



BADGER DAYLIGHTING

The leading North American provider of non-destructive excavation services.

Q1 INTERIM REPORT

For the four months ended March 31, 2004

LETTER TO UNITHOLDERS

Badger Income Fund (“Badger”), is pleased to report its results for the first four months of the 2004 fiscal period. The first reporting period is four months due to the change in our fiscal year-end from November 30 to December 31. During this four-month period Badger was still a corporation. Effective April 1, 2004 Badger became an income trust. We are also pleased that our trust conversion was executed on a timely basis for a reasonable cost. With this in mind we have provided an analysis of what our distributable cash would have been if we were a trust during this four-month period.

Financial Highlights

The following chart summarizes the results for the first four months compared to the first three months of last year. It should be noted that the month of March, which is part of this year’s four-month period but not last year’s three-month period, is one of the busiest months of the year. This should be taken into account when comparing these periods. The 2004 four-month period also includes December and January, which are normally slow months due to holidays and shutdowns, and February and March which are strong months for Badger. It is apparent from the chart that Badger continues to enjoy energetic market conditions. Results in all areas were much improved over the comparison period last year.

(\$ thousands, except per share information)	Four months ended March 31, 2004	Three months ended February 28, 2003
Revenues	22,587	12,904
Net income (loss)	2,909	(647)
Net income (loss) per share – diluted ⁽¹⁾	0.14	(0.03)
Cash flow from operations	4,834	1,093

⁽¹⁾The net income (loss) per share was calculated based on the pre-consolidated weighted average common shares outstanding which was 20,241,353 for the four months ended March 31, 2004 (20,107,945 for the three months ended February 28, 2003).

Operational Update

1. Western Canada continued to have strong revenue per truck levels due to a robust oil and gas industry. This region did have a slow period during the last 12 days of January due to extremely cold temperatures, which temporarily shut down many field operations.
2. Eastern Canada results were basically flat over the comparable period from last year.
3. Western United States and the United States in general showed the biggest improvements in the first quarter. Strong activity in the petroleum industry was accountable for most of the improvements. This area had much higher industry activity than is normal in this time period.

4. As stated in previous press releases and quarterly reports, Badger's last significant restructuring was in the first quarter of 2003. There has been no significant restructuring since then and none is anticipated. This restructuring had a large negative effect on results last year, which is another factor in the difference in the results above.

Conversion to a Trust

As stated in previous press releases Badger believes the conversion to a trust made business sense for the following reasons:

1. Badger has the ability to work in numerous industries thus providing opportunities to source revenue in other industry sectors if one industry sector is weak. Although 55% of Badger's current revenue is derived from the oil and gas industry, Badger has the opportunity to work in a number of different industry sectors, essentially wherever excavations are required in sensitive areas or where utilities are buried. This has occurred in Badger's history. In 2001 Badger lost 75% of its United States revenue when the fiber optic market crashed. Badger was able to reallocate its assets and develop work in other industries.
2. The Badger Hydrovac unit is mobile and can be moved from region to region if required due to market conditions.
3. Badger's balance sheet is strong with a low level of debt. Badger believes the trust structure is appropriate for tax efficiency, unit liquidity and for raising capital, if required, in the future.
4. The Company also felt it could convert to a trust with reasonable costs. Total conversion costs will be approximately \$250,000.

Distributable Cash Analysis

Distributable cash is an income trust term, which is often used to provide some guidance on the ability of a trust to make sustainable distributions.

Had Badger been a trust for the four months ended March 31, 2004 the following pro-forma table outlines the distributable cash which would have been available to fund growth, repay debt and pay distributions. The table is based on an initial monthly projected distribution level of \$0.067 per unit:

	\$
Cash flow from operations per cash flow statement	4,833,591
Plus current taxes per income statement ⁽¹⁾	1,336,649
Less: amortization of capital assets – hydrovac units ^(2,3)	(1,750,259)
Funds available for growth capital expenditures, debt repayment and distributions	4,419,981
Pro-forma distributions for the four-month period ⁽⁴⁾	2,840,000
Required principal repayments of long-term debt ⁽⁵⁾	1,291,205

Notes:

⁽¹⁾ Assumes the cash tax paid would have been negligible had Badger been a trust at the commencement of the four-month period.

⁽²⁾ Amortization of capital assets – hydrovac units is a good indicator of long-term maintenance capital expenditures. Badger defines maintenance capital expenditures as the amount paid to keep the daylighting fleet at the same number of units. During the four months the nine units added to the fleet represented growth capital expenditures given no units were removed from the fleet. It should be noted that the economic life of a Badger hydrovac unit is approximately ten years. The average age of the Badger fleet is just under 4 years.

⁽³⁾ It should be noted that during this four-month period actual maintenance capital expenditures was zero.

⁽⁴⁾ Badger Income Fund declared April distributions of \$0.067 per unit or approximately \$710,000 per month.

⁽⁵⁾ This represents the amount of long-term debt, which would have been paid during the four months ended March 31, 2004 had Badger not accelerated its debt repayment by approximately \$1.8 million.

Number of Units

During the four-month period ended March 31, 2004 Badger added nine new units to the Canadian fleet and transferred three units to the United States. As a result there were 158 units operating in Canada and 36 units operating in the United States at March 31, 2004.

Revenue per Truck

Badger's average monthly revenue per truck during the four months ended March 31, 2004 was \$27,400 versus \$22,400 for the three months ended February 28, 2003. Badger budgets \$25,000/truck/month.

New Trustee

Badger is pleased to announce the appointment of Garry Mihaichuk as a trustee of Badger Income Fund. Mr. Mihaichuk is a senior executive with Mancal Corporation. He brings over 25 years of experience building and developing global business strategies in energy, petrochemicals and infrastructure. His years of experience have provided him with an understanding of how finance, operations, technology, legal and government regulations need to be matched to the market to allow a business to become successful.

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements for the four months ended March 31, 2004 and the audited consolidated financial statements and management's discussion and analysis for the year ended November 30, 2003.

As a result of converting to a trust the year-end will be changed from November 30, 2004 to December 31, 2004; therefore, the following management's discussion and analysis compares the four months ended March 31, 2004 to the three months ended February 28, 2003.

Disclaimer

This quarterly report contains forward-looking statements subject to various risk factors and uncertainties, which may cause the actual results, performances or achievements of Badger to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, fluctuations in the market for oil and gas and related products and services, political and economic conditions, the demand for services provided by Badger, industry competition and Badger's ability to attract and retain key personnel.

Results of Operations

Revenues

Revenues for the month of March were \$6.4 million with \$16.2 million in revenues being generated for the three months ended February 29, 2004 compared to \$12.9 million in the first three months of fiscal 2003. The increase in revenues comparing the three months ended February 29, 2004 to the three months ended February 28, 2003 is primarily attributed to the following:

- (1) Continued upward pressure on petroleum commodity prices resulted in increased demand for Badger's hydrovac services in Western Canada. Badger also improved its market coverage in the region.
- (2) The Company's focus on geographical areas and market segments in the United States, coupled with increased oil and gas drilling activity, resulted in a significant improvement in United States revenues.

Direct Costs

Direct costs were \$14.5 million in the first four months of fiscal 2004, resulting in a gross margin percentage of 36% versus a gross margin percentage of 25% for the three months ended February 28, 2003. The low gross margin percentage of 25% for the three months ended February 28, 2003 was the result of the following:

- (1) The Company spent approximately \$463,000 on upgrading units transferred from the United States to Canada.
- (2) Badger incurred certain direct costs to operate the United States fleet without corresponding revenues.
- (3) Approximately \$500,000 was spent on increased repair and maintenance costs on Canadian daylighting units, which included refurbishment costs. Each daylighting unit is refurbished at least once during its life-cycle, which allows it to continue operating efficiently and with the latest technology.

The 36% gross margin percentage generated in Canada was higher than the historical percentage of 33-34% because revenues for the four months ended March 31, 2004 included approximately \$500,000 of truck placement and franchise fees, which had no direct costs associated with them. There were no such fees recorded for the three months ended February 28, 2003.

Amortization of Capital Assets

Amortization of capital assets was relatively consistent between periods with the only material difference being the comparison of a four-month period to a three month period.

Interest Expense

The reduction in interest expense is due to the significant decrease in long-term debt.

Selling, General and Administrative

Selling, general and administrative costs were \$1.6 million for the four months ended March 31, 2004 compared to \$1.8 million for the three months ended February 28, 2003. The decrease was due to the closing of seven United States' corporate stores during the three months ended February 28, 2003, which resulted in various restructuring costs for that period. As a result of the restructuring the go-forward administrative costs were reduced.

Income Taxes

The Company recorded an income tax expense of \$1.3 million for the four months ended March 31, 2004 resulting in an effective tax rate of 31%.

Financial Condition and Liquidity

Cash flow from operations was \$4.8 million for the four months ended March 31, 2004. Good Canadian and United States EBITDA figures generated strong cash flows for the four-month period.

During the four months ended March 31, 2004 the Company accelerated its long-term debt payments by approximately \$1.8 million. The March 31, 2004 long-term debt balance of \$4.5 million is 37% of fiscal 2003 cash flow from operations, which is a good indicator of the company's low debt levels.

Working capital was \$6.8 million at March 31, 2004, which is consistent with the \$6.5 million at November 30, 2003. The Company believes its healthy balance sheet and unutilized borrowing capacity, combined with cash generated from operations, will provide sufficient capital to fund its ongoing operations and future capital expenditures.

Contractual Obligations

The Company intends to fund its contractual obligations through cash flow generated by operating activities. The Company's only contractual obligations for the next five years relate to repayment of long-term debt and are as follows:

	\$
April 1, 2004 to December 31, 2004	2,062,490
2005	1,284,288
2006	108,768
2007	108,768
2008	108,768
Thereafter	788,615
Total	\$4,461,697

Selected Annual Financial Information

	Years Ended November 30		
	2003 (\$)	2002 (\$)	2001 (\$)
Revenues ⁽¹⁾	63,686,858	50,084,908	58,102,194
Net income ⁽²⁾	3,979,346	584,918	1,857,712
Net income per share – basic ⁽³⁾	0.20	0.03	0.09
Net income per share – diluted	0.20	0.03	0.09
Total assets	59,815,382	60,000,972	59,010,755
Total long-term debt	7,577,329	14,036,599	14,694,005

Notes:

- (1) The revenue figures represent revenue from continuing operations, which exclude revenues generated by Delta Pipeline Limited which was sold on July 10, 2001.
- (2) Net income figures represent net income from continuing operations, which exclude any net income generated by Delta Pipeline Limited. There were no extraordinary items included in the net income for the periods referred to above.
- (3) Net income per share figure represent net income per share from continuing operations, which exclude Delta Pipeline Limited.

Selected Quarterly Financial Information

	Quarter Ended							
	2004	2003				2002		
	Mar. 31 ⁽¹⁾	Nov. 30	Aug. 31	May 31	Feb. 28	Nov. 30	Aug. 31	May 31
Revenues	22,587,177	18,391,028	17,216,491	15,175,522	12,903,817	14,791,263	12,579,267	11,961,047
Net income (loss)	2,909,169	1,884,246	1,684,627	1,057,045	(646,572)	240,200	34,528	67,054
Net income (loss) per share – basic	0.14	0.10	0.08	0.05	(0.03)	0.01	–	0.01
Net income (loss) per share – diluted	0.14	0.10	0.08	0.05	(0.03)	0.01	–	0.01
Shares outstanding ⁽²⁾	20,830,945	20,171,278	20,157,945	20,107,945	20,107,945	20,107,945	20,107,945	20,107,945
Diluted shares ⁽²⁾	21,333,080	20,442,457	20,278,914	20,131,475	20,107,945	20,188,695	20,279,403	20,288,745

Notes:

- (1) The quarter ended March 31, 2004 represents a four-month period.
- (2) Shares outstanding and diluted shares outstanding are as at the end of the respective quarters.

Critical Accounting Estimates

Preparation of these consolidated financial statements require that management make assumptions regarding critical accounting estimates for certain amounts contained within the Company's consolidated financial statements. If these critical accounting estimates and assumptions are wrong, they could have a material impact on the financial position and results of the Company.

Management believes the only critical accounting estimate for the Company is the estimated economic life of the hydrovac units. The Company currently depreciates the hydrovac units over 10 years based on current knowledge and past experience. There is a certain amount of business risk that newer technology or some other unforeseen circumstance could lower this life expectation.

The auditors' of the Company, Ernst & Young LLP, did not perform a review of the quarterly results.

Outlook

Badger believes the second quarter will follow the normal yearly cycle and be slightly lower than the first and anticipated third quarter results. This is primarily due to the spring break up in Western Canada when activity is reduced. However activity normally starts to increase in Eastern Canada and the Eastern United States due to the start of the construction season. Badger does not expect the strong revenue in the Western United States will slow down during the spring period.

Badger is also currently increasing the build rate of the Badger units due to high demand. The build rate was at two trucks per month for the first part of the year. The final schedule is not yet determined due to the availability of trucks. However, Badger expects to add approximately nine trucks to the fleet in the second quarter.

"SIGNED"

Tor Wilson
President & CEO
May 12, 2004

Consolidated Balance Sheets

	Mar. 31, 2004 (\$)	Nov. 30, 2003 (\$)
	(Unaudited)	(*)
ASSETS		
Current		
Cash	2,223,411	2,986,045
Accounts receivable	14,711,044	14,979,088
Inventories	1,273,041	1,297,954
Prepaid expenses	314,746	379,947
	18,522,242	19,643,034
Capital assets	41,608,015	40,172,348
	60,130,257	59,815,382
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	8,190,201	7,946,593
Income taxes payable	849,823	1,168,655
Current portion of long-term debt	2,702,338	4,034,579
	11,742,362	13,149,827
Long-term debt	1,759,359	3,542,750
Future income taxes	4,404,246	4,437,018
	17,905,967	21,129,595
SHAREHOLDERS' EQUITY		
Share capital [note 3]	41,938,183	41,308,849
Contributed surplus	826,000	826,000
Deficit	(539,893)	(3,449,062)
	42,224,290	38,685,787
	60,130,257	59,815,382

(*) These figures were derived from the audited November 30, 2003 consolidated financial statements.

Consolidated Statements of Income (Loss) and Deficit

	Four months ended Mar. 31, 2004 (\$)	Three months ended Feb. 28, 2003 (\$)
	(Unaudited)	(Unaudited)
Revenues	22,587,177	12,903,817
Direct Costs	14,509,962	9,699,303
Gross Margin	8,077,215	3,204,514
Expenses		
Amortization of capital assets	1,965,413	1,560,882
Loss (gain) on sale of capital assets	(8,219)	52,821
Interest		
Long-term	136,687	234,894
Current	9,099	31,708
Selling, general and administrative	1,604,034	1,838,524
Trust reorganization charges [note 2]	157,155	-
	3,864,169	3,718,829
Income (loss) before income taxes	4,213,046	(514,315)
Income taxes (recovery)		
Current	1,336,649	6,319
Future	(32,772)	125,938
	1,303,877	132,257
Net income (loss) for the period	2,909,169	(646,572)
Deficit, beginning of period	(3,449,062)	(7,428,408)
Deficit, end of period	(539,893)	(8,074,980)
Net Income (loss) per share		
Basic	0.14	(0.03)
Diluted	0.14	(0.03)

Consolidated Statements of Cash Flows

	Four months ended Mar. 31, 2004 (\$)	Three months ended Feb. 28, 2003 (\$)
	(Unaudited)	(Unaudited)
Operating Activities		
Net income (loss) for the period	2,909,169	(646,572)
Add (deduct) items not affecting cash:		
Amortization of capital assets	1,965,413	1,560,882
Future income taxes	(32,772)	125,938
Loss (gain) on sale of capital assets	(8,219)	52,821
Cash flow from operations	4,833,591	1,093,069
Net change in non-cash working capital	282,934	(72,291)
	5,116,525	1,020,778
Financing Activities		
Proceeds from shares issued	629,334	–
Repayment of long-term debt	(3,115,632)	(1,134,270)
Decrease in bank indebtedness	–	(151,228)
	(2,486,298)	(1,285,498)
Investing Activities		
Purchase of capital assets	(3,452,009)	(20,067)
Proceeds on disposal of capital assets	59,148	8,000
	(3,392,861)	(12,067)
Decrease in cash during the period	(762,634)	(276,787)
Cash, beginning of period	2,986,045	720,489
Cash, end of period	2,223,411	443,702

Notes to Consolidated Financial Statements

1. Basis of Presentation and Summary of Significant Accounting Policies

Badger Income Fund was established by Deed of Trust dated February 17, 2004. Pursuant to the terms of the Plan of Arrangement, Badger Income Fund acquired all of the common shares of Badger on March 31, 2004. Prior to the Plan of Arrangement the consolidated financial statements include the accounts of Badger and its subsidiaries. After giving effect to the Plan of Arrangement, the consolidated financial statements include the accounts of the Badger Income Fund and its subsidiaries. For reporting purposes Badger Income Fund is considered the continuing entity of Badger.

The unaudited interim consolidated financial statements commencing with April 1, 2004 will follow the continuity of interest basis of accounting as if Badger Income Fund had always been a Fund. This basis is intended to provide unitholders with meaningful financial information and a quarterly comparison. As a result certain comparative figures will be reclassified to conform with the current presentation.

Management in accordance with accounting principles generally accepted in Canada has prepared the interim consolidated financial statements of Badger Daylighting Inc. ("the Company"). The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended November 30, 2003. The disclosures provided below are incremental to those included with the annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes in the Company's annual report for the year ended November 30, 2003.

2. Reorganization and Subsequent Event

On March 24, 2004 the shareholders and optionholders of Badger approved a Plan of Arrangement under section 193 of the Business Corporations Act (Alberta). The purpose of the Arrangement was to convert Badger from a corporate entity concentrating on growth through reinvestment of cash flow to a growth oriented trust entity, which will distribute a portion of cash flow to unitholders. The Plan of Arrangement was effected on March 31, 2004.

Under the Plan of Arrangement Badger Income Fund issued units in exchange for all of the shares of Badger on a 1:2 basis. Prior to the exchange, Badger had 20,830,945 shares outstanding and immediately subsequent to the exchange, Badger Income Fund had 10,415,475 units outstanding.

Associated with the reorganization the Company incurred costs of \$157,155 during the four months ended March 31, 2004.

3. Share Capital

Issued

	Number of Shares	Amount (\$)
November 30, 2003	20,171,278	41,308,849
Exercise of options	659,667	629,334
March 31, 2004	20,830,945	41,938,183

Effective March 31, 2004 Badger became an income trust. As outlined in Note 1 the Fund issued units in exchange for all shares of Badger on a 1:2 basis resulting in 10,415,475 units being outstanding immediately subsequent to the conversion to a Fund. The diluted units outstanding were 10,666,542.

4. Geographic Segmented Information

	Four months ended March 31, 2004			Three months ended February 28, 2003		
	Canada (\$)	USA (\$)	Total (\$)	Canada (\$)	USA (\$)	Total (\$)
Revenues	18,270,136	4,317,041	22,587,177	10,716,936	2,186,881	12,903,817
Direct costs	11,650,396	2,859,566	14,509,962	7,918,843	1,780,460	9,699,303
Selling, general and administrative	1,070,593	533,441	1,604,034	895,413	943,111	1,838,524
EBITDA (*)	5,332,489	991,756	6,324,245	1,861,059	(547,890)	1,313,169
Amortization of capital assets	1,598,794	366,619	1,965,413	1,213,314	347,568	1,560,882
Income (loss) before income taxes	3,588,084	624,962	4,213,046	381,491	(895,806)	(514,315)
Capital assets	34,905,967	6,702,048	41,608,015	34,026,962	8,533,120	42,560,082
Total assets	50,231,798	9,898,459	60,130,257	46,305,895	11,672,879	57,978,774
Capital expenditures	3,338,278	113,731	3,452,009	20,067	–	20,067

(*) EBITDA is not a recognized measure under Canadian generally accepted accounting principles and may not be comparable to similar measures presented by other companies. It is offered here because management believes it is a useful supplemental measure that provides an indication of the results generated prior to a consideration of how those activities are financed or taxed.

Corporate Information

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Shea Nerland Calnan

Martin Margolis, CA
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