QUARTER 1

An Established Record

BADGER INCOME FUND

For the Three Months Ended March 31, 2006

Increased Monthly Distributions

Badger will increase its monthly distribution to $0.105 per unit beginning with the May 2006 distribution. This decision reflects the solid operational and financial performance of the daylighting business and represents an approximate 7 percent increase from the previous $0.098 per unit. 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.

Highlights

($ thousands, except per unit and total units outstanding information)	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Revenue	**25,729**	20,843
EBITDA (1)	**8,032**	6,207
Earnings before income taxes	**5,916**	4,390
Taxes	**896**	255
Net earnings	**5,020**	4,135
Net earnings per unit – diluted	**0.47**	0.39
Funds generated from operations (2)	**7,779**	6,109
Funds generated from operations per unit – diluted	**0.72**	0.57
Maintenance capital expenditures (3)	**635**	326
Long-term debt repayments	**27**	543
Cash available for growth and distribution (4)	**7,219**	5,239
Cash distributions declared	**3,158**	2,386
Growth capital expenditures (3)	**4,875**	2,911
Total units outstanding	**10,749,480**	10,662,848

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 Statements of Earnings and Accumulated Earnings as gross margin, less selling, general and administrative costs.

(2) Funds generated from operations is calculated from the Consolidated Statements of Cash Flows as net earnings, adjusted for non-cash items charged to the Consolidated Statements of Earnings and Accumulated Earnings.

(3) Maintenance capital expenditures is defined as the amount incurred during the period to keep the daylighting fleet at the same number of units, plus any other capital expenditures required to maintain the existing business. It also includes any costs incurred to enhance the operational life of a daylighting unit. This amount will fluctuate from period-to-period depending on the number of units retired from the fleet. During the three-month period ended March 31, 2006 Badger added 15 units to the fleet and removed two from service. As a result, 13 of the units added during the three months ended March 31, 2006 represent growth capital expenditures, while two of the units represent maintenance capital expenditures. The economic life of a Badger hydrovac is approximately 10 years. The average age of the fleet is approximately four and a half years.

(4) Cash available for growth and distribution represents funds generated from operations per the Consolidated Statements of Cash Flows, less required debt repayments and maintenance capital expenditures, plus any proceeds received on the disposal of assets.

Operational Summary

1. The first quarter in Western Canada was initially weaker than expected with warm weather limiting surface freezing, which in turn had a negative impact on results. The softer ground conditions made some areas inaccessible but also increased the efficiency of the hydrovac units, which reduced the number of hours billed. However, colder weather in late February greatly improved results in March which had a significant positive effect on the entire first quarter results.

2. The warm winter in Eastern Canada resulted in less frost damage to underground infrastructure and therefore less emergency repair work for Badger. However, results in the region were reasonable due to better market coverage and customer development.

3. Badger's United States operations continued to make progress in the first quarter. The Eastern United States corporate operations completed several significant plant projects during the quarter which greatly improved utilization. The ability to secure more project work will have an influence on the utilization level for the rest of the year. The Western United States region enjoyed strong oil and gas activity levels which helped improve utilization levels. This region also opened two new locations during the second half of 2005 which is having a positive impact on 2006 results.

4. Revenue per truck per month was $32,800 for the three months ended March 31, 2006 compared to $30,100 in the first three months of 2005. Badger budgets an overall fleet average of $25,000 per truck per month.

5. Badger had 254 units at the end of the first quarter of 2006, reflecting the addition of 15 daylighting units to the fleet to date in 2006 and the retirement of two units. The Fund had 241 units at December 31, 2005.

Interim Management's Discussion and Analysis

This 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 2005 Annual Report. Additional information is also available on the Fund's website (www.badgerinc.com) and all previous public filings, including the most recently filed Annual Information Form, are available through SEDAR (www.sedar.com).

This Management's Discussion and Analysis has been prepared taking into consideration information available to May 12, 2006.

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, supply-demand fluctuations for oil and natural gas and related products and services; political and economic conditions; the demand for services provided by Badger; industry competition and Badger's ability to attract and retain key personnel. The Fund believes that the expectations reflected in these forward-looking statements are reasonable; however, no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in the quarterly report should not be relied upon. In addition, these forward-looking statements relate to the date on which they are made. Badger disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

RESULTS OF OPERATIONS

Revenues

Revenues of $25.7 million for the three months ended March 31, 2006 were 23 percent higher than the $20.8 million in revenues generated during the comparable period of 2005. The 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. Improved territorial coverage in this region also contributed to the increased revenues.

(2) Improved territorial coverage in Eastern Canada resulted in modestly higher revenues for this region.

(3) In the United States revenues increased to $6.0 million from $3.4 million. This 73 percent increase is due to Badger's continued focus in certain geographical areas and market segments, which has resulted in an increased customer base and demand for hydrovac services. Badger also had certain projects ongoing during the three months ended March 31, 2006, which was not the case in 2005.

Badger's average revenue per truck per month during the three months ended March 31, 2006 was $32,800 versus $30,100 per month for the three months ended March 31, 2005.

Included in revenues is approximately $654,000 of truck placement and franchise fees for the three months ended March 31, 2006 versus $537,000 for the three months ended March 31, 2005.

Direct Costs

Direct costs for the quarter ended March 31, 2006 were $15.9 million compared to $13.1 million for the quarter ended March 31, 2005. This is consistent with the increase in revenues.

Gross Margin

Gross margin was 38.1 percent for the quarter ended March 31, 2006, which is a modest increase from the 37.0 percent for the quarter ended March 31, 2005 and is attributable primarily to the increase in business.

Amortization

Amortization of property, plant and equipment was $2.0 million for the three months ended March 31, 2006, or $0.3 million higher than the $1.7 million for the three months ended March 31, 2005. This increase was the result of having more hydrovac units in the fleet.

Interest Expense

Interest expense was $68,000 for the quarter ended March 31, 2006 versus $93,000 for the quarter ended March 31, 2005. The lower interest expense resulted from carrying lower debt levels.

Selling, General and Administrative

Selling, general and administrative expenses were $1.8 million for the quarter ended March 31, 2006 compared to $1.5 million for the quarter ended March 31, 2005. The increase is due to hiring additional personnel to support the growth of Badger's business, plus compensation increases required to retain quality personnel in a competitive labour environment. As a percentage of revenues, selling, general and administrative expenses decreased to 6.9 percent for the three months ended March 31, 2006 versus 7.2 percent for the three months ended March 31, 2005.

Income Taxes

The effective tax rate for the quarter ended March 31, 2006 was 15 percent versus 6 percent for the quarter ended March 31, 2005. The main reason for the increase was not recognizing the accounting benefit of using certain United States tax losses during the first quarter of 2006, although these losses were used to reduce cash taxes which would have been payable in the United States. A second reason was the setting up of a provision for current taxes due to incurring taxable income in certain of the subsidiary entities within the corporate structure.

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

LIQUIDITY

Funds generated from operations for the quarter ended March 31, 2006 increased to $7.8 million from $6.1 million for the comparable period in 2005 due to stronger Canadian and United States activity levels.

The Fund had working capital of $7.9 million at March 31, 2006 compared to $8.2 million at December 31, 2005. Strong levels of cash flow from operations allowed Badger to build new daylighting units, pay down long-term debt and make distributions, while maintaining a healthy 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, 2006:

Funds generated from operations	$ 7,779,324
Add: proceeds on disposal of property, plant and equipment	101,848
Less: required repayments of long-term debt	(27,124)
Less: maintenance capital expenditures (*)	(635,000)
Cash available for growth capital expenditures and distributions	$ 7,219,048
Growth capital expenditures (*)	$ 4,875,065
Distributions declared	$ 3,158,258

(*) Total maintenance and growth capital expenditures for the three months ended March 31, 2006 was $5,510,065.

Currently the Fund has an $8.0 million operating line to fund working capital requirements, of which $3.6 million was used at March 31, 2006.

CAPITAL RESOURCES

The Fund spent $5.5 million on property, plant and equipment for the three months ended March 31, 2006 compared to $3.2 million for the three months ended March 31, 2005. The increase in capital expenditures is the result of increasing the number of hydrovac units built and deployed.

Management believes that the Fund's healthy balance sheet and unutilized borrowing capacity, combined with funds generated from operations, will provide sufficient capital to fund ongoing operations and distributions to unitholders. If growth capital expenditures continue at the same level, the Fund may seek debt or equity to help finance the growth.

Number of Daylighting Units

During the three month period ended March 31, 2006 Badger added nine units to the Canadian fleet and removed two from service, bringing the total to 191 units operating in Canada as at March 31, 2006. In the United States, Badger added six units bringing the total number of units in the United States to 63 at March 31, 2006.

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, 2006 to December 31, 2006	$ 81,576
2007	108,768
2008	108,768
2009	108,768
2010	108,768
Thereafter	571,071
Total	$ 1,087,719

In addition to the contractual obligations above, as at March 31, 2006 the Fund had committed to certain capital expenditures totalling approximately $4.6 million. These capital expenditures will be financed with existing credit facilities and funds generated from operations, as well as alternative sources of financing as required.

UNITHOLDERS' CAPITAL

Unitholders' capital increased by $176,000 during the three months ended March 31, 2006. This was the result of the Fund issuing 10,660 units from its long-term incentive plan as payment for 2005 performance bonuses payable to management.

On January 30, 2006 the Trustees of the Fund approved the implementation of an employee unit option plan, subject to the approval of the unitholders. Approval was granted at Badger's annual general meeting on April 27, 2006. No options have been granted to date.

BUSINESS RISKS

The Management's Discussion and Analysis for the year ended December 31, 2005, which is included in the Fund's 2005 Annual Report, includes an overview on business risks associated with the Fund. Those business risks remain in effect.

Badger orders and schedules a regular supply of chassis and other equipment to ensure it can meet its hydrovac building commitment. Badger's growth would be adversely affected if major suppliers were unable to deliver the equipment on time.

Badger's operating results have been, and are expected to continue to be, subject to quarterly and other fluctuations due to a variety of factors including changes in weather conditions and seasonality.

Selected Quarterly Financial Information

	Quarter Ended							
	2006	2005				2004		
	March 31	Dec. 31	Sept. 30	June 30	March 31	Dec. 31	Sept. 30	June 30
Revenue ($)	**25,728,890**	23,093,735	20,471,322	18,923,312	20,843,310	20,488,378	20,133,108	15,488,043
Net earnings ($)	**5,020,254**	3,468,113	3,547,545	3,629,935	4,135,401	3,853,755	4,193,112	2,755,838
Net earnings per unit – basic ($)	**0.47**	0.32	0.33	0.34	0.39	0.36	0.39	0.26
Net earnings per unit – diluted ($)	**0.47**	0.32	0.33	0.34	0.39	0.36	0.39	0.26

Outlook

The level of utilization in Western Canada during the next quarter will largely depend on the length of spring break-up. So far we are optimistic that activity will return to strong levels after a short spring break-up.

The construction season begins in Eastern Canada during the second quarter which should help improve utilization levels.

In the Eastern United States region the construction season also begins this quarter which should help smooth out hydrovac utilization levels when the plant projects start to wind down.

The Western United States region is expected to see a short shutdown for environmental and weather issues. However, we continue to add trucks to this area to service the growing demand in the oil and gas sector.

Badger continues to build approximately four trucks per month.

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, 2006	December 31, 2005
ASSETS	$	$
Current		
Cash	**689,903**	1,190,398
Accounts receivable	**22,860,808**	19,552,905
Inventories	**1,669,530**	1,180,291
Prepaid expenses	**385,159**	504,365
	25,605,400	22,427,959
Property, plant and equipment	**54,151,042**	50,790,795
Future income taxes	**450,611**	1,332,581
	80,207,053	74,551,335
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness	**3,627,284**	3,497,348
Accounts payable and accrued liabilities	**12,696,242**	9,457,926
Income taxes payable	**187,050**	86,505
Distributions payable	**1,053,449**	1,052,404
Current portion of long-term debt	**108,768**	108,768
	17,672,793	14,202,951
Long-term debt	**978,951**	1,006,075
Future income taxes	**8,593,805**	8,418,801
	27,245,549	23,627,827
Unitholders' equity		
Unitholders' capital [note 2]	**43,430,606**	43,254,606
Contributed surplus	**826,000**	826,000
Accumulated distributions	**(22,680,436)**	(19,522,178)
Accumulated earnings	**31,385,334**	26,365,080
	52,961,504	50,923,508
	80,207,053	74,551,335

See accompanying notes

▶Consolidated Statements of Earnings
and Accumulated Earnings

(unaudited)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
	$	$
Revenue	**25,728,890**	20,843,310
Direct costs	**15,933,108**	13,136,642
Gross margin	**9,795,782**	7,706,668
Expenses		
Amortization	**2,003,646**	1,723,857
Loss on sale of property, plant and equipment	**44,324**	–
Interest		
Long-term	**16,159**	27,776
Current	**51,409**	65,529
Selling, general and administrative	**1,764,171**	1,499,303
	3,879,709	3,316,465
Earnings before income taxes	**5,916,073**	4,390,203
Income taxes		
Current	**184,719**	5,481
Future	**711,100**	249,321
	895,819	254,802
Net earnings for the period	**5,020,254**	4,135,401
Accumulated earnings, beginning of period	**26,365,080**	11,584,086
Accumulated earnings, end of period	**31,385,334**	15,719,487
Net earnings per unit [note 3]		
Basic	**0.47**	0.39
Diluted	**0.47**	0.39

See accompanying notes

Consolidated Statements of Cash Flows

(unaudited)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
	$	**$**
OPERATING ACTIVITIES		
Net earnings for the period	**5,020,254**	4,135,401
Non-cash items		
Amortization	**2,003,646**	1,723,857
Future income taxes	**711,100**	249,321
Loss on sale of property, plant and equipment	**44,324**	–
Funds generated from operations	**7,779,324**	6,108,579
Net change in non-cash working capital	**182,799**	471,309
	7,962,123	6,579,888
FINANCING ACTIVITIES		
Repayment of long-term debt	**(27,124)**	(543,452)
Distributions to unitholders	**(3,157,213)**	(4,051,898)
Increase (decrease) in bank indebtedness	**129,936**	1,434,004
	(3,054,401)	(3,161,346)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(5,510,065)**	(3,237,430)
Proceeds on disposal of property, plant and equipment	**101,848**	–
	(5,408,217)	(3,237,430)
Increase (decrease) in cash during the period	**(500,495)**	181,112
Cash, beginning of period	**1,190,398**	529,017
Cash, end of period	**689,903**	710,129

See accompanying notes

►Notes to the Consolidated Financial Statements

(unaudited)

►1. Basis of Presentation and Summary of Significant Accounting Policies

The unaudited interim consolidated financial statements include the accounts of the Fund and its wholly-owned subsidiaries and have been prepared by management in accordance with Canadian generally accepted accounting principles. These unaudited interim consolidated financial statements have been prepared following the same accounting policies and methods of application as the audited consolidated financial statements of the Fund for the fiscal year ended December 31, 2005, except as noted below. The disclosures provided below are incremental to those included within the Fund's annual audited consolidated financial statements. The unaudited interim consolidated financial statements and the related notes should be read in conjunction with the audited consolidated financial statements and the related notes in the Fund's Annual Report for the year ended December 31, 2005.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end and the results of operations for the interim periods shown in these statements are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the accompanying unaudited interim consolidated financial statements include all adjustments (of a normal recurring nature) necessary to present fairly the consolidated results of its operations and cash flows for the three months ended March 31, 2006 and 2005.

►2. Unitholders' Capital

	Units	Amount ($)
December 31, 2005	10,738,820	43,254,606
Units issued pursuant to the long-term incentive plan	10,660	176,000
Units issued at March 31, 2006	10,749,480	43,430,606

The diluted units outstanding as at March 31, 2006 are 10,758,312.

The Fund declared distributions of $0.098 per unit for each of the months of January, February and March for a total of $3,158,258.

3. Net Earnings per Unit

Basic per unit calculations for the three months ended March 31, 2006 and 2005 were based on the weighted average number of units outstanding of 10,740,478 and 10,652,449 respectively. Diluted per unit calculations for the three months ended March 31, 2006 and 2005 were based on the weighted average units outstanding of 10,749,310 and 10,670,112 respectively.

4. Geographic Segmented Information

	Three Months Ended March 31, 2006			Three Months Ended March 31, 20005		
	Canada ($)	USA ($)	Total ($)	Canada ($)	USA ($)	Total ($)
Revenue	**19,774,695**	**5,954,195**	**25,728,890**	17,394,824	3,448,486	20,843,310
Direct costs	**12,127,666**	**3,805,442**	**15,933,108**	10,845,725	2,290,917	13,136,642
Selling, general and administrative	**1,218,512**	**545,659**	**1,764,171**	1,029,373	469,930	1,499,303
Amortization	**1,520,456**	**483,190**	**2,003,646**	1,377,197	346,660	1,723,857
Earnings before income taxes	**4,770,948**	**1,145,125**	**5,916,073**	4,003,688	386,515	4,390,203
Property, plant and equipment	**42,623,072**	**11,527,970**	**54,151,042**	38,435,737	8,149,709	46,585,446
Total assets	**63,113,995**	**17,093,058**	**80,207,053**	57,966,189	11,599,249	69,565,438
Capital expenditures	**3,489,776**	**2,020,289**	**5,510,065**	2,559,640	677,790	3,237,430

►Corporate Information

TRUSTEES

George Watson
President & CEO
Critical Control Solutions Corp.

David Calnan, LL.B
Partner
Shea Nerland Calnan

Martin Margolis, CA
Chartered Accountant

Glen D. Roane
Corporate Director

J. Richard Couillard
Chief Executive Officer
Escavar Energy 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 Income Fund
Suite 2820, 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

Bose McKinney & Evans LLP
Indianapolis, Indiana

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Trading Symbol "BAD.UN"

WEBSITE

www.badgerinc.com