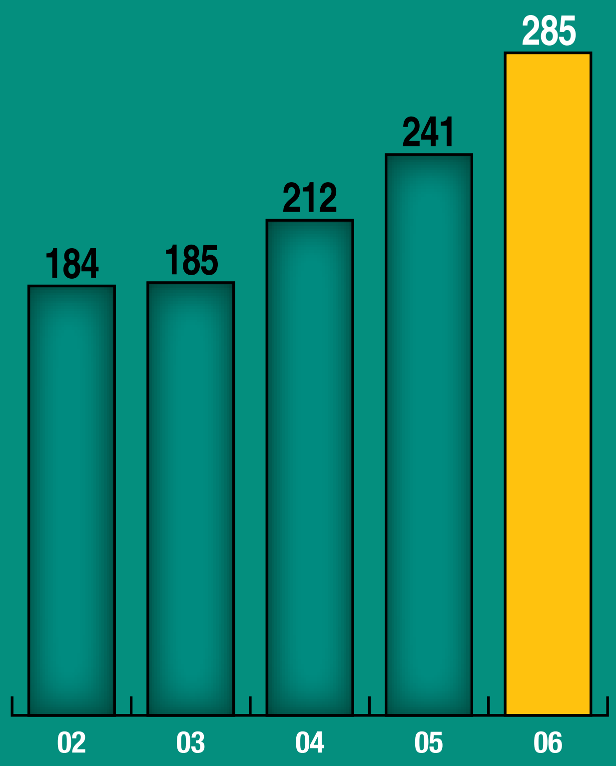
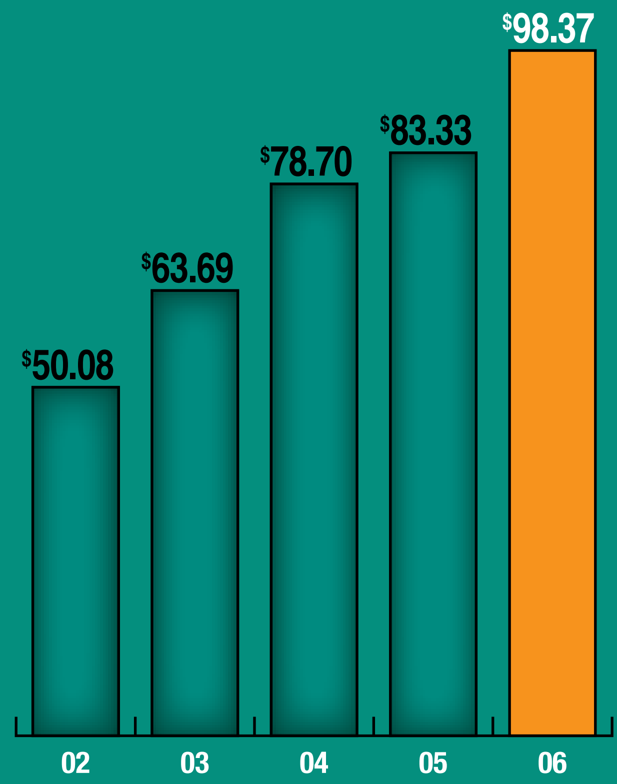
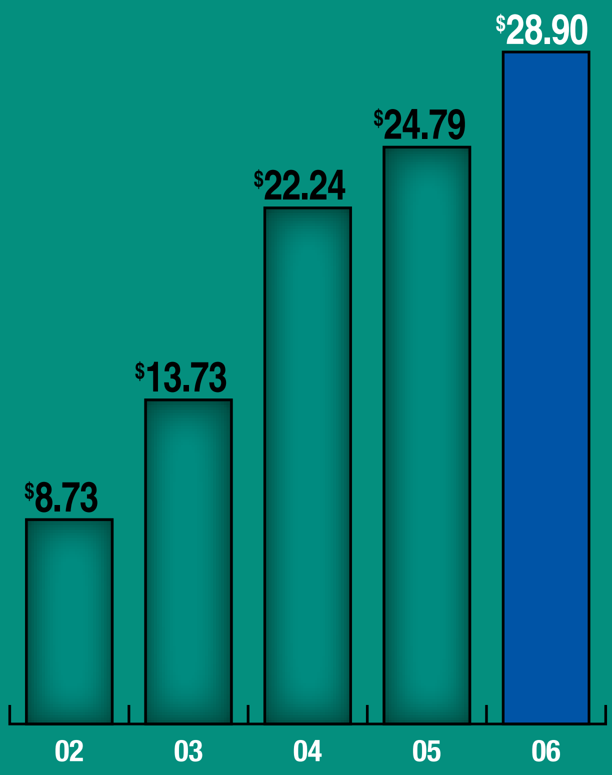
Hydrovac Units



Revenues ($mm)



EBITDA ($mm)



Note: 2004 was a 13 month period.

CONTINUED ORGANIC GROWTH

BADGER INCOME FUND

2006 Annual Report

AGM

The Annual General Meeting of Badger Income Fund Unitholders will be held on April 26, 2007 at 9:00 a.m. MDT 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.

Profile

Badger Income Fund is North America's largest provider of non-destructive excavating services. Badger's business is centered on exposing underground infrastructure to daylight, called Daylighting, using a Hydrovac pressurized water and vacuum system. Daylighting protects vital infrastructure from damage by heavy equipment during excavation. It also takes considerably less time and is less labour intensive than excavating infrastructure by hand.

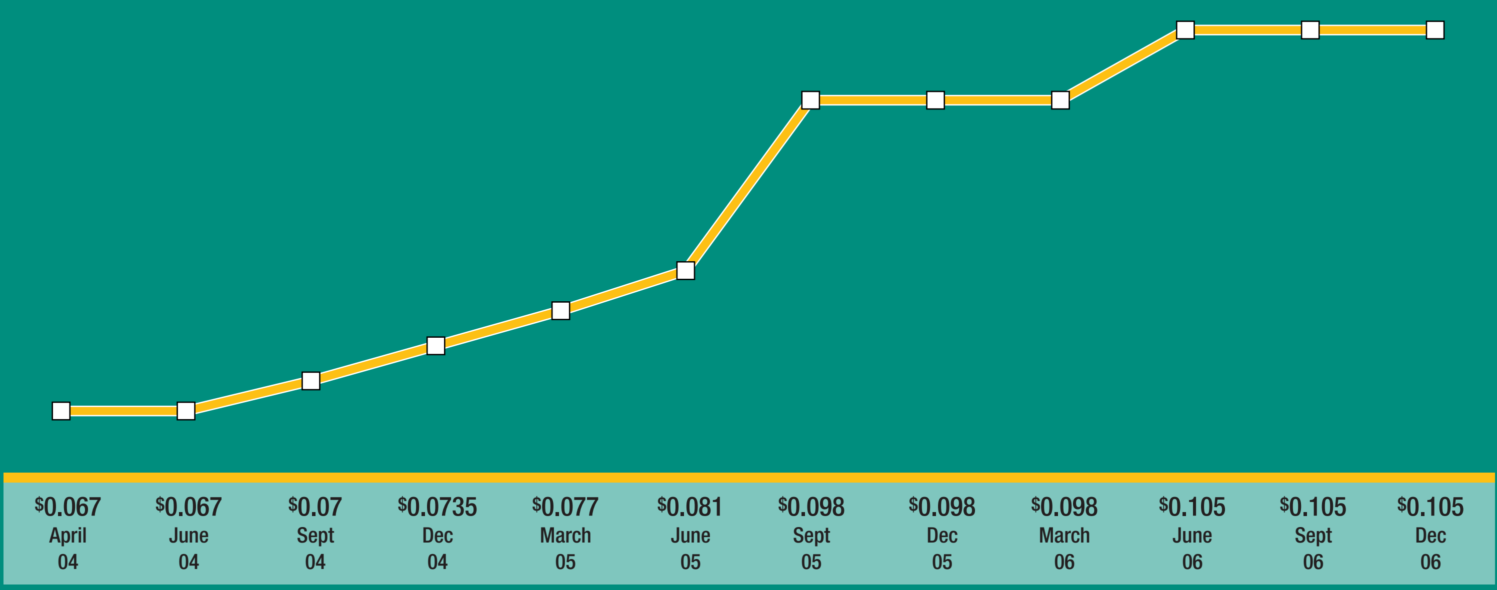
In 2006, Badger achieved 18 percent organic revenue growth due to continued expansion in the Canadian marketplace and better than expected results in the U.S. Badger also built 54 additional hydrovacs (10 trucks were retired from the fleet) and delivered higher distributions totaling $1.232 per unit. Badger issued negligible equity during the year, avoiding dilution in unitholder value.

Badger trades on the Toronto Stock Exchange under the symbol: BAD.UN.

Contents

Steady Organic Growth in 2006

Badger increased its distributions to $1.260 per unit on an annualized basis versus $1.176 per unit on an annualized basis in 2005 as a result of strong organic growth. In 2006, Badger experienced strong revenue growth, added significantly more hydrovac units and expanded its presence in its U.S. markets.



Distributions per Unit per Month

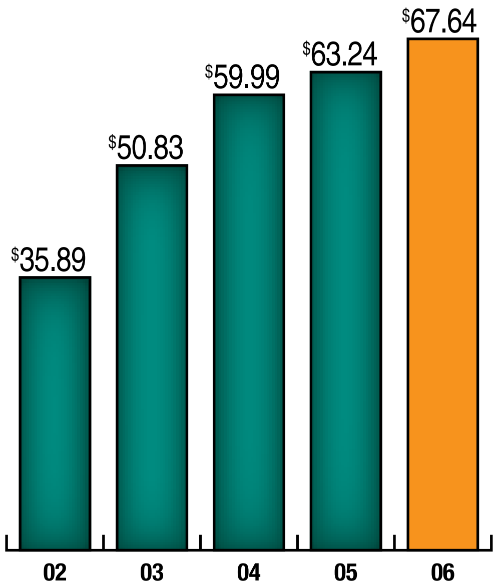
Badger Delivers

Returns	33 months of stable distributions Good unitholder returns over the past three years
Organic Growth	Added 44 net hydrovac units Strong growth in the U.S. market
Capital management	A year-end long-term debt-to-trailing-funds generated from operations ratio of 0.30:1 Negligible equity raised in the past seven years

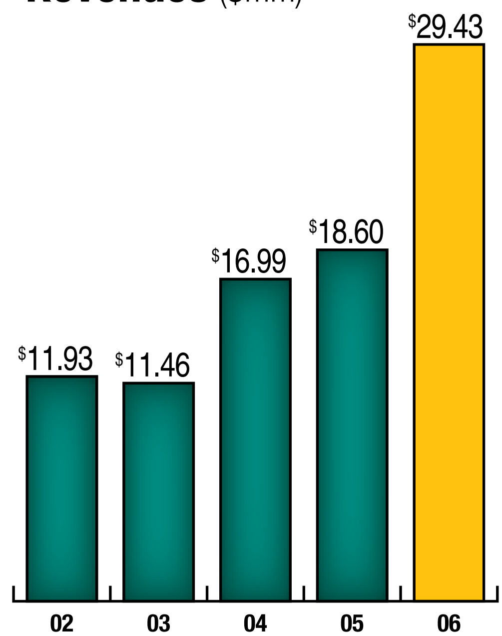
Financial and Operating Highlights

($ thousands, except per unit and total units outstanding information)	**Year ended December 31, 2006**	Year ended December 31, 2005
Revenue	**98,371**	83,332
EBITDA	**28,895**	24,794
Earnings before income taxes	**19,832**	16,980
Taxes		
Current	**687**	173
Future	**2,648**	2,026
Net earnings	**16,497**	14,781
Net earnings per unit – diluted	**1.53**	1.38
Funds generated from operations	**27,855**	24,534
Funds generated from operations per unit – diluted	**2.59**	2.30
Maintenance capital expenditures	**3,170**	1,955
Long-term debt repayments	**109**	1,274
Cash available for growth and distribution	**25,291**	21,778
Cash distributions declared	**13,246**	11,166
Growth capital expenditures	**19,304**	11,776
Total units outstanding	**10,758,618**	10,738,820

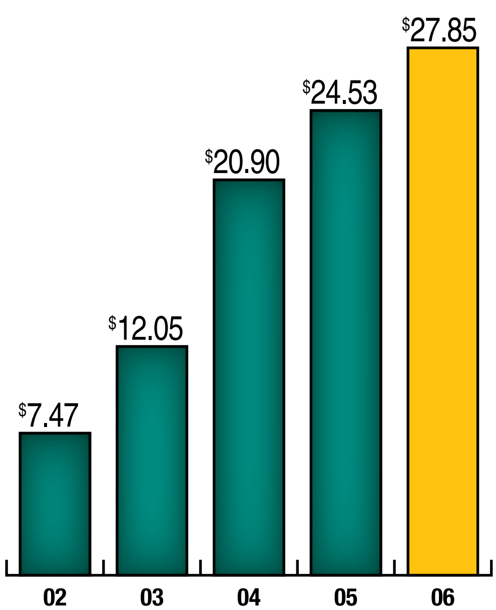
Canadian Daylighting Revenues ($mm)



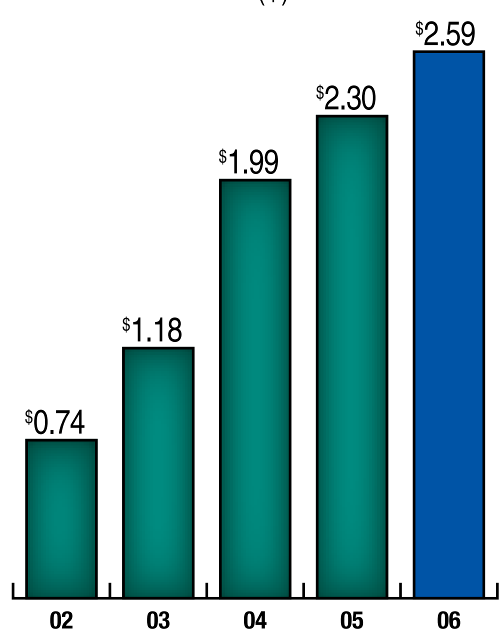
U.S. Daylighting Revenues ($mm)



Funds Generated from Operations ($mm)



Funds Generated per Unit Diluted ($)



Note: 2004 was a 13 month period

President's Message

Badger achieved another year of growth and profitability in 2006. We again realized the benefits of diversification, having operations in four distinct regions. Growth in Canada, for example, was less than in 2005 for various reasons, but our operations in the U.S. produced higher than anticipated growth. Together, these regional trends delivered overall results consistent with our expectations.

The federal minister of finance's announcement on October 31, 2006 proposing changes to the income tax status of income trusts had an adverse effect on the market values of nearly all Canadian income trusts. However, Badger's strategy of low debt, low payout ratio and good organic growth will reduce the impact of the expected legislation. Badger's future remains positive.

Highlights of the year included:

- Overall organic revenue growth of 18 percent. Our internal long-term goal is an average of 10-15 percent growth every year. Some years may be higher or lower, but we anticipate remaining in that range;
- Continued strong growth in the Canadian marketplace. Our Eastern Canadian region added coverage, customers and trucks in 2006. Growth was not at the level of 2005 but met our expectations for the year. Poor weather conditions in the fourth quarter in Eastern Canada had a negative effect as we closed out the year. In the Western Canadian region growth was as forecast for the first three quarters of the year. In the fourth quarter our business slowed in the Western region's northern area, due to unseasonably warm weather, which caused a reduction of industry activity. Activities in the region's southern area remained at a good level;
- U.S. operations had a better year than we anticipated. The increased market coverage and truck placement resulted in revenue growth above our forecasts. Activity levels were strong through year-end, which compensated for the slowdown in Canada;
- Badger added 54 new hydrovacs to the fleet and removed 10 from service, exiting the year with 285 units. This 18 percent growth in units is expected to add to revenue growth in 2007, given similar market conditions; and
- In order for Badger to manage continued growth and for succession-planning purposes, Badger in late summer 2006 added a Vice President of Operations: Derek Dillon. Mr. Dillon is responsible for all of Badger's regional operations.

2007 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 primarily support and in 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. Growth in 2007 will depend on the level of activity in the oil and natural gas infrastructure in this region. Early indicators are that the market will soften in the early part of the year. Our efforts will focus on maximizing customer retention and market share by ensuring that our customer service remains the region's best.

2006 Goals and Results

In last year's annual report we outlined our plan and goals for 2006. Here is how we performed:

1

Continue to expand our customer list and market coverage in the U.S.
Our revenue growth in the U.S exceeded our expectations. We added locations and customers which contributed to our growth in the U.S.

2

Maintain or surpass a $25,000 per truck per month fleet average.
Our fleet average for 2006 was $29,600 per truck per month, due to strong industry activity and a number of longer-duration projects. Revenue per truck is affected by the number of projects we are involved with since utilization is higher on these long duration projects as the trucks are kept busy day after day.

3

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 did evaluate some opportunities in 2006 but were unable to find a service or acquisition opportunity that met both our financial and operating criteria and with which we could successfully negotiate a transaction.

4

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. As an example of our focus we introduced a small Badger unit to work in tight locations where manoeuvrability is important. Improvements in the Badger system mostly involved improved fleet audits.

5

Continue growth in the Canadian business.
We continued overall growth in the Canadian business. However, we saw some slowdown in our business in the fourth quarter, due to unfavourable weather and reduced activity levels in the northern part of Western Canada.

Eastern Canada: The main business in this region centres on utilities and general construction. This region experienced a high amount of growth in 2005 and good growth in 2006. We expect growth to continue at a moderate level of 10-15 percent per year. Actual growth will depend on the strength of the construction and utility businesses in the region during 2007 and the weather during the winter months. A cold winter helps increase utilization of the trucks.

Western United States: The strength of the oil and natural gas industry is important to this region. The forecast for industry strength in this region is uncertain due to fluctuating oil and gas inventory and pricing levels. Current levels of activity are good in the region.

Eastern United States: Badger's revenue in this region is still mostly dependent on major projects. This causes fluctuating revenue depending on the size and scope of projects going on at any particular time. We make every effort to try to continue to work on these projects, such as through gaining maintenance work after the project is completed. Our efforts in 2007 will concentrate on adding customers to our business and adding new locations where we can provide our service.

Conclusion

In 2006 we continued to expand our area coverage and customer base. Overall our growth was above our expectations, with some regions producing better growth than others. Our debt remains at a conservative level, which provides flexibility to deal with growth opportunities or fluctuating markets. Badger has strong prospects to continue growing in 2007 given a healthy overall North American economy and, in particular, an active oil and gas industry. We are carefully following the expected Canadian federal government's legislation concerning the taxation of income trusts. At this date it remains uncertain when the legislation may be introduced, or in what form it might be enacted. We will monitor developments carefully and analyze our options as required, with the continued goal of protecting and enhancing the interests of all our stakeholders.

I would like to thank all our employees for their efforts in 2006 and also the Board of Trustees for their contribution.

On behalf of the Board of Trustees and management,

[Signed] "Tor Wilson"

Tor Wilson
President and Chief Executive Officer
March 20, 2007

2007 Goals

The majority of our goals in 2007 are similar to those in 2005 and 2006.

1

Continue to expand our customer list and market coverage in the U.S.
We made good progress in the U.S last year as we added several locations. Our plan for 2007 is to continue this program. It should be noted that new areas normally reduce utilization until they establish a good customer base. We will continue to try and expand in a manner that this negative impact is minimal.

2

Continue growth in the Canadian business.
We have opportunities to increase our coverage, find new applications and customers to continue our growth in Canada. Obviously as the market matures these opportunities are fewer and more difficult to obtain.

3

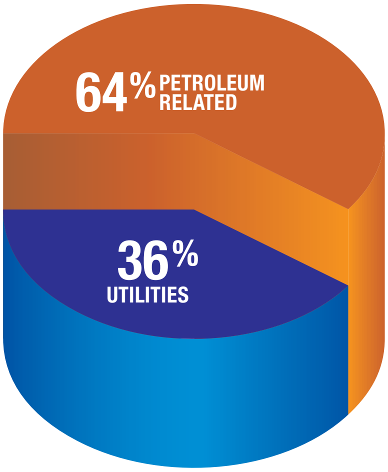
Maintain or surpass a $25,000 per truck per month fleet average.
At $25,000 per truck Badger's business model is effective. Essentially above this level we build trucks for growth and below this level we may look at reducing the level of the build.

4

Continue to focus on core competencies and business processes that will help maintain or increase our competitive advantage.
Same goal as 2006 and this is a continuous goal for Badger.

5

Seek additions to our service or acquisitions which make sense to our core business.
Badger has a good balance sheet with low debt levels which allows the company to look at acquisitions which make sense to the company in the long term.



Badger's Customers

Badger's Regional Offices

Pressurized Water

Hydrovac operators inject pressurized water into the ground using a handheld wand to safely break up soil surrounding underground infrastructure. A specially designed nozzle as well as carefully regulated water pressure and water volume prevents damage to underground lines.

Strong Vacuum

As the saturated ground becomes liquefied it is simultaneously vacuumed from the excavation site through a debris hose and temporarily stored in a debris tank. The process is safer than excavating with a backhoe or other heavy equipment and less labour intensive than digging by hand.

Understanding our Business

Overview

Badger Daylighting is North America's largest supplier of non-destructive excavating services. A winning combination of advanced equipment, exceptional customer service and a solid safety record has earned Badger a spot at the forefront of the hydrovac excavation industry. Badger's high-performance hydrovac systems use pressurized water and a powerful vacuum to clear away soil and debris from underground utilities and pipelines, exposing them to daylight.

Daylighting is the safest way to excavate

Hydrovac systems are recognized as the safest way to excavate areas where the ground is frozen or utilities are spaced closely together. Badger's hydrovac system virtually eliminates the risk of damaging utilities during excavation, which are often inaccurately located and marked on the surface, saving customers repair costs and lengthy delays.

Business Model

Badger's main business model is centred on two distinct entities: Badger Corporate and our Operating Partners. Operating Partners deliver Badger's services and develop business in their local markets. Badger Corporate assists Operating Partners with providing hydrovac services by manufacturing the trucks, leading North American marketing initiatives and offering administrative support. Badger Corporate is also responsible for invoicing customers and distributing service revenue to Operating Partners according to a revenue-sharing formula. Badger Corporate does directly provide hydrovac service in a limited number of markets across North America.

Core Competencies

Badger's organizational strengths provide a sustainable competitive advantage and create value for our customers. These include:

DAYLIGHTING EXPERTISE

Badger continues to drive innovation in its daylighting business to improve the safety and cost-efficiency of delivering its services. Any process improvements or technological innovations are shared with 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 our in-house design capabilities to ensure our units deliver industry-leading performance.

DISTRIBUTION AND MARKET DEVELOPMENT

Badger is taking a measured approach to the development of local markets and service channels throughout North America to sustain its growth. Our corporate marketing initiatives consider the unique characteristics of each market Badger is targeting.

FLEET MANAGEMENT

Badger's Fleet Management Program schedules regular maintenance and overhauls for each hydrovac, ensuring units are reliable and operating at peak performance on the job site.

Daylighting/Potholing

- Visual confirmation of buried lines
- Service and splice pits
- Directional drilling test holes
- Cathodic anode installations
- 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

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 restorations costs
- Safe access to buried infrastructure

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

Our Value Proposition

Safety
Badger's stringent safety guidelines meet the requirements set by major oil and gas companies and large utilities. Our crews are experienced working safely around all types of utilities, including energized cables.

Productivity
The Badger hydrovac truck incorporates many unique features to achieve safety and performance beyond other types of vacuum excavators.

Efficiency and Cost Savings
Badger's trucks deliver the highest excavating efficiency, surpassing the productivity of trailer units, industrial cleaning units or sewer flushing trucks.

All-Season Versatility
Designed for extreme winter conditions, Badger hydrovacs can excavate frozen ground to any depth. Our hydrovac's key components are protected and heated, while a coiled heater produces hot water for liquefying frozen ground.

Badger's Network
Badger's fleet of 285 hydrovac units, the largest operating in the United States and Canada, is available on a 24/7 basis.

Clean, Precise, Professional
Our managers devise the most appropriate solutions for each project at any location. The Badger hydrovac excavates quickly, leaving a clean hole, which requires less restoration.

Remote Excavating
Badger hydrovacs have the capability to excavate at a distance of more than 400 feet from the truck, enabling crews to work in areas with limited access.

Outsourcing
Outsourcing hydrovac projects makes sound economic sense for many customers. Badger provides a well-trained crew and efficient truck to professionally deliver the customer's hydrovac excavation requirements.

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 Annual Information Form for the year ended December 31, 2006. Additional information relating to Badger, including the Fund's Annual Information Form, may be found on SEDAR at www.sedar.com.

This MD&A has been prepared taking into consideration information available to March 20, 2007.

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: the future tax treatment of income trusts; 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, except as required by law.

Financial Highlights

($ thousands, except per unit and total units outstanding information)	**Three months ended December 31, 2006**	Three months ended December 31, 2005	**Year ended December 31, 2006**	Year ended December 31, 2005
Revenue	**25,622**	23,094	**98,371**	83,332
EBITDA (1)	**7,307**	6,845	**28,895**	24,794
Earnings before income taxes	**4,845**	4,670	**19,832**	16,980
Taxes				
Current	**183**	92	**687**	173
Future	**3**	1,110	**2,648**	2,026
Net earnings	**4,659**	3,468	**16,497**	14,781
Net earnings per unit – diluted	**0.43**	0.32	**1.53**	1.38
Funds generated from operations (2)	**6,820**	6,890	**27,855**	24,534
Funds generated from operations per unit – diluted	**0.63**	0.64	**2.59**	2.30
Maintenance capital expenditures (3)	**–**	978	**3,170**	1,955
Long-term debt repayments	**27**	201	**109**	1,274
Cash available for growth and distribution (4)	**6,794**	6,108	**25,291**	21,778
Cash distributions declared	**3,389**	3,144	**13,246**	11,166
Growth capital expenditures (3)	**8,650**	4,252	**19,304**	11,776
Total units outstanding	**10,758,618**	10,738,820	**10,758,618**	10,738,820

The following financial measures do not have any standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP) and may not be comparable to similar measures as presented by other funds or entities:

(1) Earnings before interest, taxes, depreciation and amortization (EBITDA) is a measure of the Fund's operating profitability and is therefore useful to management and investors. EBITDA provides an indication of the results generated by the Fund's principal business activities prior to how these activities are financed, assets are amortized or how the results are taxed in various jurisdictions. EBITDA is calculated from the Consolidated Statements of Earnings and Retained Earnings as gross margin, less selling, general and administrative costs and foreign exchange loss (gain).

(2) Funds generated from operations is used to assist management and investors in analyzing operating performance and leverage. It is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with GAAP. Funds generated from operations is calculated from the Consolidated Statements of Cash Flows and is defined as cash provided by operating activities before changes in non-cash working capital.

(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 December 31, 2006 Badger added 13 units to the fleet and did not remove any from service. As a result, all of the units added during the three months ended December 31, 2006 represent growth capital expenditures, while none of the units represent maintenance capital expenditures. Included in growth capital expenditures is approximately $3.7 million worth of cabs and chassis acquired prior to the end of December. During the year ended December 31, 2006 Badger added 54 units to the fleet, of which 10 are reflected as 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 is used by management to supplement cash flow as a measure of operating performance and leverage. The objective of this measure is to calculate the amount which is available for distribution to unitholders. It is defined as funds generated from operations, 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 for the twelve-month period ended December 31, 2006 versus the twelve-month period ended December 31, 2005. Revenues increased to $98.4 million in 2006 from $83.3 million in 2005, while EBITDA increased to $28.9 million in 2006 compared to $24.8 million in 2005.
- Cash available for growth and distributions increased 16 percent to $25.3 million compared to $21.8 million in 2005. The Fund increased distributions during 2006 to $1.260 per unit on an annualized basis, versus $1.176 per unit on an annualized basis at year-end 2005.
- The Fund put in place a $20 million extendable, revolving credit facility, which replaced the existing $12 million demand operating facility. The facility was used to repay existing demand operating line advances and will assist in financing Badger's capital expenditure program as well as general corporate activities.
- The Fund added 54 new hydrovac units in 2006 and removed 10 from service, exiting the year at 285 hydrovac units. Of the total, 198 units are operating in Canada and 87 in the United States. The growth in hydrovac units was financed from cash generated from operations and existing credit facilities.
- On October 31, 2006 the federal Minister of Finance announced a new tax plan that will affect the future level of taxation of income trusts and corporations. One element of the proposed plan is a tax on non-capital distributions from publicly-traded income trusts, which would make their income tax treatment more like corporations. For existing publicly-traded income trusts, the federal government has proposed a four-year transitional delay in implementing the new rules. The application of the proposed new tax plan would reduce the tax efficiency of publicly-traded income trusts such as Badger. Since the announcement, the federal government has clarified certain matters related to growth and conversion guidelines for income trusts. Badger will continue to monitor these proposed changes to ensure its structure protects the long-term interest of its unitholders. The proposed new tax measures will require in-depth review, examination and assessment pending enactment into tax law.

Selected Annual Financial Information

	2006 (1)	Period ended 2005 (1)	2004 (1)
Revenue ($)	**98,370,896**	83,331,679	78,696,706
Net earnings ($)	**16,496,455**	14,780,994	13,711,874
Net earnings per unit – basic ($)	**1.53**	1.39	1.31
Net earnings per unit – diluted ($)	**1.53**	1.38	1.30
Total assets ($)	**90,192,248**	74,551,335	67,751,424
Total long-term debt ($) (2)	**8,625,052**	1,114,843	2,388,801
Distributions declared ($)	**13,246,474**	11,165,792	8,356,386

(1) The 2004 period reflects results for the 13 months ended December 31, 2004.

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

Overall Performance for the Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005

Results of Operations

Revenues

Revenues were $98.4 million for the year ended December 31, 2006 compared to $83.3 million for the year ended December 31, 2005. 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 $29.4 million in 2006 from $18.6 million in 2005. Revenue growth reflects 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. The other major contributing factor was the increased activity related to oil field service in the United States.

Badger's average revenue per truck per month for 2006 was $29,600, an increase of four percent from the $28,500 generated during 2005.

Included in revenues is $1.8 million of truck placement and franchise fees for 2006, versus $2.2 million for 2005.

Direct Costs

Direct costs were $62.0 million in 2006, an increase of $9.6 million from the $52.4 million recorded in 2005. This is consistent with the increase in revenues.

Gross Margin

Gross margin for 2006 was 37 percent, which is consistent with 2005.

Amortization

Amortization of capital assets was $8.6 million in 2006 or $1.3 million higher than the $7.3 million in 2005. The increase reflects a larger number of hydrovac units in the fleet.

Interest Expense

Interest expense was $0.4 million in 2006 versus $0.3 million in 2005. The higher interest expense is attributable to maintaining a higher balance of debt throughout 2006 compared to 2005. The increased debt was used for growth capital expenditures. The higher interest expense also reflects increased interest rates.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $1.5 million higher at $7.6 million in 2006 compared to $6.1 million in 2005. As a percentage of revenues, selling, general and administrative expenses were 7.7 percent in 2006 versus 7.4 percent in 2005. The increased expenses are due to the following:

- Badger hired additional personnel to support the growth of the business, including a Vice President of Operations in July 2006 who is responsible for all of Badger's regional operations;
- Badger increased compensation in order to retain quality personnel in a competitive labour environment;
- The Fund added professional fees due to the announced internal reorganization, which was postponed due to the government's announcement; and,
- Badger had higher general office costs.

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 (Gain)

The minor foreign exchange loss/gain results from converting the balance sheet and earnings statement related to United States operations into Canadian currency.

Income Taxes

The effective tax rate for 2006 was 17 percent versus 13 percent for 2005. The increase resulted from not recognizing the accounting benefit of using certain United States tax losses during all of 2006 versus only part of 2005, although these losses were used to reduce cash taxes which would have been payable in the United States. The increase in current taxes is due to the increase in Canadian pre-tax income, which is only partially offset by available tax deductions at the operating company level.

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 in 2006 increased to $27.9 million from $24.5 million in 2005, reflecting 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 $9.4 million at December 31, 2006 compared to $8.2 million at December 31, 2005. The increase in working capital is primarily attributable to putting in place a $20 million extendable, revolving credit facility, which replaced the demand operating facility. A portion of the funds received from the extendable, revolving credit facility were used to pay off the balance of the demand operating facility. The increase in accounts payable and accrued liabilities of $5.5 million was the result of acquiring cabs and chassis before year-end 2006, which were valued at approximately $3.7 million. This is further discussed in the MD&A under capital resources – contractual obligations and committed capital investment.

The following table outlines the cash available to fund growth and pay distributions to unitholders in 2006 compared to 2005:

	Year ended December 31, 2006 $	Year ended December 31, 2005 $
Cash provided by operating activities	27,393,449	26,017,210
Add (deduct): net change in non-cash working capital	461,313	(1,483,193)
Funds generated from operations	27,854,762	24,534,017
Add: proceeds on disposal of property, plant and equipment	714,615	473,515
Deduct: required repayments of long-term debt	(108,702)	(1,273,958)
Deduct: maintenance capital expenditures	(3,169,728)	(1,955,340)
Cash available for growth capital expenditures and distributions	25,290,947	21,778,234
Growth capital expenditures	19,303,939	11,776,259
Cash distributions declared	13,246,474	11,165,792

The Fund makes regular monthly cash distributions to unitholders. These cash distributions may be reduced, increased or suspended entirely by the trustees depending on the operations of Badger and the performance of its assets. The actual cash flow available for distribution to holders of Fund units is a function of numerous factors, including the Fund's financial performance; debt covenants and obligations; maintenance and growth capital expenditure requirements for the purchase of property, plant and equipment; and number of units outstanding. It may also be impacted by the future tax treatment of income trusts.

The majority of the cash provided by operating activities was used to finance maintenance and growth capital expenditures and to pay distributions to unitholders. As outlined in the above chart, cash which was not distributed to unitholders was used to finance growth capital expenditures.

If maintenance capital expenditures levels increase in future periods, our cash available for growth capital expenditures and distribution will be negatively affected. Due to Badger's growth rate in recent years, the majority of our hydrovac units are relatively new, with an average age of approximately four and a half years. As a result, Badger is currently experiencing relatively low levels of maintenance capital expenditures. Over time, Badger would expect to incur annual maintenance capital expenditures in an amount that approximates the amortization expense reported in the year. Badger expects continued increases in cash provided by operations and cash available for growth capital expenditures and distributions will be sufficient to fund the maintenance capital expenditures in the future.

Badger is restricted from declaring distributions and distributing cash if it is in breach of the covenants under its credit facility. As at the date of this MD&A the Fund is in material compliance with all debt covenants and is able to fully utilize all existing credit facilities. Badger does not have a stability rating.

Currently the Fund has a $20 million extendable, revolving facility to fund working capital requirements and finance capital expenditures of which $7.6 million was used at December 31, 2006. The Fund will maintain an appropriate mix of flexible debt and equity to finance its maintenance capital expenditures and growth initiatives.

Capital Resources

Investing

In 2006 the Fund spent $22.5 million on property, plant and equipment compared to $12.6 million for 2005. Included in the $22.5 million is the $3.7 million worth of cabs and chassis acquired in December. During 2006, the Fund built 54 new hydrovac units compared to 35 in 2005. The 2006 capital expenditures figure includes maintenance capital expenditures of $3.2 million. Generally speaking, maintenance capital expenditures are incurred during a period to keep the hydrovac fleet at the same number of units, which was 10 for 2006, plus any other capital expenditures required to maintain the existing business.

Financing

During 2006 Badger put in place a $20 million extendable, revolving credit facility to replace its existing $12.0 million demand operating facility. The facility was used to repay existing demand operating line advances and on a go-forward basis will assist in financing Badger's capital expenditure program and general corporate activities. The facility has no required principal repayments. It expires on June 30, 2007 and is renewable at Badger's option for an additional 364-day period. If not renewed, interest is payable on the facility for 364 days, after which the entire amount must be repaid. The facility bears interest at the bank's prime rate or bankers' acceptance rate plus 1.00 percent plus 0 to 200 basis points depending on Badger's ratio of funded debt-to-EBITDA.

During 2006 Badger repaid $0.1 million of long-term debt pursuant to regularly scheduled repayments. As a result of these principal payments and the establishment of the $20 million revolving credit facility, the Fund's long-term debt, including the current portion, was $8.6 million at year-end 2006.

At December 31, 2006 the Fund had a long-term, debt-to-equity ratio of 0.16:1 and a long-term debt-to-trailing-funds-generated-from-operations of 0.30:1. 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, make distributions to unitholders, finance future capital expenditures and execute its strategic plan for the foreseeable future.

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 (assuming the extendable revolving credit facility is not renewed on June 30, 2007):

2007	$ 108,768
2008	7,727,679
2009	108,768
2010	108,768
2011	108,768
Thereafter	462,301
Total	**$ 8,625,052**

In addition to the contractual obligations above, at year-end 2006 the Fund had committed to certain capital expenditures totalling approximately $1.8 million. These capital expenditures will be financed with existing credit facilities and funds generated from operations. There are no set terms for remitting payment for these financial obligations.

Due to uncertainty in truck engine and chassis configurations available to Badger in early 2007 as a result of the U.S. Environmental Protection Agency's (EPA) regulations, the Fund purchased a number of chassis with current engines and configurations for production of daylighting units in early 2007. This amounted to approximately $3.7 million and is in the accounts payable and accrued liabilities figure as at December 31, 2006.

Unitholders' Capital

Unitholders' capital increased by $234,000 to $43.5 million at December 31, 2006. This was the result of issuing the following units:

- 10,660 fund units from the long-term incentive plan as payment for 2005 management performance bonuses;
- 3,250 fund units from the long-term incentive plan as partial payment of 2006 fees to non-management trustees; and
- 5,888 fund units pursuant to the exercise of exchange rights.

Units outstanding at December 31, 2006 were 10,758,618. There was no change to the balance as of March 20, 2007.

Off-Balance Sheet Arrangements

At December 31, 2006 and 2005, the Fund had no off-balance sheet arrangements.

Transactions with Related Parties

Shea Nerland Calnan LLP 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 LLP and is involved in providing and managing Badger's legal services. The total cost of these legal services in 2006 was $240,000 compared to $261,000 for 2005.

Selected Quarterly Financial Information

	Quarter ended 2006				Quarter ended 2005			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Revenues ($)	25,621,658	25,324,030	21,696,318	25,728,890	23,093,735	20,471,322	18,923,312	20,843,310
Net earnings ($)	4,659,784	3,974,958	2,841,459	5,020,254	3,468,113	3,547,545	3,629,935	4,135,401
Net earnings per unit – basic ($)	0.43	0.37	0.26	0.47	0.32	0.33	0.34	0.39
Net earnings per unit – diluted ($)	0.43	0.37	0.26	0.47	0.32	0.33	0.34	0.39

Fourth Quarter Highlights

- As a result of increased activity in the United States, revenue increased to $25.6 million from $23.1 million comparing the three months ended December 31, 2006 to the three months ended December 31, 2005. Badger's United States revenue increased to $8.5 million from $5.6 million quarter-over-quarter due to increased activity related to oil field services. Although revenue increased, the average revenue per truck per month during the fourth quarter was $29,000 which was a reduction from the $30,300 per month for the same period in 2005. The Canadian revenues remained relatively unchanged due to several factors which slowed growth in the quarter. These factors included unseasonably warm weather in north eastern British Columbia, northern Alberta and Ontario and a slowing in the oil and natural gas industry in Western Canada.

- With the increase in revenues, earnings before income taxes increased by four percent for the quarter.

- The Fund added 13 hydrovac units to the fleet and did not remove any from service.

- In December, the Fund put in place a $20 million extendable, revolving credit facility, which replaced the existing $12 million demand operating facility. The facility was used to repay existing demand operating line advances and will assist in financing Badger's capital expenditure program as well as general corporate activities.

- On October 26, 2006 Badger announced it was undergoing an internal reorganization to convert the organizational structure of the Fund to a more modern trust-on-partnership structure. As a result of the federal government's October 31, 2006 announcement the process was put on hold. Badger has received a satisfactory advance tax ruling from the Canada Revenue Agency allowing it to proceed with the internal reorganization. The Fund will continue to monitor these proposed changes and determine if the trust-on-partnership structure is the most appropriate for maximizing unitholder value and accommodating future expansion opportunities.

- Due to uncertainty in truck engine and chassis configurations available to Badger in early 2007 as a result of EPA regulations, the Fund purchased a number of chassis with current engines and configurations for production of daylighting units in early 2007. This amounted to approximately $3.7 million and is in the accounts payable and accrued liabilities figure as at December 31, 2006.

New Accounting Pronouncements

CICA Handbook Section 3855 and Section 3861 – Financial Instruments

These standards will be effective for the Fund's 2007 reporting period and are not expected to have a significant impact on the Fund. These standards address the requirement to record financial instruments at fair value in the financial statements unless certain criteria are met allowing them to be recorded at cost or amortized cost.

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 Amortization of the Hydrovac Units

The Fund currently amortizes 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 Impairment of Long-lived Assets

The carrying value of long-lived assets, which include property, plant and equipment and intangible assets, is assessed for indications of impairment when events or circumstances indicate that the carrying amounts may not be recoverable from estimated cash flows. Estimating future cash flows requires assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment 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.

Estimates of Unit-based Compensation

Compensation expense associated with unit options at grant date is an estimate based on various assumptions such as volatility, annual distribution yield, risk-free interest rate and expected life. Badger uses the Black-Scholes methodology to produce an estimate of the fair value of such compensation.

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 rate 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 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, 2006 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

(Reference is also made to Badger's Annual Information Form.)

Reliance on the Oil and Natural 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 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.

Amortization of Daylighting Units

The Fund currently amortizes 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 business 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

Badger is optimistic that it will continue to grow in 2007. Actual growth amounts are difficult to predict due to uncertainty in the oil and natural gas sector and the weather. Lack of a good level of frozen ground and the timing of spring break-up in Western Canada will have an effect on first-quarter results in Canada. Badger has strengthened its Canadian management team to provide more focus on developing future hydrovac business. The United States business will continue to grow given good economic indicators and an active oil and natural gas segment.

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, 2006 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"

Tor Wilson
President and CEO
March 20, 2007

[Signed] "Greg Kelly"

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, 2006 and 2005 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

[Signed] "Ernst & Young LLP"

Calgary, Canada
March 20, 2007

Ernst & Young LLP
Chartered Accountants

Consolidated Balance Sheets

As at December 31	2006 $	2005 $
ASSETS (notes 4 and 5)		
Current		
Cash	1,319,912	1,190,398
Accounts receivable	22,873,841	19,552,905
Inventories	1,399,661	1,180,291
Prepaid expenses	679,675	504,365
	26,273,089	22,427,959
Property, plant and equipment (note 3)	62,367,823	49,389,459
Intangible assets	1,551,336	1,401,336
Future income taxes (note 8)	–	1,332,581
	90,192,248	74,551,335
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness (note 4)	–	3,497,348
Accounts payable and accrued liabilities	14,951,723	9,457,926
Income taxes payable	671,544	86,505
Distributions payable	1,129,655	1,052,404
Current portion of long-term debt (note 5)	108,768	108,768
	16,861,690	14,202,951
Long-term debt (note 5)	8,516,284	1,006,075
Future income taxes (note 8)	10,259,536	8,418,801
	35,637,510	23,627,827
Commitments (note 12)		
Unitholders' equity		
Unitholders' capital (note 6)	43,488,255	43,254,606
Contributed surplus (note 6)	973,600	826,000
Retained earnings	10,092,883	6,842,902
	54,554,738	50,923,508
	90,192,248	74,551,335

See accompanying notes.

On behalf of the Board:

[Signed] "Glen D. Roane"

Glen D. Roane
Director

[Signed] "David M. Calnan"

David M. Calnan
Director

Consolidated Statements of Earnings and Retained Earnings

For the year ended December 31	2006 $	2005 $
Revenues	**98,370,896**	83,331,679
Direct costs	**61,987,817**	52,383,444
Gross margin	**36,383,079**	30,948,235
Expenses		
Amortization	**8,636,268**	7,313,090
Loss (gain) on sale of property, plant and equipment	**(5,580)**	226,072
Interest		
Long-term	**68,525**	85,746
Current	**363,882**	188,724
Selling, general and administrative (notes 6 and 13)	**7,613,620**	6,142,778
Foreign exchange loss (gain)	**(126,004)**	11,745
	16,550,711	13,968,155
Earnings before income taxes	**19,832,368**	16,980,080
Income taxes (note 8)		
Current	**687,480**	172,970
Future	**2,648,433**	2,026,116
	3,335,913	2,199,086
Net earnings for the year	**16,496,455**	14,780,994
Retained earnings, beginning of year	**6,842,902**	3,227,700
Cash distributions (note 9)	**(13,246,474)**	(11,165,792)
Retained earnings, end of year	**10,092,883**	6,842,902
Net earnings per unit (note 7)		
Basic	**1.53**	1.39
Diluted	**1.53**	1.38

See accompanying notes.

Consolidated Statements of Cash Flows

For the year ended December 31	2006 $	2005 $
OPERATING ACTIVITIES		
Net earnings for the year	16,496,455	14,780,994
Non-cash items		
Amortization	8,636,268	7,313,090
Future income taxes	2,648,433	2,026,116
Unit-based compensation	205,190	176,000
Foreign exchange loss (gain)	(126,004)	11,745
Loss (gain) on sale of property, plant and equipment	(5,580)	226,072
	27,854,762	24,534,017
Net change in non-cash working capital relating to operating activities	(461,313)	1,483,193
	27,393,449	26,017,210
FINANCING ACTIVITES		
Proceeds from units issued	59	89
Proceeds from long-term debt	7,618,911	–
Repayment of long-term debt	(108,702)	(1,273,958)
Distributions to unitholders	(13,169,223)	(12,599,901)
Increase (decrease) in bank indebtedness	(3,497,348)	676,025
	(9,156,303)	(13,197,745)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(22,323,667)	(11,230,263)
Purchase of intangible assets	(150,000)	(1,401,336)
Proceeds on disposal of property, plant and equipment	714,615	473,515
Net change in non-cash working capital relating to investing activities	3,651,420	–
	(18,107,632)	(12,158,084)
Increase in cash during the year	129,514	661,381
Cash, beginning of year	1,190,398	529,017
Cash, end of year	1,319,912	1,190,398
Interest paid	411,383	274,470
Income taxes paid (received)	(421,349)	(1,689,581)

See accompanying notes.

Notes to the Consolidated Financial Statements December 31, 2006 and 2005

1. Nature of Business

The Fund is a Canadian income trust which was established by a Deed of Trust dated February 17, 2004. The Fund, through its wholly-owned subsidiaries, provides non-destructive excavating services primarily to the petroleum and utility industries.

2. Summary of Significant Accounting Policies

Basis of Presentation

These consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements necessarily involves the use of estimates and approximations which have been made using careful 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, with 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.

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.

Intangible Assets

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. The impairment test includes the application of a fair value test, with an impairment loss recognized as an expense when the carrying amount of the assets exceeds its fair value.

Income Taxes

The Fund is a mutual fund trust for purposes of the Income Tax Act (Canada), and is only subject to statutory income taxes on taxable income not distributed to the unitholders. The Fund follows the CICA Handbook EIC-107 guidance, whereby it does not recognize any future income tax assets or liabilities on “temporary differences” (differences between the accounting basis and the tax basis of the assets and liabilities) in the Fund. As at December 31, 2006 the book value exceeds the tax value by $4.7 million.

The consolidated subsidiaries of the Fund are subject to certain capital taxes and corporate income taxes and follow the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on “temporary differences”, and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. Income tax expense is the sum of the Fund's provision for current income taxes and the difference between opening and ending balances of the future income tax assets and liabilities.

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 year.

Diluted net earnings per unit is calculated by adding the weighted average number of units outstanding during the year 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 are issued at market price with the related cost recorded as compensation expense.

Unit-Based Compensation

The Fund established an employee unit option plan (the "Plan") for trustees, directors, officers, employees, and consultants who otherwise meet the definition of an employee of the Fund. The Fund accounts for the options using the fair value method, whereby the fair value of options is determined on the date in which fair value can initially be determined. The fair value is then recorded as compensation expense on a straight-line basis, over the period that the options vest, with a corresponding increase to contributed surplus. When options are exercised, the proceeds, together with the amount recorded in contributed surplus, are recorded to unitholders' capital.

Foreign Currency Translation

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

Monetary assets and liabilities are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Non-monetary items are translated at historical exchange rates. 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.

3. Property, Plant and Equipment

	2006		
	Cost $	Accumulated Amortization $	Net Book Value $
Land	919,037	–	919,037
Land improvements	366,643	334,212	32,431
Buildings	3,436,362	1,581,067	1,855,295
Equipment under construction	5,103,899	–	5,103,899
Shoring equipment	2,168,293	1,111,605	1,056,688
Small tools	39,264	38,788	476
Shop and office equipment	1,414,065	1,049,311	364,754
Trucks and trailers	91,392,059	38,422,370	52,969,689
Leasehold improvements	19,676	14,929	4,747
Computers	239,776	178,969	60,807
	105,099,074	42,731,251	62,367,823

	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
	86,452,828	37,063,369	49,389,459

4. Bank Credit Facilities

In December 2006 the Fund amended its credit facility, replacing the existing $12,000,000 demand operating credit facility with a $20,000,000 extendable revolving credit facility (see note 5). The new facility was used to repay amounts outstanding under the demand operating credit facility.

5. Long-Term Debt

	2006 $	2005 $
Extendable revolving credit facility	**7,618,911**	–
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% (2006 – 6.75%; 2005 – 5.75%)	**1,006,141**	1,114,843
	8,625,052	1,114,843
Current portion	**108,768**	108,768
	8,516,284	1,006,075

During December 2006, the Fund established a $20,000,000 extendable revolving credit facility. The purpose of the credit facility was to repay existing demand operating line advances, finance the Fund's capital expenditure program and for general corporate purposes. The credit facility bears interest, at the Fund's option, at either the bank's prime rate (2006 – 6.00%) or bankers' acceptance rate plus 1.00% (2006 – 5.49%). An additional stand-by fee calculated at an annual rate of 0.20% per annum is also required on the unused portion of the credit facility.

The credit facility has no required principal repayment. The credit facility expires on June 30, 2007 renewable at the Fund's option for an additional 364-day period. If not renewed, interest is payable on the facility for 364 days after which the entire amount is to be repaid.

The commercial mortgage and the extendable revolving credit facility are collateralized by a general security interest over the Fund's assets, property and undertaking, present and future.

Under the terms of the credit facilities, the Fund must comply with certain financial and non-financial covenants, as defined by the bank. Throughout 2006, and as at December 31, 2006, the Fund was in compliance with all of these covenants.

As at December 31, 2006 the Fund has issued letters of credit in the amount of approximately $386,000 (2005 – $388,000). The outstanding letters of credit reduce the amount available under the extendable revolving credit facility.

Principal repayments on the above loans in each of the next five years are as follows (this assumes the extendable revolving credit facility is not renewed on June 30, 2007):

	$
2007	108,768
2008	7,727,679
2009	108,768
2010	108,768
2011	108,768
Thereafter	462,301
	8,625,052

6. Unitholders' Equity

a) Unitholders' Capital

Authorized

Unlimited number of voting Fund units

Issued and outstanding:	Units	Amount $
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 intangible assets	67,141	1,100,000
Rights exercised	8,831	89
Units outstanding as at December 31, 2005	10,738,820	43,254,606
Units issued under the Incentive Plan	13,910	233,590
Rights exercised	5,888	59
Units outstanding as at December 31, 2006	10,758,618	43,488,255

b) Unit Option Plan

In April 2006 the unitholders of the Fund approved the implementation of an employee Unit Option Plan. Under the Unit Option Plan, trustees, directors, officers, employees and consultants of the Fund are eligible to receive fund unit options to acquire fund units, with terms not to exceed 10 years from the date of the grant. The exercise price shall not be less than the closing price of the units traded on the Toronto Stock Exchange on the first date preceding the date of the grant. Under the Unit Option Plan, vesting periods are determined by the trustees of the Fund at the time of the grant. All unit options granted to December 31, 2006 vest equally over a period of three years from the date of grant. The maximum number of fund units to be issued under this plan may not exceed 850,000 fund units.

A summary of the unit option transactions for the year ended December 31, 2006 are as follows:

	Units	Weighted average exercise price $
Outstanding at beginning of year	–	–
Granted	360,000	17.49
Exercised	–	–
Forfeited	(15,000)	17.50
Outstanding at end of year	345,000	17.49

	Options Outstanding			Options Exercisable	
Range of prices	Outstanding at December 31, 2006	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at December 31, 2006	Weighted average exercise price
$17.50	295,000	4.4	$17.50	–	–
$17.45	50,000	4.6	$17.45	–	–

The estimated weighted average fair value at the date of the grant for fund unit options granted for the year ended December 31, 2006 was $2.08 per unit option. The fair value of each unit option grant was estimated on the date of the grant, as determined by using the Black-Scholes option-pricing model with the following assumptions:

Year ended December 31, 2006	Weighted average assumptions
Dividend yield	7.20%
Discount for forfeiture	0
Risk-free interest rate	4.00%
Expected life of options	4 years
Expected volatility factor of the future expected market price of fund units	28.00%

The Fund recorded compensation expense, included as part of selling, general and administrative expenses, of $147,600 with an offsetting increase to contributed surplus in respect of the unit options granted for the year ended December 31, 2006.

c) Long-Term Incentive Plan

The Fund has reserved 200,000 units for issuance under the Incentive Plan. In March 2006, in partial settlement of the incentive bonus accrued at the end of 2005, the Fund issued 10,660 units pursuant to the Incentive Plan with a total market price of $176,000. In April 2006, in partial settlement of 2006 trustee fees, the Fund issued 3,250 units pursuant to the Incentive Plan with a total market price of $57,590. As at December 31, 2006 an amount of $384,312 is included in accounts payable and accrued liabilities in respect of the incentive bonus for 2006, of which $192,156 will be settled by the issuance of units in early 2007. The related compensation costs are included in selling, general and administrative expenses in the accompanying statement of earnings.

d) 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, 2006 the following exchange rights are outstanding:

	December 31, 2006	Weighted average exercise price $	December 31, 2005	Weighted average exercise price $
Outstanding at beginning of year	**8,832**	**0.01**	17,663	0.01
Exercised	**(5,888)**	**0.01**	(8,831)	0.01
Forfeited	**(2,944)**	**0.01**	–	–
Outstanding at year end	**–**	**–**	8,832	0.01

e) Contributed Surplus

As at December 31, 2006 and 2005 respectively, contributed surplus is comprised of the following:

	2006 $	2005 $
Beginning of year	826,000	826,000
Unit-based compensation expense	147,600	–
Reclassification to unitholders' capital on exercise of options	–	–
End of year	973,600	826,000

7. Net Earnings Per Unit

Basic net earnings per unit calculations for the years ended December 31, 2006 and 2005 were based on the weighted average number of units outstanding of 10,751,263 and 10,666,508 respectively. Diluted per unit calculations for the years ended December 31, 2006 and 2005 were based on the weighted average number of units outstanding of 10,751,263 and 10,675,340 respectively.

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:

	2006 $	2005 $
Earnings before income taxes	19,832,368	16,980,080
Statutory income tax rate	33.21%	35.00%
Expected income tax provision	6,586,329	5,943,028
Add (deduct):		
Income attributable to unitholders	(3,930,971)	(3,908,027)
Foreign tax rate differential	382,900	52,845
Utilization of U.S. prior year losses not previously recognized	–	(32,801)
Statutory rate changes	(79,683)	–
Other	377,338	144,041
	3,335,913	2,199,086

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

	2006 $	2005 $
Future income tax assets:		
Non-capital losses	3,424,863	5,330,276
Valuation allowance	(3,424,863)	(3,997,695)
	–	1,332,581
Future income tax liabilities:		
Property, plant and equipment	5,556,994	5,114,835
Partnership income	3,280,637	3,303,966
Reserve for utilized U.S. non-capital losses	1,421,905	–
	10,259,536	8,418,801
Net future income taxes	10,259,536	7,086,220

As at December 31, 2006, one of the Fund's U.S. subsidiaries had net operating losses carried forward of approximately U.S. $7,381,000 which expire as follows:

	$
2020	518,000
2021	3,402,000
2022	3,102,000
2023	359,000
	7,381,000

9. Reconciliation of Accumulated Unitholder Cash Distributions Declared and Paid

	2006 $	2005 $
Cash distributions declared and paid	12,116,819	10,113,388
Cash distributions declared and payable	1,129,655	1,052,404
Accumulated cash distributions at beginning of year	19,522,178	8,356,386
Accumulated cash distributions at end of year	32,768,652	19,522,178

The Fund makes monthly cash 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).

10. Geographic Information

The Fund operates in two geographic/reportable segments providing daylighting services to each of these segments. The following is selected information for the years ended December 31, 2006 and 2005 based on these geographic segments:

	December 31, 2006			December 31, 2005		
	Canada $	U.S. $	Total $	Canada $	U.S. $	Total $
Revenue	68,940,697	29,430,199	98,370,896	64,732,824	18,598,855	83,331,679
Direct costs	43,013,050	18,974,767	61,987,817	40,157,585	12,225,859	52,383,444
Selling, general and administrative	5,135,903	2,477,717	7,613,620	4,109,154	2,033,624	6,142,778
Amortization	6,267,848	2,368,420	8,636,268	5,680,863	1,632,227	7,313,090
Earnings before income taxes	14,193,183	5,639,185	19,832,368	14,337,818	2,642,262	16,980,080
Property, plant and equipment	44,542,937	17,824,886	62,367,823	39,399,044	9,990,415	49,389,459
Intangible assets	1,551,336	–	1,551,336	1,401,336	–	1,401,336
Total assets	63,313,728	26,878,520	90,192,248	58,593,631	15,957,704	74,551,335
Capital expenditures	11,722,715	10,750,952	22,473,667	10,853,981	2,877,618	13,731,599

11. Financial Instruments

a) Fair value

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities, 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, 2006 the Fund has commitments to purchase approximately $1,750,000 worth of capital assets and various parts and materials. There are no set terms for remitting payment for these financial obligations.

13. Related Party Transactions

During the year ended December 31, 2006, the Fund was charged $240,401 (2005 – $260,843) for professional fees by a partnership in which a director of the Fund is a partner. These transactions were incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

14. Comparative Figures

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

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