BADGER INCOME FUND

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QUARTERLY REPORT

First Quarter Report

FOR THE THREE MONTHS ENDED MARCH 31, 2005

Increased Monthly Distributions

Badger will increase its monthly distribution to $0.081 per unit beginning with the May distribution. This decision reflects the solid operational and financial performance of the business. This represents an approximate 5 percent increase from the previous $0.077 per unit and an approximate increase of 21 percent since the first monthly distribution of $0.067 per unit which took place in April 2004. The May distribution is payable in June. After analyzing the results, Management and the trustees believe this increase in monthly distributions is sustainable and is warranted by the Fund's performance. Badger has increased its monthly distributions every quarter since converting to a trust on March 31, 2004.

Financial Highlights

Badger Income Fund is the successor organization to Badger Daylighting Inc., which converted to an income trust effective March 31, 2004. At that time, the year-end was changed from November 30, 2004 to December 31, 2004. As a result of the change in year-end, financial information for the three months ended March 31, 2005 is being compared to financial information for the four months ended March 31, 2004.

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

	Unaudited Three Months March 31 2005	Unaudited Four Months March 31 2004
Revenues	**20,843**	22,587
Net earnings	**4,135**	2,909
Net earnings per unit – diluted (3)	**0.39**	0.27
EBITDA (1)	**6,207**	6,316
Funds generated from operations (2)	**6,109**	4,834
Funds generated from operations per unit – diluted (3)	**0.57**	0.47
Maintenance capital expenditures (4)	**326**	–
Required debt repayment (5)	**543**	1,316
Additional debt repayment (5)	**–**	1,800
Cash available for growth and distribution (6)	**5,239**	3,577
Cash distributions declared	**2,386**	–
Growth capital expenditures (4)	**2,911**	3,452
Total units outstanding (3)	**10,662,848**	10,415,475

Excluding net earnings per unit, funds generated from operations per unit and total units outstanding, the following measures do not have any standardized meaning prescribed by generally accepted accounting principles (GAAP) and may not be comparable to similar measures presented by other companies or trusts:

(1) Earnings before interest, taxes, depreciation and amortization (EBITDA) is provided to assist investors in determining the ability of the Fund to generate cash from operations and is calculated from the consolidated statement of earnings and accumulated earnings as gross margin, less selling, general and administrative costs and trust reorganization charges.

(2) Funds generated from operations is calculated from the consolidated statement of cash flows as net earnings, adjusted for non-cash items charged to the consolidated statement of earnings and accumulated earnings.

(3) For comparative purposes the weighted average shares outstanding in 2004 have been converted to units on a 2:1 basis; therefore, per unit calculations have been restated on this basis.

(4) Maintenance capital expenditures is defined as the amount incurred during the period to keep the daylighting fleet at the same number of units, plus any other capital expenditures required to maintain the existing business. It also includes any costs incurred on a daylighting unit to enhance its operational life. This amount will fluctuate from period to period depending on the number of units retired from the fleet. During the three-month period ended March 31, 2005 Badger added 10 units to the fleet and removed one unit from service. As a result, 9 of the units added during the three months ended March 31, 2005 represented growth capital expenditures, while one of the units represents maintenance capital expenditures. The economic life of a Badger hydrovac is approximately 10 years. The average age of the fleet is just under four years.

(5) Required debt repayments is defined as the amount of debt which had to be repaid during the period pursuant to regularly scheduled debt repayments. Additional debt repayments represent accelerated payments of debt that were not required to be made during the period.

(6) Cash available for growth and distribution represents funds generated from operations per the statement of consolidated cash flows, less required debt repayments and maintenance capital expenditures, plus any proceeds received on the disposal of assets.

Operational Summary

1. Badger experienced positive industry and operational conditions in Western Canada in the first quarter of 2005, and had a major project to execute, which resulted in high equipment utilization for the period. Daylighting units were moved to Western Canada from the United States to respond to excess demand in the field. These daylighting units are slowly being returned to the United States as required. Badger's ability to move daylighting units from one region to another to take advantage of increased available work allows the Fund to maintain higher utilization levels.
2. Eastern Canada surpassed expectations due to higher industry activity and a colder winter than normal.
3. Badger's United States operations delivered expected results. Activity levels have traditionally dropped during the winter months, in line with a lower level of construction and maintenance activity.
4. Revenue per truck per month was $30,100 for the three months ended March 31, 2005 compared to $27,400 in the first four months of fiscal 2004. Badger budgets an overall fleet average of $25,000 per truck per month.
5. Badger had 221 units at the end of the first quarter of 2005, reflecting the addition of 10 daylighting units to the fleet so far in 2005 and the retirement of one unit. The Fund had 212 units at December 31, 2004.

Interim Management's Discussion and Analysis

Management's Discussion and Analysis should be read in conjunction with the attached unaudited interim consolidated financial statements of Badger Income Fund (the "Fund" or "Badger"). Readers should also refer to the audited consolidated financial statements and Management's Discussion and Analysis included in Badger Income Fund's 2004 Annual Report as well as the Badger Daylighting Inc. Information Circular dated February 18, 2004. The Fund commenced operations on March 31, 2004. However, to provide unitholders with meaningful comparative financial information, the discussion and analysis of operations and attached unaudited interim consolidated financial statements include comparative information for the period from December 1, 2003 to March 31, 2004. The accounts for Badger Daylighting Inc. are included for the period December 1, 2003 to March 31, 2004, on a continuity-of-interest basis as if the Fund had existed at the beginning of the period.

As a result of converting to a trust, the year-end was changed from November 30, 2004 to December 31, 2004; therefore, the following Management's Discussion and Analysis compares the three months ended March 31, 2005 to the four months ended March 31, 2004.

This Management's Discussion and Analysis has been prepared taking into consideration information available to May 10, 2005.

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 natural gas and related products and services; political and economic conditions; the demand for services provided by Badger; industry competition and Badger's ability to attract and retain key personnel.

Results of Operations

Revenues

Revenues for the three months ended March 31, 2005 were 15 percent higher than the $18.1 million in revenues generated during the first three months of 2004. Badger generated $22.6 million for the four months ended March 31, 2004. Revenues for the month of December 2003 were $4.5 million. The 15 percent increase is attributable to the following:

(1) Continued upward pressure on petroleum prices resulted in increased demand for Badger's hydrovac services in Western Canada. Badger also had a major project ongoing during the three months ended March 31, 2005, which was not the case in 2004. Improved territorial coverage in this region also contributed to the increased revenues.

(2) The cold winter in Eastern Canada, coupled with improved territorial coverage, increased revenues in this region for the three months ended March 31, 2005 compared to the three months ended March 31, 2004.

Badger's average revenue per truck per month during the three months ended March 31, 2005 was $30,100 versus $27,400 per month for the four months ended March 31, 2004.

Included in revenues is approximately $537,000 of truck placement and franchise fees for the three months ended March 31, 2005 versus $560,000 for the four months ended March 31, 2004.

Direct Costs

Direct costs for the three months ended March 31, 2005 were $13.1 million compared to $14.5 million for the four months ended March 31, 2004. Direct costs for the month of December 2003 were $3.1 million with $11.4 million of direct costs being incurred during the period from January 1, 2004 to March 31, 2004. The increase in direct costs is proportionate to the 15 percent increase in revenues.

Gross Margin

Gross margin was 37 percent for the three months ended March 31, 2005, which is consistent with the gross margin for the three months ended March 31, 2004.

Amortization of Capital Assets

Amortization of capital assets was $0.5 million for the month of December 2003 and $1.5 million for the period January 1, 2004 to March 31, 2004. The increase to $1.7 million for the three months ended March 31, 2005 was due to having more daylighting units in the fleet.

Interest Expense

The reduction in interest expense from approximately $146,000 for the four months ended March 31, 2004 to approximately $93,000 for the three months ended March 31, 2005 is due to the decrease in long-term debt.

Selling, General and Administrative

Selling, general and administrative costs for the month of December 2003 were $0.3 million while Badger incurred $1.3 million during the period January 1, 2004 to March 31, 2004. This compares to $1.5 million for the three months ended March 31, 2005 or an increase of 15 percent over the corresponding 2004 period. The increase is due to the growth of Badger's business. As a percentage of revenues, selling, general and administrative costs remained consistent at 7 percent comparing the three months ended March 31, 2005 to the four months ended March 31, 2004.

Income Taxes

Badger 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 percent. The minimal effective tax rate for the three months ended March 31, 2005 was due to the conversion to a trust structure, which resulted in tax deductible distributions being made for this three-month period.

Liquidity

Funds generated from operations was $6.1 million for the three months ended March 31, 2005 versus $4.8 million for the four months ended March 31, 2004. The increase reflects stronger Canadian activity levels.

The Fund had working capital of $7.9 million at March 31, 2005 compared to $7.3 million at December 31, 2004. Strong cash flow from operations allowed Badger to build new daylighting units, pay down long-term debt and make distributions, while maintaining a positive working capital position.

The following table outlines the cash available to fund growth and pay distributions to unitholders for the three months ended March 31, 2005:

	$
Funds generated from operations	6,108,579
Add: proceeds on disposal of capital assets	–
Less: required repayments of long-term debt	(543,452)
Less: maintenance capital expenditures for the three-month period (*)	(325,806)
Cash available for growth capital expenditures and distributions	5,239,321
Growth capital expenditures (*)	2,911,624
Distributions declared	2,386,424

(*) Total maintenance and growth capital expenditures for the three months ended March 31, 2005 was $3,237,430.

Currently the Fund has an $8.0 million operating line to fund working capital requirements, of which $3.7 million was unused at March 31, 2005.

Capital Resources

The Fund continued to reduce its long-term debt during the three months ended March 31, 2005. The long-term debt balance of $1.8 million (including the current portion of long-term debt) is 9 percent of funds generated from operations for the 13-month period ended December 31, 2004 – an indication of the Fund's low, long-term debt.

The Fund believes its healthy balance sheet and unutilized borrowing capacity, combined with funds generated from operations, will provide sufficient capital to fund ongoing operations, pay for future capital expenditures and provide for ongoing distributions to unitholders for the remainder of 2005.

Number of Daylighting Units

During the three month period ended March 31, 2005 Badger added eight units to the Canadian fleet, transferred two units from the United States and removed one from service, bringing the total to 176 units operating in Canada as at March 31, 2005. In the United States, Badger added two units and transferred two to Canada, bringing the total number of units in the United States to 45 at March 31, 2005.

Contractual Obligations and Committed Capital Investment

The Fund intends to meet its contractual obligations through funds generated by operating activities. The Fund's contractual obligations for the next five years, relating to repayment of long-term debt, are as follows:

	$
April 1, 2005 to December 31, 2005	730,433
2006	108,768
2007	108,768
2008	108,768
2009	108,768
Thereafter	679,844
Total	1,845,349

In addition to the contractual obligations above, as at March 31, 2005 the Fund is committed to certain capital expenditures totalling approximately $3.2 million. These capital expenditures will be financed with existing credit facilities and funds generated from operations.

Unitholders' Capital

Unitholders' capital increased by $214,000 during the three months ended March 31, 2005. This was the result of the Fund issuing 13,969 units from its long-term incentive plan as payment for 2004 performance bonuses payable to Management and the trustees.

Selected Quarterly Financial Information

	Quarter Ended (1)							
	2005		2004				2003	
	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31 (2)	Nov. 30	Aug. 31	May 31
Revenues ($)	**20,843,310**	20,488,378	20,133,108	15,488,043	22,587,177	18,391,028	17,216,491	15,175,522
Net earnings ($)	**4,135,401**	3,853,755	4,193,112	2,755,838	2,909,169	1,884,246	1,684,627	1,057,045
Net earnings per unit – basic (3)($)	**0.39**	0.36	0.39	0.26	0.28	0.19	0.17	0.10
Net earnings per unit – diluted (3) ($)	**0.39**	0.36	0.39	0.26	0.27	0.18	0.17	0.10

(1) As a result of converting to a trust the year-end changed from November 30, 2004 to December 31, 2004.

(2) The quarter ended March 31, 2004 represents a four-month period.

(3) For comparative purposes the weighted average shares outstanding for 2003 and March 31, 2004 have been converted to units on a 2:1 basis; therefore per unit calculations have been restated on this basis.

Outlook

The outlook for the rest of the year remains promising. Currently, Badger's Canadian operations are experiencing a period of slower activity due to normal spring conditions. Badger expects activity to be strong once the spring period has passed. The United States operations are now starting to experience the start of another construction season and Badger's expectation is that this region will see strength during the rest of the year.

Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Fund have been prepared by Badger Income Fund's management.

The Fund's independent auditor has not performed a review of the accompanying unaudited interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Consolidated Balance Sheets

	Unaudited March 31 2005	(*) December 31 2004
	$	$
ASSETS		
Current		
Cash	**710,129**	529,017
Accounts receivable	**19,324,087**	18,361,558
Inventories	**1,231,577**	1,266,139
Prepaid expenses	**312,678**	457,554
Future income taxes	**1,401,521**	2,065,283
	22,979,992	22,679,551
Capital assets	**46,585,446**	45,071,873
	69,565,438	67,751,424
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness	**4,255,327**	2,821,323
Accounts payable and accrued liabilities	**9,209,606**	8,711,230
Income taxes payable	**82,837**	82,837
Distributions payable	**821,039**	2,486,513
Current portion of long-term debt	**757,626**	1,273,885
	15,126,435	15,375,788
Long-term debt	**1,087,723**	1,114,916
Future income taxes	**5,394,086**	5,266,503
	21,608,244	21,757,207
Unitholders' equity		
Unitholders' capital [Note 3]	**42,154,517**	41,940,517
Contributed surplus	**826,000**	826,000
Accumulated distributions	**(10,742,810)**	(8,356,386)
Accumulated earnings	**15,719,487**	11,584,086
	47,957,194	45,994,217
	69,565,438	67,751,424

(*) These figures were derived from the audited December 31, 2004 consolidated financial statements.

Unaudited Consolidated Statements of Earnings and Accumulated Earnings (Deficit)

	Unaudited Three Months Ended March 31 2005	Unaudited Four Months Ended March 31 2004
	$	$
Revenues	**20,843,310**	22,587,177
Direct costs	**13,136,642**	14,509,962
Gross margin	**7,706,668**	8,077,215
Expenses		
Amortization of capital assets	**1,723,857**	1,965,413
Loss (gain) on sale of capital assets	**–**	(8,219)
Interest		
Long-term	**27,776**	136,687
Current	**65,529**	9,099
Selling, general and administrative	**1,499,303**	1,604,034
Trust reorganization charges	**–**	157,155
	3,316,465	3,864,169
Earnings before income taxes	**4,390,203**	4,213,046
Income taxes		
Current	**5,481**	1,336,649
Future (recovery)	**249,321**	(32,772)
	254,802	1,303,877
Net earnings for the period	**4,135,401**	2,909,169
Accumulated earnings (deficit), beginning of period	**11,584,086**	(3,449,062)
Accumulated earnings (deficit), end of period	**15,719,487**	(539,893)
Net earnings per unit [Note 4]		
Basic	**0.39**	0.28
Diluted	**0.39**	0.27

Unaudited Consolidated Statements of Cash Flows

	Unaudited Three Months Ended March 31 2005	Unaudited Four Months Ended March 31 2004
	$	$
Operating activities		
Net earnings for the period	**4,135,401**	2,909,169
Non-cash items		
Amortization of capital assets	**1,723,857**	1,965,413
Future income taxes (recovery)	**249,321**	(32,772)
Loss (gain) on sale of capital assets	**–**	(8,219)
Funds generated from operations	**6,108,579**	4,833,591
Net change in non-cash working capital	**471,309**	282,934
	6,579,888	5,116,525
Financing activities		
Proceeds from units/shares issued, net of issue costs	**–**	629,334
Repayment of long-term debt	**(543,452)**	(3,115,632)
Distributions to unitholders	**(4,051,898)**	–
Increase (decrease) in bank indebtedness	**1,434,004**	–
	(3,161,346)	(2,486,298)
Investing activities		
Purchase of capital assets	**(3,237,430)**	(3,452,009)
Proceeds on disposal of capital assets	**–**	59,148
	(3,237,430)	(3,392,861)
Increase (decrease) in cash during the period	**181,112**	(762,634)
Cash, beginning of period	**529,017**	2,986,045
Cash, end of period	**710,129**	2,223,411

Notes to the Consolidated Financial Statements

1 Basis of Presentation and Summary of Significant Accounting Policies

The Fund was established by Deed of Trust dated February 17, 2004. Pursuant to the terms of the Plan of Arrangement, the Fund acquired all of the common shares of Badger Daylighting Inc. on March 31, 2004. Prior to the Plan of Arrangement the consolidated financial statements include the accounts of Badger Daylighting Inc. and its subsidiaries. After giving effect to the Plan of Arrangement, the consolidated financial statements include the accounts of the Fund and its subsidiaries. For reporting purposes, the Fund is considered the continuing entity of Badger Daylighting Inc. The unaudited interim consolidated financial statements commencing April 1, 2004 follow the continuity-of-interest basis of accounting as if the Fund had always been a Fund. This basis is intended to provide unitholders with meaningful and comparative financial information. As a result certain comparative figures will be reclassified to conform to the current presentation.

Management, in accordance with Canadian generally accepted accounting principles, has prepared the interim consolidated financial statements of the Fund. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements of the Fund for the 13-month period ended December 31, 2004. 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 Badger Income Fund’s Annual Report for the 13-month period ended December 31, 2004.

2 Reorganization

On March 24, 2004 the shareholders and optionholders of Badger Daylighting Inc. approved a Plan of Arrangement under section 193 of the Business Corporations Act (Alberta). The purpose of the Arrangement was to convert Badger Daylighting Inc. 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 took effect March 31, 2004.

3 Unitholders' Capital

	Units	Amount
		$
December 31, 2004	10,648,879	41,940,517
Units issued pursuant to the long-term incentive plan	13,969	214,000
Units issued at March 31, 2005	10,662,848	42,154,517

The diluted units outstanding as at March 31, 2005 are 10,680,511.

The Fund declared distributions of $0.0735 per unit for each of the months of January and February and $0.077 per unit for the month of March for a total of $2,386,424.

4 Net Earnings Per Unit

Basic per unit calculations for the three months ended March 31, 2005 and the four months ended March 31, 2004 were based on the weighted average number of units outstanding of 10,652,449 and 10,120,677 respectively. Diluted per unit calculations for the three months ended March 31, 2005 and the four months ended March 31, 2004 were based on the weighted average units outstanding of 10,670,112 and 10,336,815 respectively. The per unit and number of units/shares have been retroactively restated to reflect the 2:1 conversion of shares into units effective March 31, 2004.

5 Geographic Segmented Information

	Three months ended March 31, 2005			Four months ended March 31, 2004		
	Canada	USA	Total	Canada	USA	Total
	$	$	$	$	$	$
Revenues	17,394,824	3,448,486	20,843,310	18,270,136	4,317,041	22,587,177
Direct costs	10,845,725	2,290,917	13,136,642	11,650,396	2,859,566	14,509,962
Selling, general and administrative	1,029,373	469,930	1,499,303	1,070,593	533,441	1,604,034
EBITDA (*)	5,472,710	734,655	6,207,365	5,321,102	994,924	6,316,026
Amortization of capital assets	1,377,197	346,660	1,723,857	1,598,794	366,619	1,965,413
Earnings before income taxes	4,003,688	386,515	4,390,203	3,588,084	624,962	4,213,046
Capital assets	38,435,737	8,149,709	46,585,446	34,905,967	6,702,048	41,608,015
Total assets	57,966,189	11,599,249	69,565,438	50,231,798	9,898,459	60,130,257
Capital expenditures	2,559,640	677,790	3,237,430	3,338,278	113,731	3,452,009

(*) Earnings before interest, taxes, depreciation and amortization (EBITDA) is provided to assist investors in determining the ability of the Fund to generate cash from operations and is calculated from the consolidated statement of earnings and accumulated earnings as gross margin, less selling, general and administrative costs and trust reorganization charges.

Corporate Information

Directors

George Watson
President & CEO
Critical Control Solutions Corp.

David Calnan LL.B,
Partner, Shea Nerland Calnan

Martin Margolis, CA
Chartered Accountant

Garry Mihaichuk
VP of Heavy Oil
Husky Energy Inc.

Glen D. Roane
Corporate Director

Tor Wilson
President & CEO

Officers and Management

Tor Wilson
President & CEO

Greg Kelly, CA
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David Calnan, LL.B
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Registrar and Transfer Agent

Computershare Investor Services
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Solicitors

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Stock Exchange Listing

Toronto Stock Exchange
Trading Symbol, effective April 5, 2004 “BAD.UN”

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