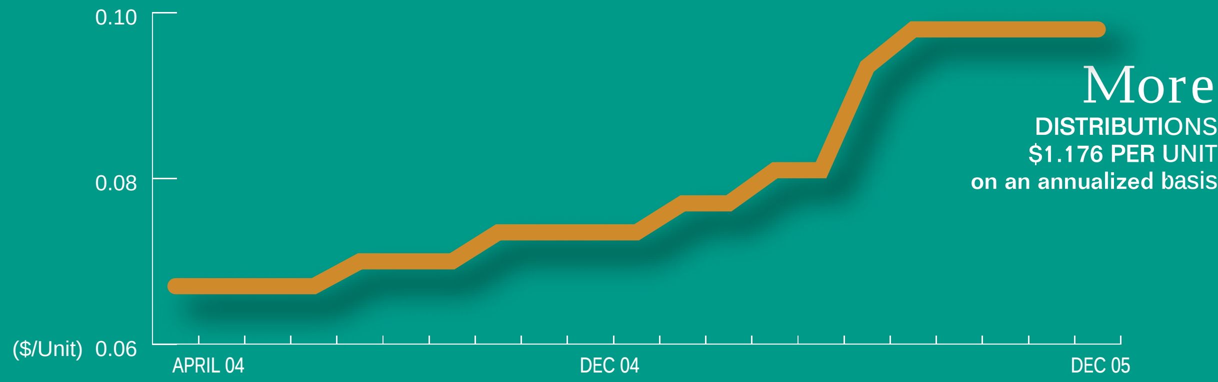
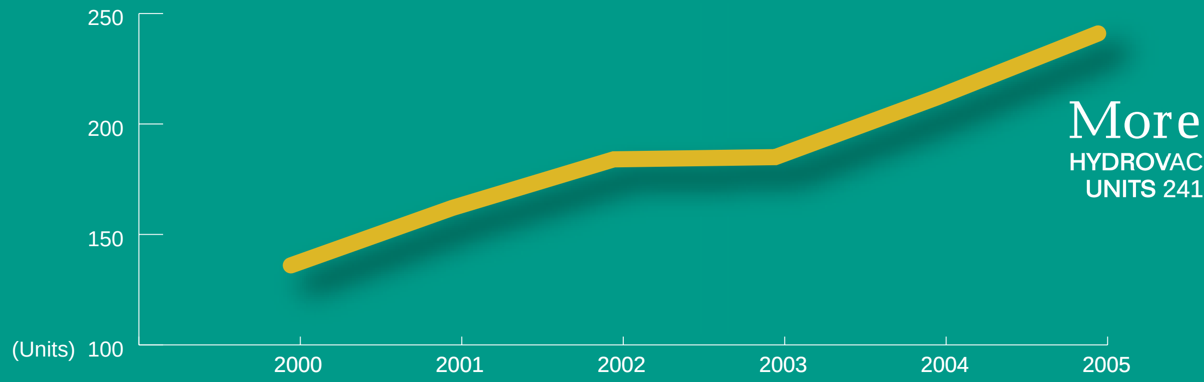
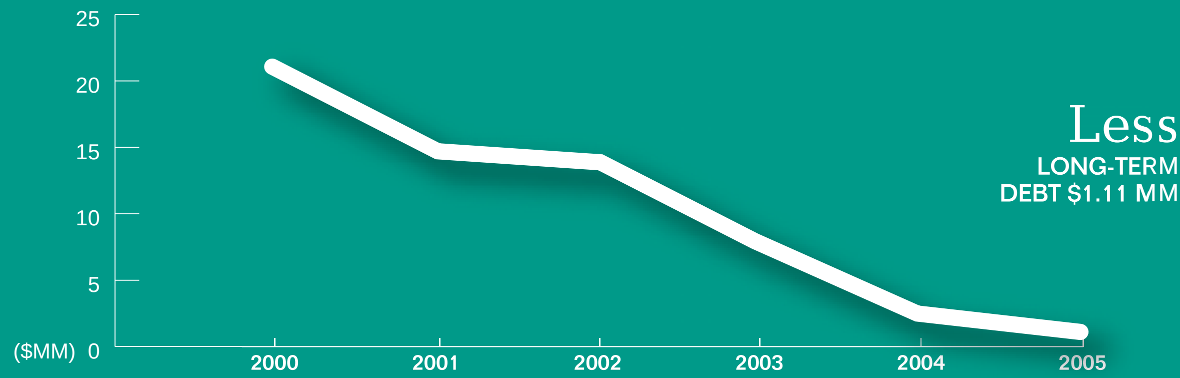
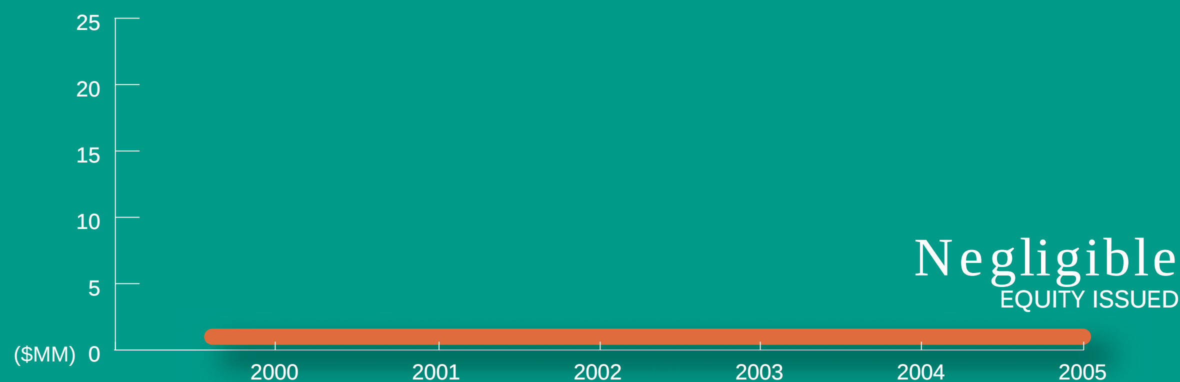








An Established Record

2005 ANNUAL REPORT

BADGER
INCOME FUND

Highlights

($ thousands, except per unit and total units outstanding information)	YEAR ENDED DECEMBER 31, 2005	THIRTEEN MONTHS ENDED DECEMBER 31, 2004
Revenues	83,332	78,697
EBITDA	24,794	22,242
Earnings before income taxes	16,980	15,143
Taxes	2,199	1,431
Net earnings	14,781	13,712
Net earnings per unit – diluted	1.38	1.30
Funds generated from operations	24,534	20,899
Funds generated per unit – diluted	2.30	1.99
Maintenance capital expenditures	1,955	2,730
Required debt repayment	1,274	4,375
Additional debt repayment	–	814
Cash available for growth and distribution	21,778	14,075
Cash distributions declared	11,166	8,356
Growth capital expenditures	11,776	9,182
Total units outstanding	10,738,820	10,648,879

Contents

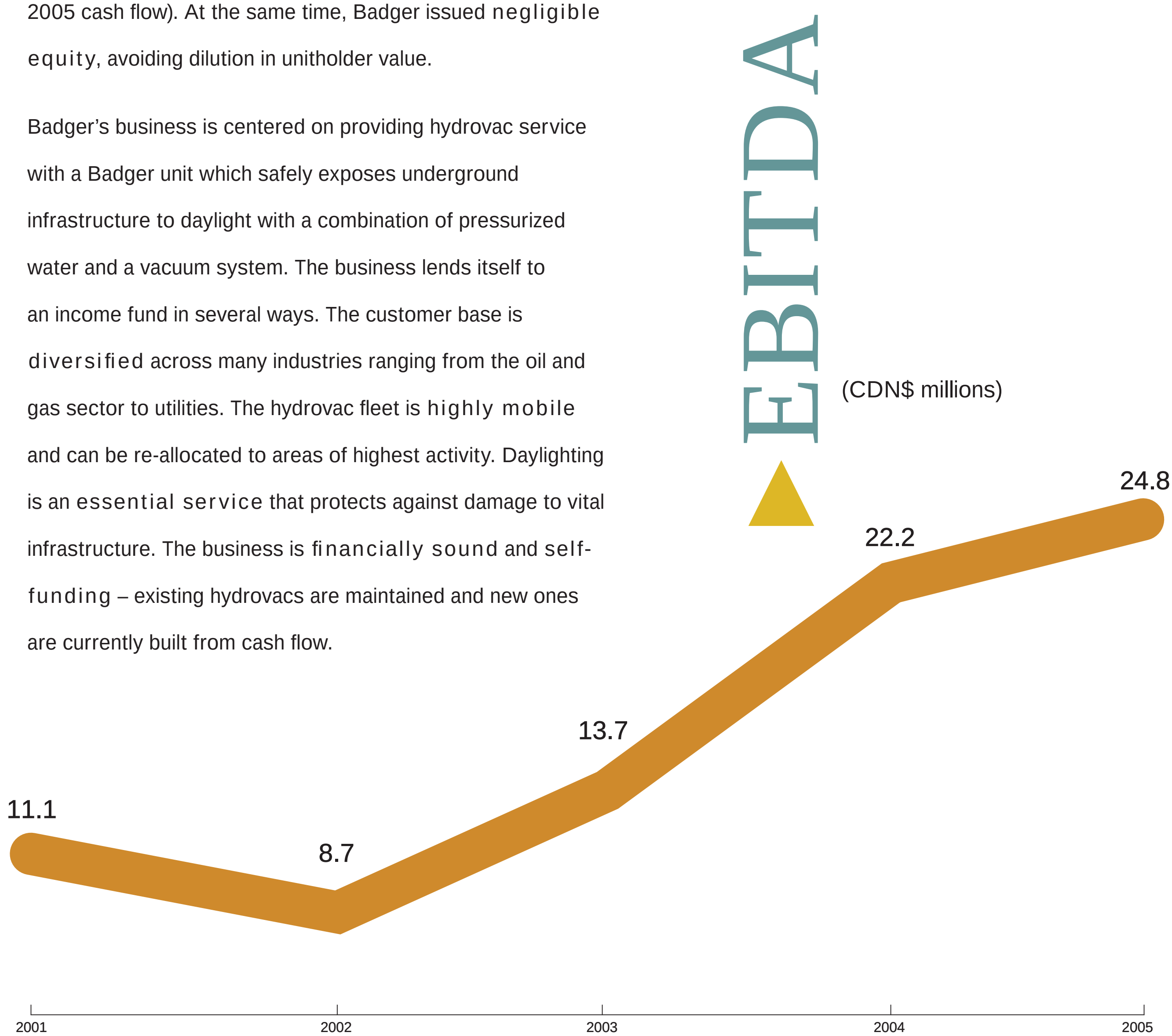
Annual General Meeting

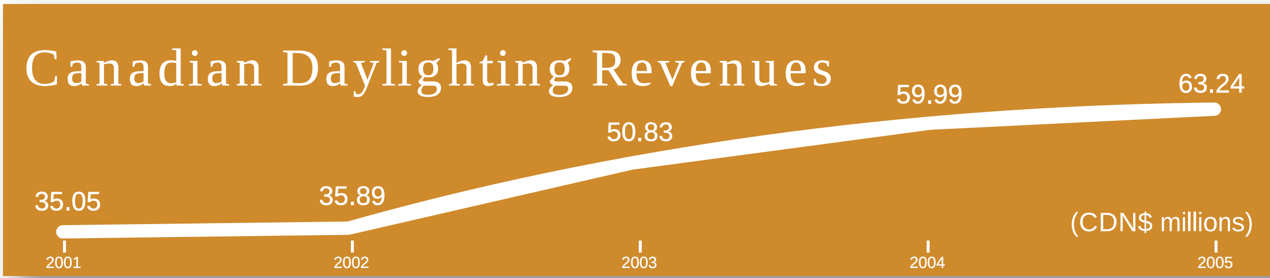
The Annual General Meeting of Badger Income Fund unitholders will be held on Thursday, April 27, 2006 at 9:00 a.m. in the 5th Floor Auditorium, 715 - 5th Avenue S.W. Calgary, Alberta. All unitholders are invited to attend. Those unable to attend are encouraged to sign and return the form of proxy as soon as possible.

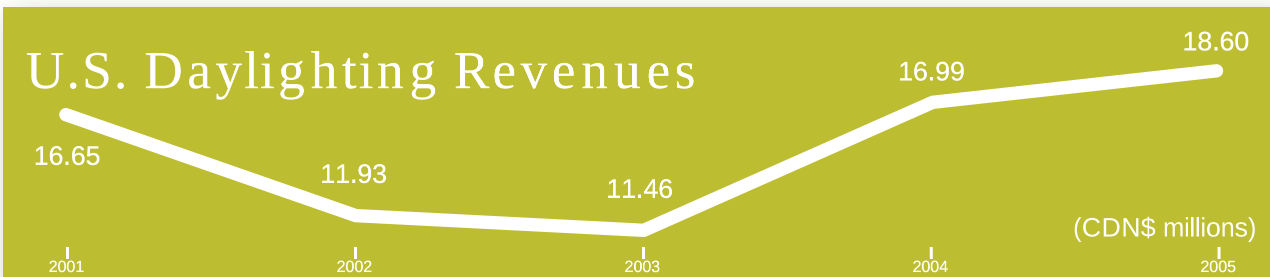
As North America's largest provider of non-destructive excavating services, Badger is delivering positive returns for both customers and investors.

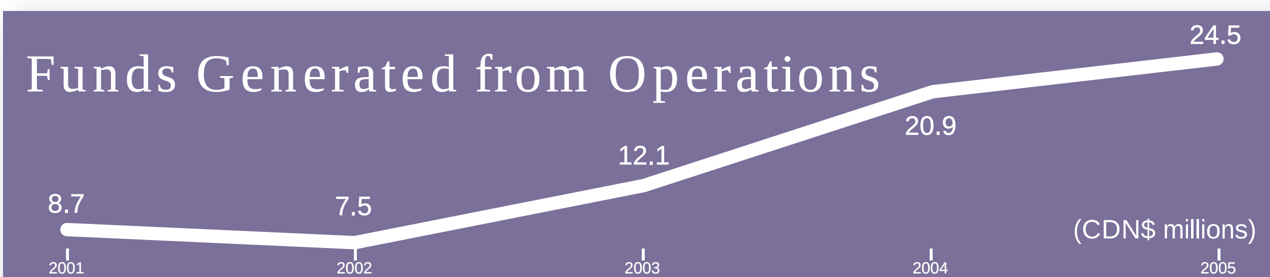
In 2005, Badger delivered to unitholders higher distributions during the year that totalled $1.04 per unit; built additional hydrovac units; and lowered its long-term debt to $1.11 million at year-end (equating to 0.05 times 2005 cash flow). At the same time, Badger issued negligible equity, avoiding dilution in unitholder value.

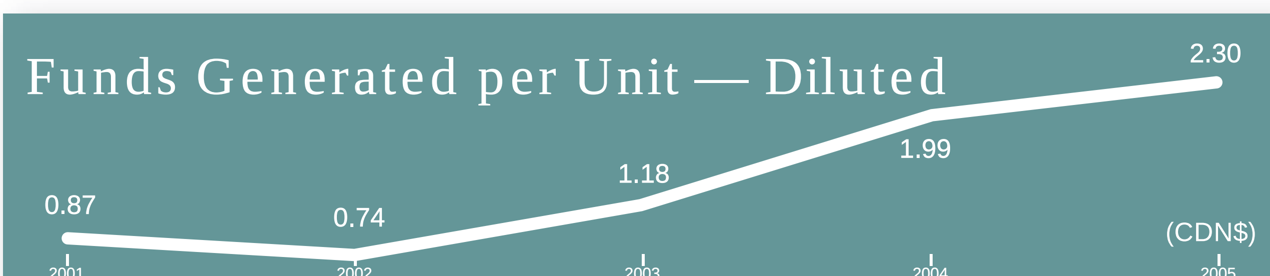
Badger's business is centered on providing hydrovac service with a Badger unit which safely exposes underground infrastructure to daylight with a combination of pressurized water and a vacuum system. The business lends itself to an income fund in several ways. The customer base is diversified across many industries ranging from the oil and gas sector to utilities. The hydrovac fleet is highly mobile and can be re-allocated to areas of highest activity. Daylighting is an essential service that protects against damage to vital infrastructure. The business is financially sound and self-funding – existing hydrovacs are maintained and new ones are currently built from cash flow.











Note: The 2004 period reflects results for the 13 months ended December 31, 2004, while the 2003, 2002 and 2001 periods reflect results for the year ended November 30.

▶2005 Performance

Revenues generated from Canadian daylighting activities were $63.24 million in 2005, a 5 percent increase from the 13 months ended 2004. The majority of the increase reflects heightened activity in Eastern Canada where Badger had more customers, additional locations for providing daylighting services, and increased spending on construction projects.

Daylighting activities in the United States generated revenues of $18.60 million, a 9 percent increase from the 13 months ended 2004. During the year, Badger increased its customer base in certain geographical areas and market segments. Badger also secured work on some larger projects.

Badger achieved a 17 percent increase in funds generated from operations which reached $24.5 million in 2005, compared to $20.9 million for the 13 months ended 2004. Increased activity levels in Eastern Canada and the United States was the key contributor to the increase.

On a per unit basis, funds generated from operations was 16 percent higher than the 13 months ended 2004. The increase was attributable to two factors: higher funds generated from operations as well as only a marginal increase in the total units outstanding. At year-end 2005, Badger had 10,738,820 units outstanding versus 10,648,879 at year-end 2004.

Fellow Unitholders

Badger's hydrovac business continued to grow and prosper in 2005, taking advantage of strong market conditions and expanding market coverage. This business expansion generated increased EBITDA and cash flow which allowed Badger to fund its growth, reduce debt and increase distributions.

Badger did not add long-term debt during the year and issued minimal new units, resulting in minor dilution to the unitholders. The Fund strives to provide steady growth for its unitholders, while maintaining a strong, conservative balance sheet. Our goal is to provide stable distributions with increases as the long-term outlook of our business permits.

HIGHLIGHTS OF THE YEAR INCLUDED:

1. Badger continued to grow and progress in the Canadian market place. Our Eastern Canadian region showed strong growth, far exceeding our expectations in 2005. This was due to many factors including strong construction activity and improved market coverage. In the Western region, Badger experienced increased competition in the market place and heavy pressure on pricing. We advanced our market coverage which we anticipate will help our business in 2006.

2. U.S. operations continued to advance from the progress made in 2004, and exited 2005 with increased revenue and market coverage. In the eastern part of the U.S., Badger expanded its operations base mid-year which helped establish a number of key customer relationships. The Western region enjoyed a strong oil and natural gas market. During the year, the Western region was able to expand its market coverage which should have a positive impact on growth in 2006.

3. Badger paid all long-term debt in 2005 with the exception of the mortgage held on the Fund's Red Deer manufacturing facility. This reduces the amount of cash needed to service long-term debt and allows Badger to allocate more funds to growth or distributions given similar business results.

4. Badger expanded its market base slightly, while reducing its concentration on the oil and natural gas industry. In 2005 Badger generated 40 percent of its revenue from non-oil and natural gas activities, versus 35 percent in 2004. Although Badger enjoys strong revenues in the oil and natural gas industry, the other market segments provide revenue diversification in times of changing market conditions.

2005 Goals and Results

In last year's annual report we outlined our plan and goals for 2005. Here is how Badger performed.

Build on the initial success we had in 2004 in the U.S. and expand our customer list and market coverage in a controlled manner. Achieved – In 2005 Badger added several locations by building on strong customer relationships and providing positive return on the customer's investment.

Continue growth in the Canadian business. We definitely achieved this objective in Eastern Canada, with growth that was double our expectation. Growth in Western Canada was less than expected due to increased competition and fewer major projects.

Maintain or surpass a $25,000 per truck per month fleet average. Goal achieved. Revenue per truck per month is a key indicator for Badger and at this utilization level our business model works well. We ended the year with revenue per truck of $28,500 for the fleet.

Continue to focus on core competencies and business processes that will help maintain and even increase our competitive advantage. This is a constant goal for Badger. We made a significant change to the hydrovac units that were sent to the Eastern region of North America which will allow for increased efficiency. Improvements in the Badger system mostly involved improved safety procedures and audits.

2006 MARKET OUTLOOK

Badger divides the North American market into four areas: Western Canada, Eastern Canada, United States West and United States East. These areas are distinct in the type of industries they support and their market characteristics. For Badger these markets are also in a different stage of business development.

Western Canada: Western Canada represents the most established hydrovac market in North America and the oil and natural gas sector is Badger's main market. However, strong industry fundamentals and a growing hydrovac market have attracted more competitors. To maintain our market share, Badger will ensure the client base understands the total value Badger offers, including performance and safety. Badger will also expand its number of locations to better cover the market. Growth in this region will depend on several factors, including Badger's ability to implement these initiatives; stability of oil and natural gas pricing; level of competition; the number of secured large projects; and weather conditions.

Eastern Canada: The main business in this region centers on utilities and general construction. Badger expects to continue expanding its work volume in 2006 through development of more applications and better market coverage. Growth will depend on the strength of the construction and utility businesses in the region during 2006.

Western United States: The strength of the oil and natural gas industry is important to this region. It is difficult to forecast what will happen in this industry during 2006; however, the long-term outlook is strong.

Eastern United States: The strength of the Eastern market place has relied heavily on major projects in the past. This is excellent work for Badger, but the number of major projects and their timing is unpredictable. While it is difficult to forecast projects for 2006, we know that a reasonably strong economy will give rise to significant numbers of projects that require hydrovac services. As we expand our market coverage, we will also grow our customer base which will help stabilize revenues from this region.

CONCLUSION

In 2005 we continued to build our business and expand area coverage. Overall, our growth was strong with some regions advancing more than others. We have a strong balance sheet with limited debt and good prospects for 2006. If the economy and the oil and natural gas industry remain strong, Badger will continue to grow in 2006. I would like to thank our employees for a job well done and also the Board of Trustees for their contribution over the years.

On behalf of the Board of Trustees and management,

"Signed"

Tor Wilson
President and CEO
March 16, 2006

2006 Goals and Results

The majority of our goals in 2006 are similar to those in 2005.

Continue to expand our customer list and market coverage in the U.S. In 2005, Badger had limited expansion in its geographic areas. We want to strengthen these areas in 2006 and also add to our geographic coverage. Expansion normally has a short-term negative impact on revenue per truck. Through careful planning and implementation, however, we will try to minimize this impact.

Continue growth in the Canadian business. We continue to find new applications and new customers for our service which is resulting in an expanded market place. Badger has room to grow in Canada.

Maintain or surpass a $25,000 per truck per month fleet average. Badger's business model is effective at this level of truck utilization. Essentially, when we are above this level we build additional trucks. Conversely, if we fall below $25,000 per truck per month, and expect the trend will continue for some time, we either slow or stop the building of trucks.

Continue to focus on core competencies and business processes that will help maintain or increase our competitive advantage. This is a constant goal for Badger. We will continue to look at ways to improve our hydrovac units and Badger system in 2006.

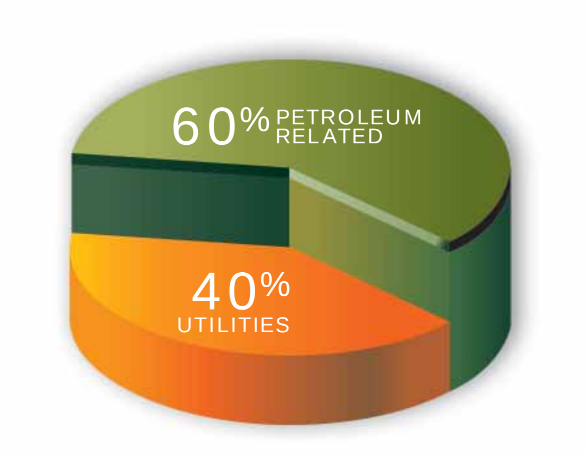
Seek possible additions to the service we provide in select locations and/or possible accretive acquisitions that have net positive synergies with our core business. We expect that Badger's hydrovac business will continue to grow in a controlled fashion for the next several years. With limited long-term debt we believe there is opportunity to expand into businesses beyond hydrovacs. Badger will be very selective in any acquisition process.

Badger Daylighting is North America's largest provider of non-destructive excavating services. Daylighting is a vital safety process using a combination of pressurized water and a vacuum system to clear away soil and debris from underground utilities and pipelines – essentially, exposing them to daylight.

Our Business is ►Daylighting

The hydrovac system is recognized as the safest method of excavation, especially in areas of underground utility congestion and frozen ground. Badger's hydrovac system ensures there is no damage to utilities, which are often inaccurately located and marked on the surface.

The combination of Badger's service and equipment is designed to enhance safety on the job site, increase productivity and raise the level of customer service.



Badger's Customers

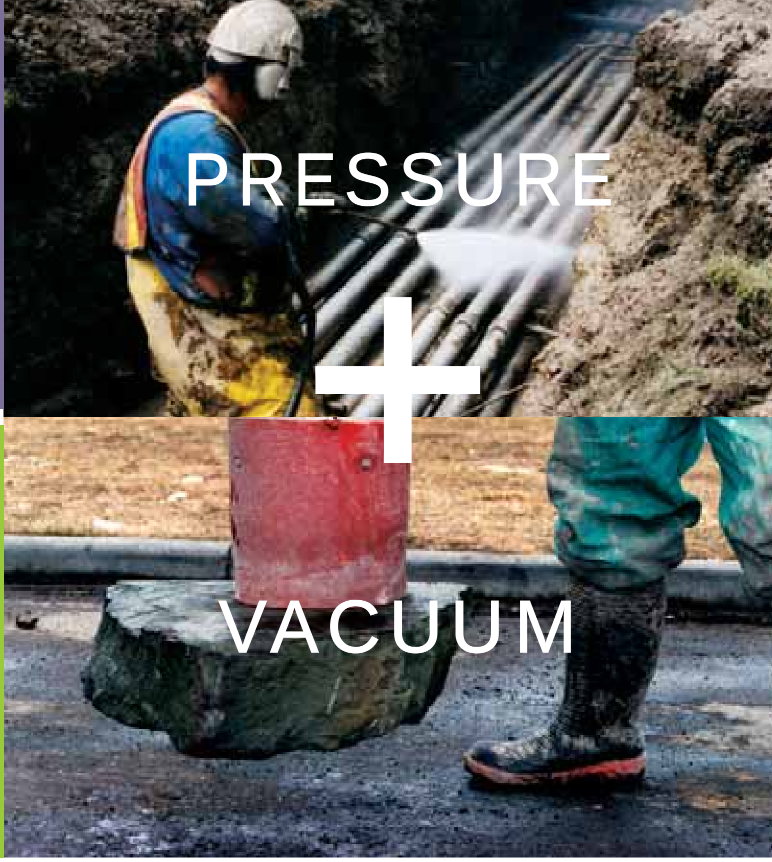
Badger's primary customers are contractors and facility owners in the utility and petroleum sectors.

▶ Pressurized Water

Water is pressurized and injected into the ground through a handheld wand to safely break up the soil from the underground infrastructure. Design of the nozzle, as well as the pressure and amount of water are vital to preventing damage to underground lines.

▶ High Pressure Vacuum

The resulting slurry is simultaneously vacuumed from the excavation through a large debris hose and temporarily stored in a debris tank. The process is safer than excavating with a backhoe or other mechanical means and faster than digging by hand.



Business Model

Badger's business model is centered on two distinct entities. Operating Partners deliver the service by operating the equipment and developing their local markets. The work is invoiced by Badger Corporate and shared with the Operating Partners based upon a revenue-sharing formula. Badger Corporate assists the Operating Partners in providing hydrovac services to customers, manufactures and maintains the trucks, and is responsible for North American marketing and administration support.

Core Competencies

Badger has many strengths which provide a sustainable competitive advantage and create value for our customers. These include:

- ▶ **Daylighting Expertise:** Badger has been the leading innovator in the daylighting business with safe, cost-effective procedures. We continue to expand our knowledge and distribute it to our Operating Partners and customers.

- ▶ **Technology and Truck Development:** Badger's hydrovac units are the most productive and efficient hydrovacs in the business. We have strengthened the design capabilities in our organization to ensure continuous improvement of our units.

- ▶ **Distribution and Market Development:** The controlled development of the North American market and service channels is important to achieving sustained growth. Our organization is designed to ensure that the local characteristics of the markets are taken into consideration.

- ▶ **Fleet Management:** To maintain the operational effectiveness and durability of these assets, Badger designed and implemented a Fleet Management Program that schedules regular maintenance and overhauls of each hydrovac.

Our Value Proposition

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 oil and gas companies plus large utilities.

Productivity

The Badger hydrovac truck has many features to enhance safety and improve productivity. The unit works within safe operating limits while out-performing other types of vacuum excavators.

Badger's North American Regional Offices

Efficiency and Cost Savings

Badger's trucks surpass the productivity of trailer units, industrial cleaning units or sewer flushing trucks. They are capable of delivering the highest excavating efficiency.

All-Season Versatility

Badger hydrovacs are designed for extreme winter conditions and any depth of ground frost. Key components are protected and heated. A coiled heater produces hot water on demand.

Badger's Network

At 241 hydrovac units operating in North America, Badger has the largest 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 project.

Clean, Precise, Professional

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

Remote Excavating

Badger hydrovacs can excavate at distances of more than 400 feet from the truck. This enables crews to work in areas with limited access.

Outsourcing

Outsourcing hydrovac projects is sound economic sense for customers. Badger hires and trains the operators and builds and maintains the equipment.

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.)

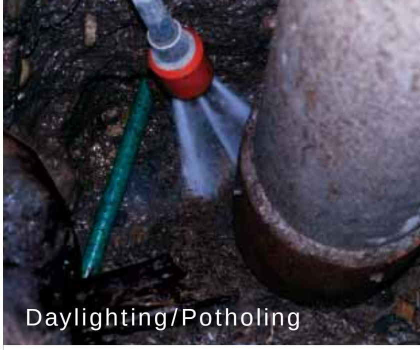
Slot Trenching
- Pipeline tie-ins
- Investigative slot trenching
- Installation slot trenching
- Drain tile trenching
- Line fault repairs

Pits
- Maintenance pits
- Installation service pits

Debris Removal/Cleanouts
- Road and box culvert cleanouts
- Pipe-rammed casing cleanouts
- Material removal from inside structures and buildings

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


Daylighting/Potholing


Slot Trenching


Pits


Debris Removal Cleanouts


Pole/Piling Holes


Shoring

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) should be read in conjunction with the consolidated financial statements of Badger Income Fund (the "Fund" or "Badger") and related notes and material contained in other parts of this annual report. Readers should also refer to the Badger Information Circular dated February 18, 2004 and the Annual Information Form for the year ended December 31, 2005. Additional information relating to Badger, including the Fund's Annual Information Form, may be found on SEDAR at www.sedar.com.

The Fund commenced operations on March 31, 2004. However, to provide unitholders with meaningful comparative financial information, the MD&A and consolidated financial statements include comparative information for the thirteen-month period from December 1, 2003 to December 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 MD&A compares the year ended December 31, 2005 to the thirteen-month period ended December 31, 2004.

This MD&A has been prepared taking into consideration information available to March 16, 2006.

Forward-Looking Statements

Certain statements contained in the annual report, including statements contained in the MD&A, constitute forward-looking statements. These statements relate to future events or Badger's future performance. All statements other than statements of historical fact may be forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Other 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 the Fund; 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 this annual 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.

Financial Highlights

($ Thousands, except per unit and total units outstanding information)	Three Months Ended December 31, 2005	Three Months Ended December 31, 2004	Year Ended December 31, 2005	Thirteen Months Ended December 31, 2004
Revenues	23,094	20,488	83,332	78,697
EBITDA (1)	6,845	5,724	24,794	22,242
Earnings before income taxes	4,670	3,994	16,980	15,143
Taxes	1,202	140	2,199	1,431
Net earnings	3,468	3,854	14,781	13,712
Net earnings per unit – diluted (3)	0.32	0.36	1.38	1.30
Funds generated from operations (2)	6,890	6,015	24,534	20,899
Funds generated per unit – diluted (3)	0.64	0.56	2.30	1.99
Maintenance capital expenditures (4)	978	829	1,955	2,730
Required debt repayment (5)	201	698	1,274	4,375
Additional debt repayment (5)	–	–	–	814
Cash available for growth and distribution (6)	6,108	4,614	21,778	14,075
Cash distributions declared	3,144	4,014	11,166	8,356
Growth capital expenditures (4)	4,252	1,994	11,776	9,182
Total units outstanding (3)	10,738,820	10,648,879	10,738,820	10,648,879

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, trust reorganization charges and foreign exchange loss.

(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 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 December 31, 2005 Badger added 11 units to the fleet and removed three from service. As a result, eight of the units added during the three months ended December 31, 2005 represent growth capital expenditures, while three of the units represent maintenance capital expenditures. During the year ended December 31, 2005 Badger added 35 units to the fleet, of which six have been reflected as maintenance capital expenditures. The economic life of a Badger hydrovac is approximately 10 years. The average age of the fleet is four and a half years.

(5) Required debt repayments are 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 Consolidated Statement of Cash Flows, less required debt repayments, and maintenance capital expenditures, plus any proceeds received on the disposal of assets.

Overview

HIGHLIGHTS FOR THE YEAR ARE AS FOLLOWS:

- The Fund generated improved operating and financial results comparing the year ended December 31, 2005 to the thirteen-month period ended December 31, 2004. Revenues increased to $83.3 million for the year ended December 31, 2005 from $78.7 million for the thirteen months ended December 31, 2004, while EBITDA increased to $24.8 million for the year ended December 31, 2005 compared to $22.2 million for the thirteen months ended December 31, 2004.

- The Fund increased distributions during 2005 to $1.176 per unit on an annualized basis versus $0.882 per unit on an annualized basis at year-end 2004.

- The Fund was virtually debt-free at year-end 2005, other than $1.1 million remaining on a mortgage covering our manufacturing facility and a balance owing on the operating line.

- The Fund added 35 new hydrovac units in 2005 and removed six from service, exiting the year at 241 hydrovac units. Of the total, 184 units are operating in Canada and 57 in the United States. The growth in hydrovac units was financed from cash generated from operations.

Selected Annual Financial Information

	2005 [1]	Period Ended 2004 [1]	2003 [1]
Revenues ($)	83,331,679	78,696,706	63,686,858
Net earnings ($)	14,780,994	13,711,874	3,979,346
Net earnings per unit – basic [2]($)	1.39	1.31	0.40
Net earnings per unit – diluted [2]($)	1.38	1.30	0.39
Total assets ($)	74,551,335	67,751,424	59,815,382
Total long-term debt [3] ($)	1,114,843	2,388,801	7,577,329
Distributions declared ($)	11,165,792	8,356,386	Nil

(1) The 2004 period reflects results for the 13 months ended December 31, 2004, while the 2003 period reflects results for the year ended November 30, 2003.

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

(3) Includes the current portion of long-term debt.

Overall Performance for the Year Ended December 31, 2005 Compared to the Thirteen Months Ended December 31, 2004

RESULTS OF OPERATIONS

Revenues

Revenues were $83.3 million for the year ended December 31, 2005 compared to $78.7 million for the thirteen months ended December 31, 2004. The increase is attributable to the following:

- The majority of the increase in Canadian revenues occurred in Eastern Canada where we expanded our customer base, added locations to provide better services and increased spending on construction projects.

- United States revenues increased to $18.6 million in 2005 from $17.0 million for the thirteen-month period ended December 31, 2004. Revenue growth reflected the Fund's continued focus on certain geographical areas and market segments, which resulted in an increased customer base and higher demand for hydrovac services. Badger also secured work on some larger projects.

Badger's average revenue per truck per month during the fourth quarter of 2005 was $30,300 versus $30,600 per month for the same period in 2004. The 2005 revenue per truck per month was $28,500, slightly higher than the $28,000 for the thirteen months ended December 31, 2004.

Included in revenues is $2.2 million of truck placement and franchise fees for 2005, versus $2.1 million for the thirteen-month period ended December 31, 2004.

Direct Costs

Direct costs were $52.4 million for the year ended December 31, 2005, an increase of $2.4 million from the $50.0 million recorded for the thirteen months ended December 31, 2004. This is consistent with the increase in revenues.

Gross Margin

Gross margin for 2005 was 37.1 percent, which was a modest increase from the 36.5 percent for the thirteen months ended December 31, 2004.

Amortization of Capital Assets

Amortization of capital assets was $7.3 million in 2005, or $0.5 million higher than the $6.8 million for the thirteen months ended December 31, 2004. This increase was the result of having more hydrovac units in the fleet.

Interest Expense

Interest expense was $0.3 million for the year ended December 31, 2005 versus $0.4 million for the thirteen months ended December 31, 2004. The lower interest expense resulted from carrying lower debt levels.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $6.1 million in 2005 compared to $6.1 million for the thirteen months ended December 31, 2004. The constant level from period-to-period reflects the Fund's continued focus on cost control. As a percentage of revenues, selling, general and administrative expenses decreased to 7.4 percent in 2005 versus 7.7 percent for the thirteen months ended December 31, 2004.

Selling, general and administrative expenses include salaries and benefits for office, field, safety and sales staff, as well as rent, utilities, and communications. These expenses also include costs to maintain the Fund's public listing and professional fees.

Foreign Exchange Loss

The loss results from the stronger Canadian dollar in 2005 versus its United States counterpart. Badger converts the balance sheet and earnings statement related to United States operations into Canadian currency.

Income Taxes

The effective tax rate for 2005 was 13 percent versus 9 percent for the thirteen months ended December 31, 2004. The increase was the result of not recognizing the accounting benefit of using certain United States tax losses during 2005, although these losses were used to reduce cash taxes which would have been payable in the United States. The result was a reduction in net earnings of approximately $1.0 million or $0.09 per unit on a diluted basis.

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

LIQUIDITY

Funds generated from operations in 2005 increased to $24.5 million from $20.9 million for the period ended December 31, 2004, due to increased activity levels in Eastern Canada and the United States. The Fund uses its cash to make distributions to unitholders, build additional hydrovac units, invest in maintenance capital expenditures and repay long-term debt.

The Fund had working capital of $8.2 million at December 31, 2005 compared to $7.3 million at December 31, 2004. Cash flow from operations exceeded capital expenditures, repayment of debt (net of proceeds received) and distributions paid during 2005.

The following table outlines the cash available to fund growth and pay distributions to unitholders for the year ended December 31, 2005 compared to the nine-month period ended December 31, 2004:

	Year Ended December 31, 2005 $	Nine Months Ended December 31, 2004 [1] $
Funds generated from operations	24,534,017	16,065,475
Add: proceeds on disposal of property, plant and equipment	473,515	221,527
Less: required repayments of long-term debt	(1,273,958)	(3,083,374)
Less: maintenance capital expenditures	(1,955,340)	(2,729,950)
Cash available for growth capital expenditures and distributions	21,778,234	10,473,678
Growth capital expenditures	11,776,259	5,730,014
Distributions declared [2]	11,165,792	8,356,386

(1) The Fund commenced operations on March 31, 2004; therefore the comparative figures are for the nine months ended December 31, 2004.

(2) The Fund declared a special distribution of $0.16 per Fund unit or $1.7 million in the month of December 2004.

Currently the Fund has an $8.0 million operating line to fund working capital requirements, of which $3.5 million was used at December 31, 2005.

CAPITAL RESOURCES

Investing

In 2005 the Fund spent $12.6 million in cash on property, plant and equipment compared to $11.9 million for the thirteen months ended December 31, 2004. During 2005, the Fund built 35 new hydrovac units compared to 34 for the period ended December 31, 2004. Included in the 2005 capital expenditure figure is a maintenance capital expenditure amount of $1.9 million. Maintenance capital expenditures are incurred during a period to keep the hydrovac fleet at the same number of units, which was six for 2005, plus any other capital expenditures required to maintain the existing business.

Financing

During 2005 Badger repaid $1.3 million of long-term debt pursuant to regularly scheduled repayments. As a result of these principal payments the Fund's long-term debt, including the current portion, was $1.1 million at year-end 2005 compared to $2.4 million at year-end 2004.

At December 31, 2005 the Fund had a long-term debt-to-equity ratio of 0.02:1 and a long-term debt to trailing-funds-generated-from-operations of 0.05:1. 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 as well as future capital expenditures for the remainder of 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:

2006	$ 108,768
2007	108,768
2008	108,768
2009	108,768
2010	108,768
Thereafter	571,003
Total	$ 1,114,843

In addition to the contractual obligations above, at year-end 2005 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.

Unitholders' Capital

Unitholders' capital increased by $1.3 million to $43.2 million at December 31, 2005. This was the result of issuing the following units:

- 67,141 fund units as consideration for the acquisition of certain property, plant and equipment;
- 13,969 fund units from the long term incentive plan as payment for 2004 performance bonuses payable to management and trustees; and
- 8,831 fund units pursuant to the exercising of exchange rights.

Units outstanding at December 31, 2005 were 10,738,820. As part of the conversion to a trust on March 31, 2004 the common shares outstanding were converted to units on a 2:1 basis.

At December 31, 2005 there were 8,832 exchange rights outstanding. These exchange rights may be exchanged for fund units at a price of $0.01 per unit.

Off-Balance Sheet Arrangements

At December 31, 2005 and 2004, the Fund had no off-balance sheet arrangements.

Transactions With Related Parties

Shea Nerland Calnan provides legal services to Badger at market rates. David Calnan, a Trustee and Corporate Secretary of the Fund, is a partner in the law firm of Shea Nerland Calnan and is involved in providing and managing Badger's legal services. The total cost of these legal services in 2005 was $261,000 and $241,000 for the thirteen months ended December 31, 2004.

Selected Quarterly Financial Information

	Quarter Ended [1]							
	2005				2004			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31 [2]
Revenues ($)	23,093,735	20,471,322	18,923,312	20,843,310	20,488,378	20,133,108	15,488,043	22,587,177
Net earnings ($)	3,468,113	3,547,545	3,629,935	4,135,401	3,853,755	4,193,112	2,755,838	2,909,169
Net earnings per unit – basic [3]($)	0.32	0.33	0.34	0.39	0.36	0.39	0.26	0.28
Net earnings per unit – diluted [3] ($)	0.32	0.33	0.34	0.39	0.36	0.39	0.26	0.27

(1) As a result of converting to a trust the Fund's 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 March 31, 2004 have been converted to units on a 2:1 basis; therefore, per unit calculations have been restated on this basis.

Fourth Quarter Highlights

- As a result of increased activity, revenue increased to $23.1 million from $20.5 million comparing the three months ended December 31, 2005 to three months ended December 31, 2004.
- With the increase in revenues, earnings before income taxes increased by 17 percent for the quarter.
- Net earnings decreased by 10 percent due to the increase in taxes to $1.2 million in the fourth quarter of 2005 from $140,000 in the fourth quarter of 2004. The increase in taxes is the result of not recognizing the accounting benefit of using certain United States tax losses during the quarter. However, these losses were used to reduce any cash taxes which would have been payable.
- The Fund added 11 hydrovac units to the fleet and removed three from service.

Critical Accounting Estimates

Management is responsible for applying judgement in preparing accounting estimates. Certain estimates and related disclosures included within the financial statements are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from management's current judgements. An accounting estimate is considered critical only if it requires the Fund to make assumptions about matters that are highly uncertain at the time the accounting estimate is made, and different estimates the Fund could have used would have a material impact on Badger's financial condition, changes in financial condition or results of operations.

While there are several estimates and assumptions made by management in the preparation of financial statements in accordance with generally accepted accounting principles, the following critical accounting estimates have been identified by management:

Estimates of Depreciation of the Hydrovac Units

Management believes that the estimated economic life of the hydrovac units constitutes a critical accounting estimate. The Fund 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.

Estimates of Tax Pools and Their Recoverability

Badger has estimated its tax pools for the income tax provision. The actual tax pools the Fund may be able to use could be materially different in the future.

Estimates of Collectibility of Accounts Receivable

The Fund estimates the collectibility of its accounts receivable. The Fund continually reviews its accounts receivable balances and makes an allowance when a receivable is deemed uncollectible. The actual collectibility of accounts receivable could differ materially from the estimate.

Financial and Other Instruments

Fair Values

The carrying values of cash, bank indebtedness, accounts receivable, accounts payable and accrued liabilities, income taxes payable and distributions payable approximate the fair value of these financial instruments due to their short-term maturities. The carrying value of the long-term debt approximates fair value due to its floating interest rates.

Foreign Currency Risk

In the normal course of operations the Fund is exposed to movements in the United States dollar exchange rates relative to the Canadian dollar. Badger has United States operations and purchases certain items in United States dollars. Badger does not utilize hedging instruments but rather chooses to be exposed to current United States exchange rates as increases or decreases in exchange rates are not considered to have a significant effect on its business.

Interest Rate Risk

The floating interest-rate profile of Badger's long-term debt exposes Badger to interest-rate risk. Badger does not use hedging instruments to mitigate this risk.

Credit Risk

A substantial portion of Badger's accounts receivable is with customers involved in the oil and natural gas industry, whose revenues may be impacted by fluctuations in commodity prices. Although collection of these receivables could be influenced by economic factors affecting this industry, management considers the risk of a significant loss to be remote at this time. The Fund's credit risk from customers is minimized by Badger's broad customer base and the diverse industries it serves.

Disclosure Controls and Procedures Related to Financial Reporting

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management on a timely basis, including the President and Chief Executive Officer (CEO) and the Vice President Finance and Chief Financial Officer (CFO). This allows appropriate decisions to be made regarding public disclosure. As of December 31, 2005 both the CEO and the CFO have evaluated the effectiveness of Badger's disclosure controls and procedures as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators. They have concluded that such disclosure controls and procedures are effective.

Business Risks

Reliance on Oil and Gas Sector

The oil and natural gas sector accounts for a significant portion of the Fund's revenues. The petroleum service industry relies heavily on the volume of capital expenditures made by oil and natural gas explorers and producers and is also affected by certain adverse weather conditions. 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 Fund also focuses on generating revenue from the utility and general contracting market segments.

Competition

The Fund operates in a highly competitive environment for hydrovac services in Western Canada. In order to remain the leading provider of hydrovac services in this region, we continually enhance our safety and operational procedures to ensure that they meet or exceed customer 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. There can be no assurance that Badger's competitors will not achieve greater market acceptance due to pricing, efficiency, safety and other factors.

United States Operations

Badger also faces risks associated with doing business in the United States. The Fund has made a significant investment in the United States to develop the hydrovac market. To date, the market for Badger's hydrovac service business remains mostly undeveloped. The growth rate of the United States market is not determinable.

Safety

Safety is one of the Fund's primary concerns. We have implemented programs to ensure our operations meet or exceed current hydrovac safety standards. The Fund also employs regional safety managers who are responsible for maintaining and developing the Fund's safety policies. In addition, these regional managers monitor the Fund's operations to ensure they are operating in compliance with such policies.

Depreciation of Daylighting Units

The Fund currently depreciates the hydrovac 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.

Dependence on Key Personnel

Today, Badger has a strong, stable employee base. Badger relies on its ability and the ability of its agents/franchisees to attract and retain key personnel necessary to maintain and grow our business. Any loss of services of key personnel could have a material adverse effect on the business and operations of the Fund. The ability to secure the services of additional personnel is constrained in times of strong industry activity.

Reliance on Key Suppliers

Badger has established relationships with key suppliers. There can be no assurance that current sources of equipment, parts, components or relationships with key suppliers will be maintained. If these are not maintained, Badger's ability to manufacture its hydrovac units may be impaired.

Fluctuations in Weather and Seasonality

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. For example, in Western Canada Badger's results may be negatively affected if there is an extended spring break-up period since oil and natural gas industry sites may not be accessible during such periods. In Eastern Canada, Badger has in the past experienced enhanced use of its equipment during cold winters, thus improving the results of its operations during such times. The Fund may then experience a slow period during spring thaw. In the Western United States, Badger has from time-to-time been restricted by the imposition of government regulations from conducting its work in environmentally sensitive areas during the winter mating seasons of certain animals and birds. This has had a negative effect on Badger's results of operations. As such, changes in the weather and seasonality may, depending on the location and nature of the event, have either a positive or negative effect on Badger's results of operations.

Fluctuations in the Economy and Political Landscape

Operations could be adversely affected by a general economic downturn, changes in the political landscape or limitations on spending.

Compliance with Government Regulations

While Badger believes it is currently in compliance with all applicable government standards and regulations, there can be no assurance that all of Badger's businesses will be able to continue to comply with all applicable standards and regulations.

Access to Additional Financing

Badger may find it necessary in the future to obtain additional debt or equity to support ongoing operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance additional financing will be available to Badger when needed or on terms acceptable to Badger. Badger's inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit the Fund's growth and may have a material adverse effect upon the Fund.

Self Insurance

Due to the significant increase in insurance premiums, the Fund decided to self-insure against any physical damage it could incur on the Canadian hydrovac units. This decision will be re-evaluated periodically as circumstances change.

Outlook

Warmer than normal winter weather in Western Canada means the ground has less frost increasing productivity of hydrovacs. This in turn would reduce the number of billable hours, resulting in moderate financial performance for Western Canada during the first half of 2006. The situation is the same in Eastern Canada where cold weather gives rise to emergency situations in which hydrovacs deal with frozen and broken water pipes. Eastern Canada has had a mild winter, which may put pressure on financial results.

The United States has strong levels of activity due to the expansion of our customer base in 2005. As a result, Badger has increased its hydrovac-build program in the first quarter of 2006 to four per month.

Management's Responsibility for Financial Reporting

The consolidated financial statements included in this annual report of Badger Income Fund for the year ended December 31, 2005 are the responsibility of the management of the Fund and have been approved by the Board of Directors. Management has prepared the financial statements in accordance with the Canadian generally accepted accounting principles, with financial information presented elsewhere in this annual report consistent with that in the financial statements.

Management has developed and maintains a comprehensive system of internal controls which provides assurance that transactions are recorded and executed in compliance with legislation and required authority, to ensure assets are properly safeguarded and that reliable financial records are maintained.

The independent chartered accounting firm of Ernst & Young LLP has been appointed by the unitholders of the Fund to examine the financial statements, and has expressed an opinion thereon. Their auditors' report is included with the financial statements. The Board of Directors has established an Audit Committee to review the financial statements with management and the auditors, and has reported to the Board of Directors thereon. On the recommendation of the Audit Committee, the Board of Directors has approved the financial statements.

"Signed"

Tor Wilson
President and CEO
March 16, 2006

"Signed"

Greg Kelly, CA
Vice President Finance and CFO

Auditors' Report

To the Unitholders of Badger Income Fund

We have audited the consolidated balance sheets of Badger Income Fund as at December 31, 2005 and 2004 and the consolidated statements of earnings and accumulated earnings and cash flows for the year ended December 31, 2005 and the thirteen-month period ended December 31, 2004. These financial statements are the responsibility of the Fund'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 consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005 and the thirteen-month period ended December 31, 2004 in accordance with Canadian generally accepted accounting principles.

"Signed: Ernst & Young LLP"

Chartered Accountants

Calgary, Canada
March 16, 2006

Consolidated Balance Sheets

As at	December 31, 2005	December 31, 2004
ASSETS [notes 4 and 5]	$	$
Current		
Cash	1,190,398	529,017
Accounts receivable	19,552,905	18,361,558
Inventories	1,180,291	1,266,139
Prepaid expenses	504,365	457,554
Future income taxes [note 8]	–	2,065,283
	22,427,959	22,679,551
Property, plant and equipment [note 3]	50,790,795	45,071,873
Future income taxes [note 8]	1,332,581	–
	74,551,335	67,751,424
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness [note 4]	3,497,348	2,821,323
Accounts payable and accrued liabilities	9,457,926	8,711,230
Income taxes payable	86,505	82,837
Distributions payable	1,052,404	2,486,513
Current portion of long-term debt [note 5]	108,768	1,273,885
	14,202,951	15,375,788
Long term debt [note 5]	1,006,075	1,114,916
Future income taxes [note 8]	8,418,801	5,266,503
Commitments [note 12]		
Unitholders' equity		
Unitholders' capital [note 6]	43,254,606	41,940,517
Contributed surplus	826,000	826,000
Accumulated cash distributions [note 9]	(19,522,178)	(8,356,386)
Accumulated earnings	26,365,080	11,584,086
	50,923,508	45,994,217
	74,551,335	67,751,424

See accompanying notes

On behalf of the Board:

"Signed: Glen D. Roane" "Signed: David Calnan"

Director Director

▶Consolidated Statements of Earnings
and Accumulated Earnings

	For the year ended December 31, 2005	For the thirteen-month period ended December 31, 2004
	$	$
Revenue	83,331,679	78,696,706
Direct costs	52,383,444	49,981,556
Gross margin	30,948,235	28,715,150
Expenses		
Amortization	7,313,090	6,755,966
Loss (gain) on sale of property, plant and equipment	226,072	(24,193)
Interest		
Long term	85,746	272,021
Current	188,724	95,324
Selling, general and administrative [notes 6 and 13]	6,142,778	6,061,972
Trust reorganization costs [note 2]	–	255,267
Foreign exchange loss	11,745	155,943
	13,968,155	13,572,300
Earnings before income taxes	16,980,080	15,142,850
Income taxes [note 8]		
Current	172,970	1,345,500
Future	2,026,116	85,476
	2,199,086	1,430,976
Net earnings for the period	14,780,994	13,711,874
Accumulated earnings (deficit), beginning of period	11,584,086	(3,449,062)
Trust reorganization adjustment [note 2]	–	1,321,274
Accumulated earnings, end of period	26,365,080	11,584,086
Net earnings per unit [note 7]		
Basic	1.39	1.31
Diluted	1.38	1.30

See accompanying notes

Consolidated Statements of Cash Flow

	For the year ended December 31, 2005	For the thirteen-month period ended December 31, 2004
	$	$
OPERATING ACTIVITIES		
Net earnings for the period	14,780,994	13,711,874
Non-cash items		
Amortization	7,313,090	6,755,966
Non-cash compensation – long term incentive plan [note 6]	176,000	214,000
Future income taxes	2,026,116	85,476
Loss (gain) on sale of property, plant and equipment	226,072	(24,193)
Foreign exchange loss	11,745	155,943
Funds generated from operations	24,534,017	20,899,066
Net change in non-cash working capital	1,483,193	(4,119,386)
	26,017,210	16,779,680
FINANCING ACTIVITIES		
Proceeds from units/shares issued, net of issue costs	89	631,668
Repayment of long-term debt	(1,273,958)	(5,188,528)
Increase (decrease) in bank indebtedness	676,025	2,821,323
Distributions to unitholders	(12,599,901)	(5,869,873)
	(13,197,745)	(7,605,410)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(12,631,599)	(11,911,973)
Proceeds on disposal of property, plant and equipment	473,515	280,675
	(12,158,084)	(11,631,298)
Increase (decrease) in cash during the period	661,381	(2,457,028)
Cash, beginning of period	529,017	2,986,045
Cash, end of period	1,190,398	529,017
Interest paid	274,470	367,345
Income taxes paid (received)	(1,689,581)	1,982,051

See accompanying notes

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

1. Summary of Significant Accounting Policies

Basis of Presentation

The Fund was established by a Deed of Trust dated February 17, 2004. Pursuant to the terms of a 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 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.

These consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles which, in the case of the Fund, conform with United States generally accepted accounting principles in all material respects. 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 judgment. 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 Fund 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.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Amortization is provided on a straight-line basis to recognize the cost less estimated salvage value of the assets over their estimated useful lives as follows:

Land improvements	10%
Buildings	5%
Shoring equipment	10%
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 into use.

Intangible assets represent service rights acquired. Management has determined they have indefinite lives and, therefore, intangible assets are not amortized. Intangible assets are assessed for impairment at least annually.

Although management believes its estimates of the useful lives of the Fund's property, plant and equipment are reasonable, it is possible that another estimate may be made or that management's estimate may change in the future, which could result in changes to the rates. Management bases its estimate of the useful life of equipment on expected utilization, technological change and effectiveness of maintenance programs.

Distributions

The Fund makes monthly distributions to its holders of Fund units. Determination of the amount of cash distributions for any period is at the sole discretion of the trustees and is based on certain criteria including financial performance as well as the projected liquidity and capital resource position of the Fund. Distributions are declared to holders of Fund units of record on the last business day of each month, and paid on the 15th day of the month following (or if such day is not a business day, the next following business day).

Income Taxes

The Fund is a taxable entity under the Income Tax Act (Canada) and is taxable only on income that is not distributed or distributable to the unitholders. There is no recognition of any future income tax assets or liabilities on temporary differences within the Fund; however, the liability method of accounting for income taxes is followed within the consolidated subsidiaries of the Fund. Under this method, future income tax assets and liabilities 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 in 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 substantively enacted. Future income tax assets are evaluated and if realization is not considered "more likely than not", a valuation allowance is provided.

Revenue Recognition

The Fund recognizes revenue from daylighting services when the services are provided. Truck placement fees are recognized when the truck is delivered.

Net Earnings per Unit

Basic net earnings per unit was calculated on the basis of the weighted average number of units outstanding for the period.

Diluted net earnings per unit is calculated by adding the weighted average number of units outstanding during the period to the additional units that would have been outstanding if potentially dilutive units had been issued, using the treasury stock method. Under this method, the diluted weighted average number of units is calculated assuming the proceeds from the exercise of dilutive securities are used to purchase units at the average market price.

Long Term Incentive Plan

The Fund has established a Long Term Incentive Plan (the "Incentive Plan") available to certain trustees, directors, officers and key employees of the Fund and designated affiliates of the Fund. The units from the Incentive Plan will be issued at market price and be recorded as compensation expense.

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. 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 earnings.

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.

Under the Plan of Arrangement the 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.

As a result of the conversion to a trust and the related reorganization, future income taxes were reduced by $1,321,274 with the gain credited to opening accumulated earnings.

Associated with the reorganization the Fund incurred costs of $255,267.

3. Property, Plant and Equipment

December 31, 2005	Cost ($)	Accumulated Amortization ($)	Net Book Value ($)
Land	919,037	–	919,037
Land improvements	366,643	297,552	69,091
Buildings	3,415,366	1,409,491	2,005,875
Equipment under construction	1,084,120	–	1,084,120
Shoring equipment	2,024,966	951,985	1,072,981
Small tools	39,264	35,178	4,086
Shop and office equipment	1,311,273	960,544	350,729
Trucks and trailers	76,953,294	33,151,390	43,801,904
Leasehold improvements	15,028	13,374	1,654
Computers	323,837	243,855	79,982
Intangible assets	1,401,336	–	1,401,336
	87,854,164	37,063,369	50,790,795

December 31, 2004	Cost ($)	Accumulated Amortization ($)	Net Book Value ($)
Land	919,037	–	919,037
Land improvements	366,643	260,892	105,751
Buildings	3,395,180	1,239,391	2,155,789
Equipment under construction	577,197	–	577,197
Shoring equipment	2,203,452	898,062	1,305,390
Small tools	39,264	31,254	8,010
Shop and office equipment	1,289,414	832,460	456,954
Trucks and trailers	67,393,303	27,935,616	39,457,687
Leasehold improvements	135,048	130,961	4,087
Computers	680,564	598,593	81,971
Intangible assets	–	–	–
	76,999,102	31,927,229	45,071,873

4. Bank Credit Facilities

The Fund has bank credit facilities available of up to $8,000,000 bearing interest at the bank's prime lending rate (December 31, 2005 – 5.00%; December 31, 2004 – 4.25%) or the bankers' acceptance rate plus 1.35% (December 31, 2005 – 4.88%; December 31, 2004 – 3.93%). 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. The balance drawn on this facility as at December 31, 2005 was $3,497,348 (December 31, 2004 – $2,821,323).

As at December 31, 2005 the Fund has issued letters of credit in the amount of approximately $388,000 (December 31, 2004 - $258,000).

5. Long-Term Debt

	December 31, 2005 ($)	December 31, 2004 ($)
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% (December 31, 2005 – 5.75%; December 31, 2004 – 5.0%).	1,114,843	1,223,684
Loan payable, repayable in monthly principal and interest payments of $66,419 until December, 2005, bearing interest at the one month bankers' acceptance rate plus 3.15% (December 31, 2004 – 5.73%).	–	750,256
Loan payable, repayable in monthly principal and interest payments of $164,943 until March, 2005, bearing interest at the one month bankers' acceptance rate plus 3.15% (December 31, 2004 – 5.73%).	–	414,861
	1,114,843	2,388,801
Current portion	108,768	1,273,885
	1,006,075	1,114,916

The commercial mortgage is collateralized by a general security interest over the Fund's assets, property and undertaking, present and future.

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

	$
2006	108,768
2007	108,768
2008	108,768
2009	108,768
2010	108,768
Thereafter	571,003
	1,114,843

6. Unitholders' Capital

Authorized

Unlimited number of voting Fund units

Issued and outstanding:	Units/Shares	Amount ($)
Shares issued as at November 30, 2003	20,171,278	41,308,849
Exercise of options	659,667	629,334
Shares issued as at March 31, 2004	20,830,945	41,938,183
Shares cancelled under the Plan of Arrangement [note 2]	(20,830,945)	(41,938,183)
Units issued under the Plan of Arrangement [note 2]	10,415,475	41,938,183
Rights exercised	233,404	2,334
Units outstanding as at December 31, 2004	10,648,879	41,940,517
Units issued under the Incentive Plan	13,969	214,000
Units issued to acquire property, plant and equipment	67,141	1,100,000
Rights exercised	8,831	89
Units outstanding as at December 31, 2005	10,738,820	43,254,606

Long Term Incentive Plan

The Fund has reserved 200,000 units for issuance under the Incentive Plan. In March 2005, in partial settlement of the incentive bonus accrued at the end of 2004, the Fund issued 13,969 units pursuant to the Incentive Plan with a total market price of $214,000. As at December 31, 2005 an amount of $352,000 is included in accounts payable and accrued liabilities in respect of the incentive bonus for 2005, of which $176,000 will be settled by the issuance of units in early 2006. The related compensation costs are included in selling, general and administrative expenses in the accompanying statement of earnings.

Exchange Rights

Pursuant to the Plan of Arrangement, any stock options outstanding and not exercised prior to March 31, 2004 were cancelled in exchange for exchange rights exercisable at a purchase price of $0.01 per unit. There were 735,000 stock options cancelled and 251,067 exchange rights issued on March 31, 2004. As at December 31, 2005 the following exchange rights are outstanding:

	December 31, 2005		December 31, 2004	
		Weighted Average Exercise Price ($)		Weighted Average Exercise Price ($)
Outstanding at beginning of period	17,663	0.01	–	–
Converted from options	–	–	251,067	0.01
Exercised during period	(8,831)	0.01	(233,404)	0.01
Outstanding at period end	8,832	0.01	17,663	0.01

7. Net Earnings per Unit

Basic per unit calculations for the year ended December 31, 2005 and the thirteen-month period ended December 31, 2004 were based on the weighted average number of units outstanding of 10,666,508 and 10,499,857 respectively. Diluted per unit calculations for the year ended December 31, 2005 and the thirteen-month period ended December 31, 2004 were based on the weighted average number of units outstanding of 10,675,340 and 10,517,520 respectively.

The per unit amounts and number of units/shares have been retroactively restated to reflect the 2:1 conversion of shares into units effective March 31, 2004.

8. Income Taxes

Income tax expense differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates to earnings before income taxes. The reasons for the differences are as follows:

	For the year ended December 31, 2005 ($)	For the thirteen-month period ended December 31, 2004 ($)
Earnings before income taxes	16,980,080	15,142,850
Statutory income tax rate	35.00%	35.00%
Expected income tax provision	5,943,028	5,299,998
Add (deduct):		
Fund distributions	(3,908,027)	(2,924,735)
Foreign income tax in higher rate jurisdictions	52,845	–
Utilization of U.S. prior year losses not previously recognized	(32,801)	(977,734)
Other	144,041	33,447
	2,199,086	1,430,976

The future income tax assets and liabilities are comprised of the tax effect of the following temporary differences:

	December 31, 2005 ($)	December 31, 2004 ($)
Future income tax assets:		
Non-capital losses	5,330,276	8,302,648
Investment in shares	–	223,278
	5,330,276	8,525,926
Valuation allowance	3,997,695	6,460,643
	1,332,581	2,065,283
Future income tax liabilities:		
Property, plant and equipment	5,114,835	3,228,905
Partnership income	3,303,966	2,037,598
	8,418,801	5,266,503
Net future income taxes	7,086,220	3,201,220

As at December 31, 2005, one of the Fund's U.S. subsidiaries had net operating losses carried forward of approximately US$11,545,000 which expire as follows:

	December 31, 2005 ($)
2020	4,682,000
2021	3,402,000
2022	3,102,000
2023	359,000
	11,545,000

9. Reconciliation of Unitholder Distributions Declared and Paid

a) Cash Available for Growth Capital Expenditures and Distributions

	For the year ended December 31, 2005 ($)	For the thirteen-month period ended December 31, 2004 ($)
Funds generated from operations	24,534,017	20,899,066
Proceeds on disposal of property, plant and equipment	473,515	280,675
Required principal repayments of long term debt [1]	(1,273,958)	(4,374,579)
Maintenance capital expenditures [2]	(1,955,340)	(2,729,950)
Cash available for growth capital expenditures and distributions	21,778,234	14,075,212
Unitholder distributions declared	11,165,792	8,356,386
Per unit	1.0465	0.7850
Unitholder distributions paid	12,599,901	5,869,873
Per unit	1.1820	0.5515

(1) Required debt repayments are defined as the amount of debt which had to be repaid during the period pursuant to regularly scheduled debt repayments.

(2) Maintenance capital expenditures are 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 during the period on a daylighting unit to enhance its operational life.

b) Reconciliation of Accumulated Unitholder Distributions

	For the year ended December 31, 2005 ($)	For the thirteen-month period ended December 31, 2004 ($)
Cash distributions declared and paid	10,113,388	5,869,873
Cash distributions declared and payable	1,052,404	2,486,513
Accumulated cash distributions at beginning of period	8,356,386	–
Accumulated cash distributions at end of period	19,522,178	8,356,386

10. Geographic Information

Geographically, the Fund operates in Canada and the United States (U.S.). The following is selected information for the year ended December 31, 2005 and the thirteen months ended December 31, 2004 based on these geographic segments.

	Year ended December 31, 2005		
	Canada ($)	U.S. ($)	Total ($)
Revenues	64,732,824	18,598,855	83,331,679
Direct costs	40,157,585	12,225,859	52,383,444
Selling, general and administrative	4,109,154	2,033,624	6,142,778
Amortization	5,680,863	1,632,227	7,313,090
Earnings before income taxes	14,337,818	2,642,262	16,980,080
Property, plant and equipment	40,800,380	9,990,415	50,790,795
Total assets	58,593,631	15,957,704	74,551,335
Capital expenditures	10,853,981	2,877,618	13,731,599

	Thirteen Months ended December 31, 2004		
	Canada ($)	U.S. ($)	Total ($)
Revenues	61,709,316	16,987,390	78,696,706
Direct costs	39,256,029	10,725,527	49,981,556
Selling, general and administrative	4,157,283	1,904,689	6,061,972
Amortization	5,355,428	1,400,538	6,755,966
Earnings before income taxes	12,349,325	2,793,525	15,142,850
Property, plant and equipment	36,963,712	8,108,161	45,071,873
Total assets	55,615,342	12,136,082	67,751,424
Capital expenditures	9,962,855	1,949,118	11,911,973

11. Financial Instruments

a) Fair Value

The carrying value of cash, accounts receivable, accounts payable, income taxes payable, distributions payable, bank indebtedness and long-term debt approximate their fair value.

b) Foreign Currency Risk

The Fund 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.

c) Interest Rate Risk

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

d) Credit Risk

The Fund is exposed to normal credit risks of its customers that exist within the petroleum and utility industries.

12. Commitments

At December 31, 2005 the Fund has commitments to purchase approximately $4,590,000 worth of capital assets and various parts and materials.

13. Related Party Transactions

During the period ended December 31, 2005, the Fund was charged $260,843 (2004 – $241,209) for professional fees by a partnership in which a director of the Fund is a partner.

14. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

Corporate Information

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Greg Kelly, CA
Vice President Finance & CFO

David Calnan, LL.B
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