principal and interest payments of $66,419 until April 2007, bearing interest at the one month bankers' acceptance rate plus 3.15% and collateralized by chattel mortgages on certain capital assets (November 30, 2002 – 5.94%).	**3,148,478**	–
Commercial mortgage on land and building, repayable in monthly principal payments of $9,064 plus interest until February 2016, bearing interest at bank prime plus 0.75% (November 30, 2002 – 5.25%; November 30, 2001 – 4.75%).	**1,441,230**	1,550,000
	14,036,599	14,694,005
Current portion	**4,577,892**	3,619,208
	9,458,707	11,074,797

Principal repayments on the above loans in each of the next five years is as follows:

	$
2003	4,577,892
2004	4,541,854
2005	2,702,299
2006	869,266
2007	447,914
Remainder	897,374
	14,036,599

The mortgage and loans payable are collateralized by a general security interest over the Company's assets, property and undertaking, present and future.

7. Share Capital

Authorized

Unlimited number of common shares, no par value

Unlimited number of preferred shares, no par value

Common shares issued:

	Number of Shares	Amount $
Balance November 30, 2000	20,064,612	41,201,083
Exercise of options	43,333	48,100
Balance November 30, 2002 and 2001	20,107,945	41,249,183

Options

The Company has issued stock options to acquire common shares through its Stock Option Plan of which the following are outstanding at November 30, 2002:

	2002		2001	
	Shares	**Weighted Average Exercise Price $**	Shares	Weighted Average Exercise Price $
Outstanding at beginning of year	**1,509,300**	**2.68**	1,382,033	4.63
Granted during year	**300,000**	**1.12**	855,000	0.92
Exercised during year	**–**	**–**	(43,333)	1.11
Forfeited during year	**(356,300)**	**2.50**	(684,400)	4.53
Outstanding at year-end	**1,453,000**	**2.39**	1,509,300	2.68
Options exercisable at year-end	**541,333**	**4.43**	475,636	4.84

The following table summarizes information about the stock options outstanding at November 30, 2002:

	Number Outstanding November 30, 2002	Weighted Average Remaining Contractual Life (years)	Number Exercisable November 30, 2002
Range of exercise prices:			
$0.85	505,000	3.17	–
$0.90	50,000	4.67	–
$1.13	200,000	4.00	50,000
$1.25	85,000	3.83	28,333
$1.30	50,000	2.92	25,000
$1.31	25,000	4.58	–
$2.00	28,000	2.25	28,000
$3.00	200,000	2.42	100,000
$5.50	81,000	0.08	81,000
$6.20	28,000	1.50	28,000
$6.30	150,000	1.75	150,000
$6.95	51,000	1.08	51,000
	1,453,000		541,333

The Company had reserved a total of 2,005,569 shares for issuance under the stock option plan.

8. Income Taxes

Income tax expense differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates of 39.36% (November 30, 2001 – 42.37%) to income from continuing operations before income taxes. The reasons for the differences are as follows:

	2002 $	2001 $
Income from continuing operations before income taxes	**2,361,525**	5,221,336
Income tax rate	**39.36%**	42.37%
Expected income tax provision	**929,496**	2,212,280
Add (deduct):		
Benefit of U.S. current year losses not recognized	**1,072,401**	–
Utilization of prior period losses	**–**	(981,904)
Future enacted tax rates	**–**	(846,563)
Other	**(225,290)**	(343,428)
	1,776,607	40,385

The net future income tax liability at November 30 is comprised of the following:

	2002 $	2001 $
Future income tax assets:		
Non-capital losses	**9,228,323**	8,415,035
Cumulative eligible capital	**702,702**	766,354
Share issue costs	**48,548**	50,160
Investment in shares	**229,824**	233,097
	10,209,397	9,464,646
Valuation allowance	**9,400,692**	7,666,228
	808,705	1,798,418
Future income tax liabilities:		
Capital assets	**3,940,713**	3,349,571
Net future income tax liability	**3,132,008**	1,551,153

As at November 30, 2002, the Company had non-capital losses carried forward for Canadian income tax purposes of approximately $160,000. These losses expire in 2009.

As at November 30, 2002, one of the Company's U.S. subsidiaries had net operating losses carried forward of approximately U.S. $15,687,000 which expire as follows:

	$
2019	4,843,000
2020	4,757,000
2021	3,402,000
2022	2,685,000
	15,687,000

9. Discontinued Operations

As a result of a formal decision by management of the Company made in May of 2001, the Company sold, in July, the equipment and inventory of its pipeline subsidiary for total proceeds of $8,100,000. In October 2001, the Company sold the land and building of its pipeline subsidiary for total proceeds of $1,850,000. The loss on the sales were $6,299,366, net of tax. Operating losses for the year amounted to $935,049, net of tax. Revenue applicable to the discontinued operations for the fiscal year ending November 30, 2001 totalled $26,485,560 (2000 – $29,985,764). Income, net of tax, for the discontinued operations from December 1, 2000 through to May 31, 2001 totalled $193,237.

10. Segmented Information

The Company's reportable operating segments are distinct business units that offer different products and services within the petroleum and utility industries. The Company has three reportable operating segments: corporate, daylighting services and other.

The corporate segment provides management and administration services to the two operating segments.

The daylighting services segment designs and manages hydro-vacuum trucks, which reduce the inherent dangers and difficulties involved with exposing underground pipelines and utilities.

Included in the Company's other reportable segment are activities related to manufacturing a wide variety of light and heavy industrial equipment for the oil and gas, utilities and construction industries, shoring and supplying parts and repair and maintenance services to the oil and gas industry.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies [note 2].

The following is selected segmented information for the years ended November 30, 2002 and 2001:

2002	**Corporate $**	**Daylighting Services $**	**Other $**	**Total $**
Revenues	**–**	**47,820,264**	**2,264,644**	**50,084,908**
Direct costs	**–**	**31,581,910**	**1,898,343**	**33,480,253**
EBITDA (*)	**(1,465,820)**	**10,155,608**	**41,829**	**8,731,617**
Amortization of capital assets	**113,499**	**4,734,855**	**439,943**	**5,288,297**
Income (loss) before income taxes	**(2,659,067)**	**5,418,708**	**(398,116)**	**2,361,525**
Total assets	**1,080,963**	**53,151,117**	**5,768,892**	**60,000,972**
Capital expenditures	**118,233**	**6,069,365**	**214,731**	**6,402,329**

2001	Corporate $	Daylighting Services $	Other $	Total $
Revenues	15,709	51,701,066	6,385,419	58,102,194
Direct costs	–	34,677,171	4,869,207	39,546,378
EBITDA (*)	(2,316,256)	12,706,192	735,807	11,125,743
Amortization of capital assets	139,302	3,812,911	496,677	4,448,890
Income (loss) before income taxes	(3,783,727)	8,765,933	239,130	5,221,336
Total assets	979,631	48,920,853	9,110,271	59,010,755
Capital expenditures	45,067	11,020,817	573,286	11,639,170

Geographically, the Company operates in Canada and the United States (U.S.). The following is selected information for the years ended November 30, 2002 and 2001 based on these geographic segments.

	2002 $			2001 $		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Revenues	**38,159,602**	**11,925,306**	**50,084,908**	41,447,562	16,654,632	58,102,194
Direct costs	**24,818,942**	**8,661,311**	**33,480,253**	27,182,306	12,364,072	39,546,378
EBITDA (*)	**10,134,359**	**(1,402,742)**	**8,731,617**	9,784,234	1,341,509	11,125,743
Amortization of capital assets	**3,793,716**	**1,494,581**	**5,288,297**	2,993,648	1,455,242	4,448,890
Income (loss) before income taxes	**5,260,989**	**(2,899,464)**	**2,361,525**	5,462,185	(240,849)	5,221,336
Capital assets	**34,540,741**	**9,620,977**	**44,161,718**	30,020,530	13,177,954	43,198,484
Total assets	**46,621,115**	**13,379,857**	**60,000,972**	40,100,783	18,909,972	59,010,755
Capital expenditures	**5,998,962**	**403,367**	**6,402,329**	11,090,064	549,106	11,639,170

(*) EBITDA represents earnings before interest, taxes, depreciation and amortization.

11. Financial Instruments

Fair value

The carrying value of cash, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short period to maturity of the instruments. The fair value of long-term debt instruments bearing interest at floating rates approximate their carrying value. The loan payable bearing interest at the fixed rate of 8.59% has a fair value of approximately $2,397,786 million as at November 30, 2002 (November 30, 2001 – $3,492,017). The loan payable bearing interest at the fixed rate of 8.08% had a fair value of approximately $1,901,610 million as at November 30, 2002 (November 30, 2001 – $2,951,287).

Foreign currency risk

The Company is exposed to foreign currency fluctuations in relation to its U.S. operations; however, management believes this exposure is not material to its overall operations.

Interest rate risk

A portion of the Company's debt is at floating rates, and as a result, the Company is exposed to changes in interest rates. The Company's earnings and the required cash flows to service the debt will fluctuate as a result of changes in interest rates.

12. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

CORPORATE Information

Directors

David Calnan, LL.B
Partner
Shea Nerland Calnan

Martin Margolis, CA
Chartered Accountant

George Watson
President & CEO
WNS Emergent Inc.

Tor Wilson
President & CEO

Officers and Management

Tor Wilson
President & CEO

Greg Kelly, CA
Vice President Finance & CFO

David Calnan, LL.B
Corporate Secretary

Head Office

Badger Daylighting Inc.
Suite 815, 715 – 5th Avenue S.W.
Calgary, Alberta, Canada T2P 2X6
Phone (403) 264-8500
Fax (403) 228-9773

Auditors

Ernst & Young LLP
Chartered Accountants
Calgary, Alberta

Bankers

Toronto Dominion Bank
Calgary, Alberta

Registrar and Transfer Agent

Computershare Investor Services
Calgary, Alberta

Solicitors

Shea Nerland Calnan
Calgary, Alberta

Henderson Daily
Indianapolis, Illinois

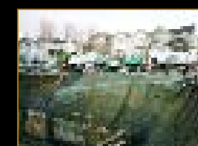
Stock Exchange Listing

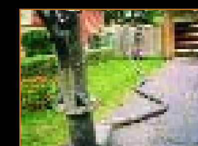
Toronto Stock Exchange
Trading Symbol "BAD"

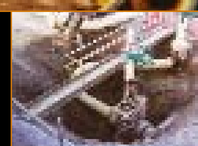
Website

www.badgerinc.com

Designed And Produced By MERLIN EDGE Inc.
printed in canada.







BADGER *Daylighting Inc.*

Suite 815, 715 – 5th Avenue S.W.
Calgary Alberta, Canada T2P 2X6
Phone (403) 264-8500
Fax (403) 228-9773

www.badgerinc.com