



BADGER DAYLIGHTING

The leading North American provider of non-destructive excavation services.

Q2 INTERIM REPORT

For the seven months ended June 30, 2004

Financial Highlights

With the conversion to an income trust effective March 31, 2004, Badger Income Fund is the successor organization to Badger Daylighting Inc. and the year-end will be changed from November 30, 2004 to December 31, 2004. As a result of the change in year-end, financial information for the seven - and three-month periods ended June 30, 2004 along with comparative information for the six- and three-month periods ended May 31, 2003 is provided.

(\$ thousands, except per unit and total units outstanding information)	Three months ended June 30, 2004	Three months ended May 31, 2003	Seven months ended June 30, 2004	Six months ended May 31, 2003
Revenues	15,488	15,176	38,075	28,079
Net earnings	2,756	1,057	5,665	410
Net earnings per unit – diluted ⁽³⁾	0.26	0.10	0.54	0.04
EBITDA ⁽¹⁾	4,179	3,381	10,495	4,747
Cash flow from operations ⁽²⁾	4,112	2,618	8,945	3,711
Cash flow per unit – diluted ⁽³⁾	0.39	0.26	0.86	0.37
Maintenance capital expenditures ⁽⁴⁾	380	294	380	314
Required debt repayment ⁽⁵⁾	683	1,163	1,999	2,298
Additional debt repayment ⁽⁵⁾	–	–	1,800	–
Cash available for growth and distribution ⁽⁶⁾	3,112	1,503	6,688	1,449
Cash distribution declared	2,139	–	2,139	–
Growth capital expenditures ⁽⁴⁾	2,617	–	6,069	–
Total units outstanding ⁽³⁾	10,640,049	10,053,973	10,640,049	10,053,973

Excluding item (3) the following measures do not have any standardized meaning prescribed by generally accepted accounting principles (“GAAP”) and may not be comparable to similar measures presented by other companies or trusts:

- (1) Earnings before interest, taxes, depreciation and amortization (“EBITDA”) is provided to assist investors in determining the ability of the Fund to generate cash from operations and is calculated from the consolidated statement of earnings and accumulated earnings as gross margin, less general and administrative costs.
- (2) Cash flow from operations is calculated from the consolidated statement of cash flows as net income adjusted for non-cash items charged to the consolidated statement of earnings and accumulated earnings.
- (3) For comparative purposes the weighted average shares outstanding in 2003 have been converted to units on a 2:1 basis; therefore per unit calculations have been restated on this basis.
- (4) Maintenance capital expenditures is defined as the amount incurred during the period to keep the daylighting fleet at the same number of units. It also includes any costs incurred on a daylighting unit to enhance its operational life. This amount will fluctuate from quarter to quarter depending on the number of units retired from the fleet. During the three-month period, Badger added seven units to the fleet and removed one unit from service. As a result six of the units added during the three months ended June 30, 2004 represented growth capital expenditures, while one of the units represents maintenance capital expenditures. During the seven-month period ended June 30, 2004 Badger added 16 units to the fleet, of which one has been reflected as a maintenance capital expenditure. The economic life of a Badger hydrovac is approximately 10 years. The average age of the fleet is just under four years.
- (5) Required debt repayments is defined as the amount of debt which had to be repaid during the period pursuant to regularly scheduled debt repayments. Additional debt repayments represent accelerated payments of debt that were not required to be made during the period.
- (6) Cash available for growth and distribution represents cash flow from operations per the statement of consolidated cash flows, less required debt repayments and maintenance capital expenditures, plus any proceeds received on the disposal of assets.

Operational Summary

1. Wet weather in Western Canada extended the spring shutdown period causing lower overall utilization. However, with this weather behind us revenue is slowly increasing. During this time period in 2003 the Fund benefited from some major projects. The 2004 results reflect a more traditional market and demand for hydrovac services.
2. Eastern Canada also suffered wet weather but overall utilization improved in the second quarter compared to the first four months.
3. Western United States and the United States in general continue to improve over last year. The Western United States is now through the spring shutdown and business is improving. Badger's strategy of targeting key markets and segments is working well.
4. Revenue per truck per month was \$25,600 to date in 2004 compared to \$24,300 in the first six months of 2003. Badger budgets an overall fleet average of \$25,000 per truck per month.
5. With the addition of sixteen daylighting units to the fleet so far in 2004 and the retirement of one unit, Badger had 200 units at the end of the second quarter of 2004. The Fund had 185 units at November 30, 2003.

Increased Monthly Distributions

As a result of solid operational and financial performance, the trustees intend to increase the monthly distributions by approximately 5 percent to \$0.07 cents per unit per month from \$0.067 cents per unit per month commencing with the August distributions, which are payable in September. After analyzing the results, Management and the trustees believe this increase in monthly distributions is sustainable and reflects the performance of the business.

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis should be read in conjunction with the attached unaudited interim consolidated financial statements of Badger Income Fund (the "Fund" or "Badger") and readers should also refer to the audited consolidated financial statements and Management's Discussion and Analysis included in Badger Daylighting Inc.'s 2003 Annual Report as well as the Badger Information Circular dated February 18, 2004. The Fund commenced operations on March 31, 2004. However, to provide unitholders with meaningful financial information and a quarterly comparison, the discussion and analysis of operations and attached unaudited interim consolidated financial statements deal with the period December 1, 2003 to June 30, 2004. The accounts for Badger Daylighting Inc. are included for the period December 1, 2003 to March 31, 2004, on a continuity-of-interest basis as if the Fund had existed at the beginning of the period. The comparative information for the entire period of December 1, 2002 to May 31, 2003, is for Badger Daylighting Inc.

As a result of converting to a trust the year-end will be changed from November 30, 2004 to December 31, 2004; therefore, the following Management's Discussion and Analysis compares the seven months ended June 30, 2004 to the six months ended May 31, 2003 and the three months ended June 30, 2004 to the three months ended May 31, 2003.

Revenue and expense variance analysis in the Management's Discussion and Analysis focuses primarily on the year-over-year changes during the second quarter. However, unless otherwise indicated, year-over-year variances for the seven months ended June 30, 2004 are explained by the same general factors, which contributed to the second quarter variance.

Disclaimer

This quarterly report contains forward-looking statements subject to various risk factors and uncertainties, which may cause the actual results, performances or achievements of Badger to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, fluctuations in the market for oil and gas and related products and services; political and economic conditions; the demand for services provided by Badger; industry competition and Badger's ability to attract and retain key personnel.

Results of Operations

Revenues

Revenues for the three months ended June 30, 2004 increased to \$15.5 million from \$15.2 million for the three months ended May 31, 2003. The 23 percent increase in United States' revenues from \$2.8 million for the three months ended May 31, 2003 to \$3.4 million for the three months ended June 30, 2004 is due to the Fund's continued focus on certain geographical areas and market segments resulting in an increased customer base and added demand for hydrovac services. The 3 percent decrease in Canadian revenues is the result of not having as many major projects ongoing in Western Canada during the three months ended June 30, 2004 as was the case during the three-month period ended May 31, 2003. Also, Western Canada experienced wet weather during the three-month period ended June 30, 2004, which reduced the utilization of the Fund's hydrovac.

Badger's average revenue per truck per month during the three months ended June 30, 2004 was \$25,300 versus \$27,100 per month for the three months ended May 31, 2003. This brings the year-to-date average revenue per truck per month to \$25,600 for the seven months ended June 30, 2004 versus \$24,300 for the six months ended May 31, 2003.

Direct Costs

Direct costs were \$9.9 million for the three-month period ended June 30, 2004, resulting in a 36 percent gross margin versus 33 percent for the three months ended May 31, 2003. This higher gross margin percentage can be attributed to approximately \$470,000 of truck placement and franchise fees being recorded as revenues for the three months ended June 30, 2004, which had no direct costs associated with them. There were no such fees recorded for the three months ended May 31, 2003.

Amortization of Capital Assets

Amortization of capital assets was relatively consistent between periods. The minor increase is the result of having more units in the fleet.

Interest Expense

The reduction in interest expense is due to the significant decrease in long-term debt.

Selling, General and Administrative

Selling, general and administrative costs were \$1.3 million for the three months ended June 30, 2004 compared to \$1.6 million for the three months ended May 31, 2003, which is the result of a continued focus on monitoring costs.

Income Taxes

The Fund recorded an income tax expense of \$0.7 million for the three months ended May 31, 2003 resulting in an effective tax rate of 38 percent. The minimal effective tax rate for the three months ended June 30, 2004 was due to the conversion to a trust structure, which resulted in tax deductible distributions being made for this three month period.

Liquidity

During the three months ended June 30, 2004, the Fund generated cash flow from operations of \$4.1 million.

The following table outlines the cash, which was available to fund growth and pay distributions to unitholders for the three months ended June 30, 2004:

	\$
Cash flow from operations per cash flow statement	4,111,716
Add: proceeds on disposal of capital assets	62,904
Less: required principal repayments of long-term debt	(683,264)
Less: maintenance capital expenditures for the three-month period ^(*)	(379,565)
Cash available for growth capital expenditures and distributions	3,111,791
Growth capital expenditures ^(*)	2,617,449
Distributions paid and declared for the three-month period	2,138,649

^(*) Total of the maintenance and growth capital expenditures for the three months ended June 30, 2004 was \$2,997,014.

Capital Resources

Working capital was \$5.6 million at June 30, 2004, which is lower than the \$6.5 million at November 30, 2003. The reduction was primarily due to the capital expenditures made during the seven months ended June 30, 2004.

The Fund continued to reduce its long-term debt during the three months ended June 30, 2004. The current long-term debt of \$3.8 million is 31 percent of fiscal 2003 cash flow from operations, which is a good indicator of the Fund's low debt.

The Fund believes its healthy balance sheet and unutilized borrowing capacity, combined with cash generated from operations, will provide sufficient capital to fund its ongoing operations, pay for future capital expenditures and fund ongoing distributions to unitholders. If growth capital expenditures continue at the same level the Fund will put in place a debt facility to finance this growth.

Number of Units

During the three-month period ended June 30, 2004 Badger added three new units to the Canadian fleet, transferred five units to the United States and removed one from service, bringing the total to 155 units operating in Canada as at June 30, 2004. In

the United States Badger added four new units bringing the total number of units in the United States to 45 at June 30, 2004, including the five received from Canada.

Contractual Obligations

The Fund intends to meet its contractual obligations through cash flow generated by operating activities. The Fund's only contractual obligations for the next five years relate to repayment of long-term debt and are as follows:

	\$
July 1, 2004 to December 31, 2004	1,379,226
2005	1,284,288
2006	108,768
2007	108,768
2008	108,768
Thereafter	788,615
Total	3,778,433

Other

As with the previous fiscal period Badger has decided to continue with self-insuring against any physical damage it incurs on the hydrovac units due to the high cost of insurance premiums. This decision will be re-evaluated next year as part of the insurance policy renewal process.

Outlook

With the construction season at full speed in Eastern Canada and the Eastern United States and the high level of activity forecast for the petroleum industry the Fund believes the next two quarters for Badger will be strong.

Badger will continue to add trucks at a pace that reflects market activity and demand. The Fund expects to add approximately nine trucks in the third quarter of 2004.

"Signed"

Tor Wilson

President & CEO

August 10, 2004

Review of Interim Financial Statements

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

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

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

Consolidated Balance Sheets

	June 30, 2004 (\$)	Nov. 30, 2003 (\$)
	(Unaudited)	(*)
ASSETS		
Current		
Cash	882,823	2,986,045
Accounts receivable	13,973,343	14,979,088
Inventories	1,449,739	1,297,954
Prepaid expenses	180,468	379,947
	16,486,373	19,643,034
Capital assets	43,003,438	40,172,348
	59,489,811	59,815,382
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	620,000	-
Accounts payable and accrued liabilities	7,232,588	7,946,593
Income taxes payable	80,745	1,168,655
Distributions payable	712,883	-
Current portion of long-term debt	2,239,844	4,034,579
	10,886,060	13,149,827
Long-term debt	1,538,589	3,542,750
Future income taxes [note 2]	2,900,163	4,437,018
	15,324,812	21,129,595
SHAREHOLDERS' EQUITY		
Unitholders' capital [note 3]	41,940,429	41,308,849
Contributed surplus	826,000	826,000
Accumulated cash distributions [note 3]	(2,138,649)	-
Accumulated earnings [note 2]	3,537,219	(3,449,062)
	44,164,999	38,685,787
	59,489,811	59,815,382

(*) These figures were derived from the audited November 30, 2003 consolidated financial statements.

Consolidated Statements of Earnings and Accumulated Earnings

	Three months ended June 30, 2004 (\$)	Three months ended May 31, 2003 (\$)	Seven months ended June 30, 2004 (\$)	Six months ended May 31, 2003 (\$)
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues	15,488,043	15,175,522	38,075,220	28,079,339
Direct costs	9,926,901	10,216,749	24,436,863	19,916,052
Gross margin	5,561,142	4,958,773	13,638,357	8,163,287
Expenses				
Amortization of capital assets	1,540,001	1,517,477	3,505,414	3,078,359
Loss (gain) on sale of capital assets	(1,314)	(71,735)	(9,533)	(18,914)
Interest				
Long-term	52,850	205,810	189,537	440,704
Current	14,326	22,128	23,425	53,836
Selling, general and administrative	1,283,777	1,577,579	2,887,812	3,416,103
Trust reorganization charges [note 2]	98,113	-	255,267	-
	2,987,753	3,251,259	6,851,922	6,970,088
Income before income taxes	2,573,389	1,707,514	6,786,435	1,193,199
Income taxes				
Current	360	535,684	1,337,009	542,003
Future	(182,809)	114,785	(215,581)	240,723
	(182,449)	650,469	1,121,428	782,726
Net earnings for the period	2,755,838	1,057,045	5,665,007	410,473
Accumulated earnings, beginning of period	(539,893)	(8,074,980)	(3,449,062)	(7,428,408)
Reorganization into a trust [note 2]	1,321,274	-	1,321,274	-
Accumulated earnings, end of period	3,537,219	(7,017,935)	3,537,219	(7,017,935)
Per unit information				
Basic [note 4]	0.26	0.10	0.55	0.04
Diluted [note 4]	0.26	0.10	0.54	0.04

Consolidated Statements of Cash Flows

	Three months ended June 30, 2004 (\$)	Three months ended May 31, 2003 (\$)	Seven months ended June 30, 2004 (\$)	Six months ended May 31, 2003 (\$)
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operating Activities				
Net earnings for the period	2,755,838	1,057,045	5,665,007	410,473
Add (deduct) items not affecting cash:				
Amortization of capital assets	1,540,001	1,517,477	3,505,414	3,078,359
Future income taxes	(182,809)	114,785	(215,581)	240,723
Loss (gain) on sale of capital assets	(1,314)	(71,735)	(9,533)	(18,914)
Cash flow from operations	4,111,716	2,617,572	8,945,307	3,710,641
Net change in non-cash working capital	(318,527)	635,459	(35,593)	563,168
	3,793,189	3,253,031	8,909,714	4,273,809
Financing Activities				
Proceeds from shares/units issued	2,246	-	631,580	-
Repayment of long-term debt	(683,264)	(1,163,463)	(3,798,896)	(2,297,733)
Distributions to unitholders	(2,138,649)	-	(2,138,649)	-
Increase (decrease) in bank indebtedness	620,000	(645,028)	620,000	(796,256)
	(2,199,667)	(1,808,491)	(4,685,965)	(3,093,989)
Investing Activities				
Purchase of capital assets	(2,997,014)	(294,283)	(6,449,023)	(314,350)
Proceeds on disposal of capital assets	62,904	342,238	122,052	350,238
	(2,934,110)	47,955	(6,326,971)	35,888
Increase (decrease) in cash				
during the period	(1,340,588)	1,492,495	(2,103,222)	1,215,708
Cash, beginning of period	2,223,411	443,702	2,986,045	720,489
Cash, end of period	882,823	1,936,197	882,823	1,936,197

Notes to Consolidated Financial Statements

1. Basis of Presentation and Summary of Significant Accounting Policies

The Fund was established by Deed of Trust dated February 17, 2004. Pursuant to the terms of the Plan of Arrangement, the Fund acquired all of the common shares of Badger Daylighting Inc. on March 31, 2004. Prior to the Plan of Arrangement the consolidated financial statements include the accounts of Badger Daylighting Inc. and its subsidiaries. After giving effect to the Plan of Arrangement, the consolidated financial statements include the accounts of the Fund and its subsidiaries. For reporting purposes the Fund is considered the continuing entity of Badger Daylighting Inc.

The unaudited interim consolidated financial statements commencing with April 1, 2004 follow the continuity-of-interest basis of accounting as if the Fund had always been a Fund. This basis is intended to provide unitholders with meaningful financial information and a quarterly comparison. As a result certain comparative figures will be reclassified to conform to the current presentation.

Management, in accordance with Canadian generally accepted accounting principles, has prepared the interim consolidated financial statements of the Fund. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements of Badger Daylighting Inc. for the fiscal year ended November 30, 2003. The disclosures provided below are incremental to those included with the annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes in the Badger Daylighting Inc.'s Annual Report for the year ended November 30, 2003.

2. Reorganization

On March 24, 2004 the shareholders and optionholders of Badger Daylighting Inc. approved a Plan of Arrangement under section 193 of the Business Corporations Act (Alberta). The purpose of the Arrangement was to convert Badger Daylighting Inc. from a corporate entity concentrating on growth through reinvestment of cash flow to a growth-oriented trust entity, which will distribute a portion of cash flow to unitholders. The Plan of Arrangement took effect March 31, 2004.

Under the Plan of Arrangement the Fund issued units in exchange for all of the shares of Badger on a 1:2 basis. Prior to the exchange, Badger had 20,830,945 shares outstanding and immediately subsequent to the exchange, Badger Income Fund had 10,415,475 units outstanding.

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

Associated with the reorganization the Fund incurred costs of \$255,267 during the seven months ended June 30, 2004.

3. Unitholders' Capital

Issued

	Units/Shares	Amount (\$)
November 30, 2003	20,171,278	41,308,849
Exercise of options	659,667	629,334
Shares issued at March 31, 2004	20,830,945	41,938,183
Shares cancelled under the Plan of Arrangement	(20,830,945)	(41,938,183)
Units issued under the Plan of Arrangement	10,415,475	41,938,183
Rights exercised	224,574	2,246
Units outstanding as at June 30, 2004	10,640,049	41,940,429

The diluted units outstanding as at June 30, 2004 are 10,666,542.

The Fund declared distributions of \$0.067 per unit for each of the months of April, May and June for a total of \$2,138,649.

4. Net Earnings Per Unit

Basic per unit calculations for the seven and three months ended June 30, 2004 were based on the weighted average number of units outstanding of 10,374,648 and 10,640,049 respectively. Basic per unit calculations for the six and three months ended May 31, 2003 were based on the weighted average units outstanding of 10,053,973 and 10,053,973 respectively. The per unit and number of units/shares have been retroactively restated to reflect the 2:1 conversion of shares into units effective March 31, 2004.

5. Geographic Segmented Information

	Three months ended June 30, 2004			Three months ended May 31, 2003		
	Canada (\$)	USA (\$)	Total (\$)	Canada (\$)	USA (\$)	Total (\$)
Revenues	12,087,897	3,400,146	15,488,043	12,416,415	2,759,107	15,175,522
Direct costs	7,794,029	2,132,872	9,926,901	8,310,666	1,906,083	10,216,749
Selling, general and administrative	868,098	415,679	1,283,777	1,105,217	472,362	1,577,579
EBITDA (*)	3,332,796	846,456	4,179,252	3,168,429	212,765	3,381,194
Amortization of capital assets	1,218,414	321,587	1,540,001	1,212,360	305,117	1,517,477
Income (loss) before income taxes	2,051,640	521,749	2,573,389	1,801,500	(93,986)	1,707,514
Capital expenditures	1,473,609	1,523,405	2,997,014	294,283	–	294,283

	Seven months ended June 30, 2004			Six months ended May 31, 2003		
	Canada (\$)	USA (\$)	Total (\$)	Canada (\$)	USA (\$)	Total (\$)
Revenues	30,358,033	7,717,187	38,075,220	23,133,351	4,945,988	28,079,339
Direct costs	19,444,425	4,992,438	24,436,863	16,229,509	3,686,543	19,916,052
Selling, general and administrative	1,938,692	949,120	2,887,812	2,000,630	1,415,473	3,416,103
EBITDA (*)	8,657,066	1,838,212	10,495,278	5,082,309	(335,125)	4,747,184
Amortization of capital assets	2,817,208	688,206	3,505,414	2,425,674	652,685	3,078,359
Income (loss) before income taxes	5,639,724	1,146,711	6,786,435	2,182,991	(989,792)	1,193,199
Capital assets	34,427,871	8,575,567	43,003,438	33,440,049	7,626,336	41,066,385
Total assets	47,227,503	12,262,308	59,489,811	46,363,549	10,891,170	57,254,719
Capital expenditures	4,811,887	1,637,136	6,449,023	314,350	–	314,350

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

Corporate Information

Trustees

George Watson
President & CEO
Critical Control Solutions Inc.

David Calnan, LL.B.
Partner
Shea Nerland Calnan

Martin Margolis, CA
Chartered Accountant

Glen D. Roane, B.A., MBA
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