BADGER
INCOME FUND

2007 QUARTERLY REPORT

CONTINUED ORGANIC GROWTH

For the Three Months Ended March 31, 2007

BADGER INCOME FUND ANNOUNCES RESULTS FOR THE FIRST QUARTER ENDED MARCH 31, 2007 AND ACQUISITION OF BENKO SEWER SERVICE IN EASTERN CANADA

Badger Income Fund (the "Fund" or "Badger") is pleased to announce its first-quarter results. Revenues increased by approximately seven percent to $27.6 million for the three months ended March 31, 2007 from $25.7 million for the same period in 2006, due to increased activity in the United States. However, due to an early spring break-up in Western Canada and added personnel costs, net earnings, EBITDA and funds generated from operations each decreased marginally in the first quarter of 2007 from the same period in 2006. Effective April 1, 2007 Badger purchased Benko Sewer Service, a well-managed company in Eastern Canada that provides sewer maintenance and hydrovac services. This acquisition provides Badger with more complete hydrovac coverage in the southern Ontario market, an additional service offering to customers in that specific region and a strong addition to Badger's management team. Benko's sales in the company's 2006 fiscal year were approximately $4 million.

FINANCIAL HIGHLIGHTS

($ thousands, except per unit and total units outstanding information)	**Three months ended March 31, 2007**	Three months ended March 31, 2006
Revenues	**27,574**	25,729
EBITDA (1)	**7,849**	8,032
Earnings before income taxes	**5,217**	5,916
Taxes		
Current	**187**	185
Future	**801**	711
Net earnings	**4,230**	5,020
Net earnings per unit – diluted	**0.39**	0.47
Funds generated from operations (2)	**7,585**	7,750
Funds generated from operations per unit – diluted	**0.70**	0.72
Maintenance capital expenditures (3)	**667**	635
Long-term debt repayments	**27**	27
Cash available for growth and distribution (4)	**7,015**	7,190
Cash distributions declared	**3,389**	3,158
Growth capital expenditures (3)	**2,153**	4,875
Total units outstanding, end of period	**10,758,618**	10,749,480

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 Fund's daylighting fleet at the same number of units, plus any other capital expenditures required to maintain the existing business. It also includes any costs incurred to enhance the operational life of a daylighting unit. This amount will fluctuate from period-to-period depending on the number of units retired from the fleet. During the three-month period ended March 31, 2007, Badger added 15 units to the fleet and removed two from service. As a result, 13 of the units added during the three months ended March 31, 2007 represent growth capital expenditures, while two of the units represent maintenance capital expenditures. The economic life of a Badger hydrovac is approximately 10 years. The average age of the fleet is approximately four-and-a-half years.

(4) Cash available for growth and distribution 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.

OPERATIONAL SUMMARY

1. Badger's operations in Western Canada posted good results in the first two months of the quarter but activity slowed down abruptly in March due to the timing of this year's spring break-up. The slowdown in March adversely affected overall results for the quarter. This is in contrast to 2006 when March was a record month for Badger due to ideal winter weather conditions.

2. In Eastern Canada results were similar to the first quarter of 2006, which traditionally is the slow quarter in this region.

3. Badger's United States operations provided good revenue, EBITDA and net profit growth in the quarter. Strong results in this area provided a good balance to the slower than usual activity in Western Canada. An additional corporate location was established in the United States East during the quarter, bringing the total to four operating in this region. Early in the second quarter Badger opened an additional corporate location in the United States East. These locations should contribute to the future growth of Badger.

4. Revenue per truck per month was $30,000 for the three months ended March 31, 2007, compared to $32,800 in the first three months of 2006. Badger budgets an overall fleet average of $25,000 per truck per month.

5. Badger had 298 units at the end of the first quarter of 2007, reflecting the addition of 15 daylighting units to the fleet to date in 2007 and the retirement of two units. The Fund had 285 units at December 31, 2006.

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis should be read in conjunction with the attached unaudited interim consolidated financial statements of Badger Income Fund (the "Fund" or "Badger"). Readers should also refer to the audited consolidated financial statements and Management's Discussion and Analysis included in Badger Income Fund's 2006 Annual Report. Additional information is also available on the Fund's website (www.badgerinc.com) and all previous public filings, including the most recently filed Annual Information Form, are available through SEDAR (www.sedar.com).

This Management's Discussion and Analysis has been prepared taking into consideration information available to May 14, 2007.

Disclaimer

This quarterly report contains forward-looking statements subject to various risk factors and uncertainties, which may cause the actual results, performances or achievements of Badger to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to: 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 Badger; industry competition and Badger's ability to attract and retain key personnel. The Fund believes that the expectations reflected in these forward-looking statements are reasonable; however, no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in the quarterly report should not be relied upon. In addition, these forward-looking statements relate to the date on which they are made. Badger disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Results of Operations

Revenues

Revenues of $27.6 million for the three months ended March 31, 2007 were seven percent higher than the $25.7 million in revenues generated during the comparable period of 2006. The increase is attributable to the following:

1. In the United States revenues increased to $9.4 million from $6.0 million period-over-period. This 58 percent increase is due to Badger's continued focus in certain geographical areas and market segments, which has resulted in an increased customer base and demand for hydrovac services. The other major contributing factor was the increased activity related to oil field service in the United States.

2. In Western Canada revenue dropped in March due to the early onset of spring break-up, which compared unfavourably to ideal weather conditions experienced in the first quarter of 2006.

3. In Eastern Canada first-quarter revenue was similar to the comparable period of 2006. This quarter is traditionally the slowest quarter in the East.

Badger's average revenue per truck per month during the three months ended March 31, 2007 was $30,000 versus $32,800 per month for the three months ended March 31, 2006.

Included in revenues is approximately $502,000 of truck placement and franchise fees for the three months ended March 31, 2007, versus $654,000 for the three months ended March 31, 2006.

Direct Costs

Direct costs for the quarter ended March 31, 2007 were $17.3 million compared to $16.1 million for the quarter ended March 31, 2006. This is consistent with the increase in revenues.

Gross Margin

Gross margin was 37.1 percent for the quarter ended March 31, 2007, which is a modest decrease from the 37.6 percent for the quarter ended March 31, 2006.

Amortization

Amortization of property, plant and equipment was $2.4 million for the three months ended March 31, 2007, $0.4 million higher than the $2.0 million for the three months ended March 31, 2006. This increase was the result of having more hydrovac units in the fleet.

Interest Expense

Interest expense was $227,000 for the quarter ended March 31, 2007 versus $68,000 for the quarter ended March 31, 2006. The higher interest expense is attributable to maintaining a higher balance of debt during the first quarter of 2007 than in the first quarter of 2006. The increased debt was used to fund growth capital expenditures.

Selling, General and Administrative

Selling, general and administrative expenses were $2.3 million for the quarter ended March 31, 2007 compared to $1.7 million for the quarter ended March 31, 2006. As a percentage of revenues, selling, general and administrative expenses were 8.3 percent for the first quarter of 2007 versus 6.4 percent for the first quarter of 2006. The increase is due to hiring additional personnel to manage growth, compensation increases required to retain quality personnel in a competitive labour environment, and higher general office costs to support the growth in business. Other factors include added professional fees including additional costs incurred on the announced internal reorganization, which was postponed as a result of the Government of Canada's October 31, 2006 announcement concerning the planned taxation of income trusts.

Income Taxes

The effective tax rate for the quarter ended March 31, 2007 was 19 percent versus 15 percent for the quarter ended March 31, 2006. For the remainder of 2007 the Fund anticipates an effective tax rate of 19 percent.

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

Liquidity

Funds generated from operations for the quarter ended March 31, 2007 decreased to $7.6 million from $7.8 million for the comparable period in 2006 due to decreased activity levels in Western Canada.

The Fund had working capital of $12.7 million at March 31, 2007 compared to $9.4 million at December 31, 2006. The increase is predominantly due to increased revenues resulting in an increase in the Fund's accounts receivable balance. Good levels of cash flow from operations allowed Badger to build new daylighting units, pay down long-term debt and make distributions, while maintaining a healthy working capital position.

The following table outlines the cash available to fund growth and pay distributions to unitholders for the three months ended March 31, 2007:

Cash provided by operating activities	$	5,627,683
Add (deduct): net change in non-cash working capital		1,956,942
Funds generated from operations		7,584,625
Add: proceeds on disposal of property, plant and equipment		124,745
Less: required repayments of long-term debt		(27,192)
Less: maintenance capital expenditures (*)		(667,392)
Cash available for growth capital expenditures and distributions	$	7,014,786
Growth capital expenditures (*)	$	2,152,592
Cash distributions declared	$	3,388,964

(*) Maintenance and growth capital expenditures for the three months ended March 31, 2007 totalled $2,819,984.

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 increase in future periods, the Fund's cash available for growth capital expenditures and distribution will be negatively affected. Due to Badger's growth rate in recent years, the majority of the Fund's 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 that continued cash provided by operations 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 quarterly report the Fund is in 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 $9.5 million was used at March 31, 2007. The Fund will maintain an appropriate mix of flexible debt and equity to finance its maintenance capital expenditures and growth initiatives.

Capital Resources

The Fund spent $2.8 million on property, plant and equipment for the three months ended March 31, 2007, compared to $5.5 million for the three months ended March 31, 2006. The Fund added 15 units to the fleet in the first quarter of 2007, which is the same number as in the first quarter of 2006. The decrease of $2.7 million in capital expenditures was due to Badger incurring certain costs in 2006 which related to the build of the units in the first quarter of 2007.

On April 1, 2007 Badger acquired all of the operating assets and business of Benko Sewer Service, an Ontario-based hydrovac excavation and sewer maintenance service provider. The purchase price of $4.0 million was settled with a cash payment.

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.

Number of Daylighting Units

During the three-month period ended March 31, 2007 Badger added seven units to the Canadian fleet, transferred one to the United States and removed two from service, bringing the total to 202 units operating in Canada as at March 31, 2007. In the United States, Badger added eight units and transferred one from Canada, bringing the total number of units in the United States to 96 at March 31, 2007. Subsequent to the end of the quarter, the acquisition of Benko Sewer Service added three additional hydrovac units to the Canadian fleet as well as four sewer maintenance vehicles and three camera units.

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):

April 1, 2007 to December 31, 2007	$ 81,576
2008	9,588,851
2009	108,768
2010	108,768
2011	108,768
Thereafter	462,300
Total	$ 10,459,031

In addition to the contractual obligations above, as at March 31, 2007 the Fund had committed to certain capital expenditures, including the acquisition of Benko Sewer Service, totalling approximately $5.8 million. These capital expenditures will be financed with existing credit facilities and funds generated from operations, as well as alternative sources of financing as required. There are no set terms for remitting payment for these financial obligations.

Unitholders' Capital

There were no changes to unitholders' capital during the three months ended March 31, 2007.

The total units outstanding at March 31, 2007 were 10,758,618. There was no change to the balance as of May 14, 2007.

Selected Quarterly Financial Information

Quarter ended	**2007**	2006				2005		
	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30
Revenue ($)	**27,574,051**	25,621,658	25,324,030	21,696,318	25,728,890	23,093,735	20,471,322	18,923,312
Net earnings ($)	**4,229,918**	4,659,784	3,974,958	2,841,459	5,020,254	3,468,113	3,547,545	3,629,935
Net earnings per unit – basic ($)	**0.39**	0.43	0.37	0.26	0.47	0.32	0.33	0.34
Net earnings per unit – diluted ($)	**0.39**	0.43	0.37	0.26	0.47	0.32	0.33	0.34

Change in Accounting Policies

As of January 1, 2007, the Fund prospectively adopted CICA Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges". Under the new standards a new financial statement, the Consolidated Statement of Comprehensive Income, has been introduced that provides for certain gains and losses and other amounts arising from changes in fair value, to be temporarily recorded outside the income statement. In addition, all financial instruments, including derivatives, are to be included in the Fund's Consolidated Balance Sheets and measured, in most cases, at fair values, and requirements for hedge accounting have been further clarified. There is no material impact to the Fund's consolidated financial statements as a result of implementing the new standards. As required by the new standards, prior periods have not been restated.

As of January 1, 2007 the Fund adopted revised CICA Section 1506 “Accounting Changes”, which provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or when the change results in more relevant and reliable information. There is no material impact to the Fund’s consolidated financial statements as a result of implementing this new standard.

For a detailed discussion about the accounting policies adopted, please refer to Note 2 of the interim consolidated financial statements for the three-month period ended March 31, 2007.

Internal Control Over Financial Reporting

Internal control over financial reporting (“ICFR”) is designed to provide reasonable assurance regarding the reliability of the Fund’s financial reporting and its compliance with Canadian GAAP in its financial statements. The President and CEO and the VP Finance and CFO have evaluated whether there were any changes to the Fund’s ICFR during the three months ended March 31, 2007 that have materially affected or are reasonably likely to materially affect the ICFR. No such changes were identified through their evaluation.

Business Risks

The Management’s Discussion and Analysis for the year ended December 31, 2006, which is included in the Fund’s 2006 Annual Report, includes an overview on business risks associated with the Fund. Those business risks remain in effect. Reference should also be made to Badger’s 2006 Annual Information Form.

Outlook

The length of spring break-up in Western Canada is expected to have the biggest impact on results for this region during the next quarter. At this time certain areas are going back to work while others are still hampered by poor conditions.

The construction season historically begins in Eastern Canada during the second quarter, which should help increase utilization levels of daylighting units.

Growth in the United States is projected to continue with new locations and more trucks forecast for the year.

Badger continues to build four to five trucks per month.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Review of Interim Financial Statements

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

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

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

Unaudited Consolidated Balance Sheets

	March 31, 2007	December 31, 2006
	$	$
ASSETS		
Current		
Cash	**1,758,937**	1,319,912
Accounts receivable	**24,046,957**	22,873,841
Inventories	**2,129,431**	1,399,661
Prepaid expenses	**785,305**	679,675
	28,720,630	26,273,089
Property, plant and equipment	**62,658,112**	62,367,823
Intangible assets	**1,551,336**	1,551,336
	92,930,078	90,192,248
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**14,790,327**	14,951,723
Income taxes payable	**32,787**	671,544
Distributions payable	**1,129,655**	1,129,655
Current portion of long-term debt	**108,768**	108,768
	16,061,537	16,861,690
Long-term debt	**10,350,263**	8,516,284
Future income taxes	**11,060,186**	10,259,536
	37,471,986	35,637,510
Unitholders' equity		
Unitholders' capital (note 3)	**43,488,255**	43,488,255
Contributed surplus (note 4)	**1,036,000**	973,600
Retained earnings	**10,933,837**	10,092,883
	55,458,092	54,554,738
	92,930,078	90,192,248

See accompanying notes.

Unaudited Consolidated Statements of Earnings and Comprehensive Income and Retained Earnings

	Three Months Ended March 31, 2007 $	Three Months Ended March 31, 2006 $
Revenues	**27,574,051**	25,728,890
Direct costs	**17,342,371**	16,067,101
Gross margin	**10,231,680**	9,661,789
Expenses		
Amortization	**2,391,831**	2,003,646
Loss (gain) on sale of property, plant and equipment	**13,119**	44,324
Interest		
Long-term	**16,483**	16,159
Current	**210,467**	51,409
Selling, general and administrative	**2,295,855**	1,659,083
Foreign exchange loss (gain)	**86,707**	(28,905)
	5,014,462	3,745,716
Earnings before income taxes	**5,217,218**	5,916,073
Income taxes		
Current	**186,650**	184,719
Future	**800,650**	711,100
	987,300	895,819
Net earnings and comprehensive income for the period	**4,229,918**	5,020,254
Retained earnings, beginning of period	**10,092,883**	6,842,902
Cash distributions	**(3,388,964)**	(3,158,258)
Retained earnings, end of period	**10,933,837**	8,704,898
Net earnings per unit (note 5)		
Basic	**0.39**	0.47
Diluted	**0.39**	0.47

See accompanying notes.

Unaudited Consolidated Statements of Cash Flows

	Three Months Ended March 31, 2007 $	Three Months Ended March 31, 2006 $
OPERATING ACTIVITIES		
Net earnings for the period	**4,229,918**	5,020,254
Non-cash items:		
Amortization	**2,391,831**	2,003,646
Future income taxes	**800,650**	711,100
Unit-based compensation	**62,400**	–
Foreign exchange loss (gain)	**86,707**	(28,905)
Loss (gain) on sale of property, plant and equipment	**13,119**	44,324
	7,584,625	7,750,419
Net change in non-cash working capital relating to operating activities	**(1,956,942)**	211,704
	5,627,683	7,962,123
FINANCING ACTIVITIES		
Proceeds from long-term debt	**1,861,171**	–
Repayment of long-term debt	**(27,192)**	(27,124)
Distributions to unitholders	**(3,388,964)**	(3,157,213)
Increase (decrease) in bank indebtedness	**–**	129,936
	(1,554,985)	(3,054,401)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(2,819,984)**	(5,510,065)
Proceeds on disposal of property, plant and equipment	**124,745**	101,848
Net change in non-cash working capital relating to investing activities	**(938,434)**	–
	(3,633,673)	(5,408,217)
Increase (decrease) in cash during the period	**439,025**	(500,495)
Cash, beginning of period	**1,319,912**	1,190,398
Cash, end of period	**1,758,937**	689,903

See accompanying notes.

Notes to the Consolidated Financial Statements

(unaudited)

1. Basis of Presentation and Summary of Significant Accounting Policies

The unaudited interim consolidated financial statements include the accounts of the Fund and its wholly-owned subsidiaries and have been prepared by management in accordance with Canadian generally accepted accounting principles. These unaudited interim consolidated financial statements have been prepared following the same accounting policies and methods of application as the audited consolidated financial statements of the Fund for the fiscal year ended December 31, 2006, except as noted below in note 2. The disclosures provided below are incremental to those included in the Fund's annual audited consolidated financial statements. The unaudited interim consolidated financial statements and the related notes should be read in conjunction with the audited consolidated financial statements and the related notes in the Fund's Annual Report for the year ended December 31, 2006.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end and the results of operations for the interim periods shown in these statements are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the accompanying unaudited interim consolidated financial statements include all adjustments (of a normal recurring nature) necessary to present fairly the consolidated results of its operations and cash flows for the three months ended March 31, 2007 and 2006.

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

2. Changes in Accounting Policies

As of January 1, 2007 the Fund adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges". As required by the new standards, prior periods have not been restated.

The adoption of these standards has had no material impact on the Fund's net earnings or cash flows. The other effects of the implementation of the new standards are discussed below.

Comprehensive Income

The new standards introduce comprehensive income, which consists of net earnings and other comprehensive income ("OCI"). Upon adoption of Section 1530, the Fund revised its "Consolidated Statements of Earnings and Accumulated Earnings" to include the newly required statement of comprehensive income by creating a combined statement.

The adoption of comprehensive income has been made in accordance with the applicable transitional provisions and no amounts have been reclassified to accumulated other comprehensive income.

Financial Instruments

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as 'held-for-trading', 'available-for-sale', 'held-to-maturity', 'loans and receivables', or 'other financial liabilities' as defined by the standard.

Financial assets and financial liabilities 'held-for-trading' are measured at fair value with changes in those fair values recognized in net earnings. Financial assets 'available-for-sale' are measured at fair value, with changes in those fair values recognized in OCI. Financial assets 'held-to-maturity', 'loans and receivables' and 'other financial liabilities' are measured at amortized cost using the effective interest method of amortization. The methods used by the Fund in determining fair value of financial instruments are unchanged as a result of implementing the new standard.

Accounts receivable is designated as 'loans and receivables'. Accounts payable and accrued liabilities, cash distributions payable and long-term debt are designated as 'other financial liabilities'. Risk management assets and liabilities are derivative financial instruments classified as 'held-for-trading'.

Accounting Changes

As of January 1, 2007, the Fund adopted revised CICA Section 1506 "Accounting Changes", which provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or when the change results in more relevant and reliable information. There is no material impact to the Fund's consolidated financial statements as a result of implementing this new standard.

3. Unitholders' Capital

	Units	Amount ($)
March 31, 2007	10,758,618	43,488,255

The Fund declared distributions of $0.105 per unit for each of the months of January, February and March for a total of $3,388,964 million.

4. Unit-Based Compensation

A summary of the unit option transactions for the three months ended March 31, 2007 are as follows:

	Three months ended March 31, 2007	
	Units	Weighted average exercise price $
Outstanding at beginning of period	345,000	17.49
Granted	–	–
Exercised	–	–
Forfeited	(15,000)	17.50
Outstanding at end of period	330,000	17.49

	Options Outstanding			Options Exercisable	
Range of prices	Outstanding at March 31, 2007	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at March 31, 2007	Weighted average exercise price
$ 17.50	280,000	4.1	$ 17.50	–	–
$ 17.45	50,000	4.4	$ 17.45	–	–

The Fund recorded compensation expense, included as part of selling, general and administrative expenses, of $62,400 with an offsetting increase to contributed surplus for the three months ended March 31, 2007.

5. Net Earnings per Unit

Basic per unit calculations for the three months ended March 31, 2007 and 2006 were based on the weighted average number of units outstanding of 10,758,618 and 10,740,478, respectively. Diluted per unit calculations for the three months ended March 31, 2007 and 2006 were based on the weighted average units outstanding of 10,758,618 and 10,749,310, respectively.

6. Segmented Information

The Fund operates in two geographic/reportable segments providing daylighting services to each of these segments. The following is selected information for the three months ended March 31, 2007 and 2006 based on these geographic segments:

	Three months ended March 31, 2007			Three months ended March 31, 2006		
	Canada $	**U.S. $**	**Total $**	Canada $	U.S. $	Total $
Revenues	**18,147,663**	**9,426,388**	**27,574,051**	19,774,695	5,954,195	25,728,890
Direct costs	**11,303,052**	**6,039,319**	**17,342,371**	12,261,659	3,805,442	16,067,101
Selling, general and administrative	**1,403,457**	**892,398**	**2,295,855**	1,113,424	545,659	1,659,083
Amortization	**1,661,652**	**730,179**	**2,391,831**	1,520,456	483,190	2,003,646
Earnings before income taxes	**3,527,800**	**1,689,418**	**5,217,218**	4,770,948	1,145,125	5,916,073
Property, plant and equipment	**42,841,750**	**19,816,362**	**62,658,112**	41,221,736	11,527,970	52,749,706
Intangible assets	**1,551,336**	**–**	**1,551,336**	1,401,336	–	1,401,336
Total assets	**63,711,634**	**29,218,444**	**92,930,078**	63,113,995	17,093,058	80,207,053
Capital expenditures	**278,865**	**2,541,119**	**2,819,984**	3,489,776	2,020,289	5,510,065

7. Comparative Figures

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

8. Subsequent Event

On April 1, 2007, Badger completed the acquisition of the operating assets and business of Benko Sewer Service, an Ontario-based hydrovac excavation and sewer maintenance service provider, for an aggregate purchase price of $4.0 million. The purchase price consideration was comprised of a $4.0 million cash payment.

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