

# **Armtec Infrastructure Income Fund**

## **Management's Discussion and Analysis For the three and six months ended June 30, 2008**

The following Management's Discussion and Analysis ("MD&A") of Armtec Infrastructure Income Fund for the three and six months ended June 30, 2008, should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes thereto as well as the audited consolidated financial statements for the year ended December 31, 2007, and accompanying notes thereto and other public disclosures available. In this MD&A, the terms "the Fund" or "Armtec" mean Armtec Infrastructure Income Fund, together with the Fund's portion of its joint venture, Fixon-Armtec Ltd., and its subsidiaries: Armtec Operating Trust, Armtec Exchangeable Partnership, Armtec AEP GP Limited, Armtec Holdings Limited, Armtec Limited Partnership Corp., Armtec Limited Partnership, Durisol Inc., H.J. Rerup Consulting Inc., Mitchell Wood Recycling Inc., A.E. Concrete Precast Products Ltd. and Boucher Precast Concrete Ltd.

This MD&A has been prepared as at July 31, 2008. Additional information regarding the Fund, including continuous disclosure materials such as the Annual Information Form, is available on the Fund's website at [www.armtecincomefund.com](http://www.armtecincomefund.com) or through SEDAR at [www.sedar.com](http://www.sedar.com). The Fund's units trade on the Toronto Stock Exchange under the symbol ARF.UN.

The financial information contained herein has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"); however, reference is made to earnings before interest, taxes (other than capital taxes), depreciation and amortization ("EBITDA") and distributable cash, including references to sustaining and generative capital expenditures that are not a measure of financial performance under Canadian GAAP. The Fund has included this information as it is used by management as a measure of financial performance, and management believes it is used by certain investors and analysts as a measure of the Fund's financial performance. These measures are not necessarily comparable to similarly titled measures used by other income funds or companies and should not be construed as an alternative to net earnings or cash flow from operating activities as determined in accordance with Canadian GAAP or as a measure of liquidity. See the sections entitled "Liquidity, Distributable Cash and Distributions" and "Non-GAAP Measures" for further information.

Unless indicated otherwise, all dollar amounts, except per unit amounts, are expressed in thousands of Canadian dollars. All prior period results have been reclassified to conform to the current presentation.

## **Overview of the Fund**

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated June 15, 2004, as amended and restated on July 27, 2004. The Fund commenced active operations on July 27, 2004.

The Fund is a leading manufacturer and marketer of a broad range of infrastructure products and engineered solutions for application in a diverse cross-section of industries. These include the public infrastructure market and private sector markets such as natural resources, commercial building, residential construction and agricultural drainage. The Fund's Armtec division is Canada's only national multi-material manufacturer specializing in corrugated high density polyethylene pipe, and corrugated steel pipe ("CSP") for drainage applications as well as highly engineered solutions, including bridging products and water management systems. The Con-Force division designs and manufactures a wide range of bridging and standard precast construction products, including the advanced "NU" bridge girder system that allows for some of the longest spans available in precast concrete technology. The Durisol division designs and manufactures highway noise barriers and related infrastructure products, such as retaining walls and acoustic enclosures, and is recognized as the only fully qualified supplier of absorptive material in Ontario.

## Results of Operations

(in thousands of Canadian dollars unless otherwise noted) (unaudited)	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2008</b>	<b>June 30, 2007</b>	<b>June 30, 2008</b>	<b>June 30, 2007</b>
<b>Revenue</b>	<b>\$ 90,758</b>	<b>\$ 49,763</b>	<b>\$ 137,185</b>	<b>\$ 71,611</b>
Cost of sales	62,671	32,752	96,895	48,623
Amortization of property, plant and equipment	1,662	923	3,116	1,793
<b>Gross margin</b>	<b>26,425</b>	<b>16,088</b>	<b>37,174</b>	<b>21,195</b>
As a % of revenue	29.1%	32.3%	27.1%	29.6%
Distribution and warehousing	3,177	2,424	4,406	3,562
Selling, general and administrative	9,538	5,804	18,711	11,253
Amortization of intangible assets	3,066	656	5,845	1,313
<b>Earnings from operations</b>	<b>10,644</b>	<b>7,204</b>	<b>8,212</b>	<b>5,067</b>
Interest and financing expenses	(1,173)	(524)	(2,249)	(859)
<b>Earnings before taxes</b>	<b>9,471</b>	<b>6,680</b>	<b>5,963</b>	<b>4,208</b>
Interest and financing expenses	1,173	524	2,249	859
Total amortization	4,728	1,579	8,961	3,106
<b>EBITDA</b>	<b>\$ 15,372</b>	<b>\$ 8,783</b>	<b>\$ 17,173</b>	<b>\$ 8,173</b>
As a % of revenue	16.9%	17.6%	12.5%	11.4%

## Overview

Armtec Infrastructure Income Fund continues to execute on its growth strategy in 2008. The Fund has previously disclosed its strategy of building diversity across regions, product lines and end-use markets. This strategy is intended to (i) grow a national precast platform, (ii) develop a stronger precast standard products revenue stream, (iii) introduce new products and (iv) seek "bolt-on" opportunities. Consistent with this strategy, the Fund has recently announced several acquisitions which continue to facilitate growth.

A new division was established on June 5, 2008, with the acquisition of the outstanding shares of Durisol Inc. and its related companies ("Durisol"). The Fund now operates in three divisions, primarily serving the infrastructure market. Durisol manufactures highway noise barriers and related highway and infrastructure products, such as retaining walls and acoustic enclosures. The noise barrier products are lighter and more sound absorptive than competing products. The most common application is in highway construction, particularly near residential areas. Durisol has also introduced a new paving slab alternative to resurfacing roadways which is currently being used by the Ministry of Transportation in Ontario. The Fund plans to expand the use of the Durisol products to Western Canada through its existing sales forces and manufacturing capabilities in the west. Durisol was recently awarded a contract on the Golden Ears Bridge in British Columbia, a public private partnership already using both Armtec and Con-Force products. This win is a key first step to expanding the Durisol products in the west.

The Fund's Con-Force division, established in October 2007, will focus on two areas of manufacturing. The structures group will provide an emphasis on precast concrete products such as bridge girders, parking structures, hollow core products and architectural panels. The second group, the concrete products group, will focus on the newly expanded capabilities in products such as utility vaults, septic tanks, manholes, curbs as well as commercial and residential pavers.

Consistent with its strategy of growing a national precast structures platform, on July 31, 2008, the Fund acquired the outstanding shares in Boucher Precast Concrete Ltd. ("Boucher") in Ottawa, Ontario. This acquisition expands products sold to road builders in a time of significant commitment from Provincial governments. Boucher currently supplies many of the Armtec division's existing customers. Products manufactured by Boucher include box culverts, segmental rings used in tunneling, pipe rehabilitation and public transit systems, a growth area for municipalities with growing concerns over emissions and rising fuel costs.

On July 21, 2008, the Fund announced the acquisition of the outstanding shares in 1219316 Alberta Ltd. ("Burnco"), a division of Burnco Rock Products Limited. Burnco is based in Alberta and provides products to both the infrastructure and residential markets. Burnco is a leading producer of industrial wall panels, a new product for the Fund. This acquisition, if closed, also adds the ability to produce hollow core products in Alberta. Previously, Con-Force offered

this product in British Columbia and Manitoba only. Hollow core components offer a lighter product used in sustainable building practices. These operations will provide product for both groups within Con-Force.

In line with the strategy of developing a stronger precast standard products revenue stream within the Con-Force division, the Fund recently announced acquisitions with a standard products focus. The outstanding shares of A.E. Concrete Precast Products Ltd. ("AE Concrete") were acquired on June 27, 2008. A market leader in the British Columbia marketplace, AE Concrete manufactures utility vaults and a versatile precast retaining wall system. In joining the Fund, AE Concrete will benefit from the specialized sales force network already established throughout all of the divisions and will also allow the Fund to leverage its specialized manufacturing capability in British Columbia to grow its standard products market share in the region.

On July 31, 2008, the Fund acquired the assets of the Brooklin Concrete division ("Brooklin") from Clearford Industries Inc. ("Clearford"). Brooklin is a leading manufacturer of septic tanks and other standard products in Ontario. Brooklin also manufactures a unique reflective roof tile used in commercial construction. The panels reflect the sun, and in doing so, reduce the heat in the building thereby reducing operating costs. Brooklin also expands the Fund's retail and residential strategy in Ontario through an extensive product line of paving stones and small retaining wall systems.

Furthering the Funds strategy of seeking "bolt-on" opportunities, on March 20, 2008, the Fund announced the acquisition of Bruce Tile. This acquisition is expected to further increase the Armtec division's geographic coverage in Southern Ontario.

In aggregate, the acquisitions of Bruce Tile, AE Concrete, Brooklin, Boucher, Durisol and the proposed acquisition of Burnco (the "Acquisitions") amount to \$162 million plus transaction costs and certain working capital adjustments. On a pro-forma basis, using historical results not including any anticipated synergies, management currently estimates annual revenues related to these acquired businesses to be approximately \$153 million, approximately \$29 million of EBITDA, with an increase in annual distributable cash levels by approximately \$0.72 per unit or 24%. The Fund also estimates that of total annualized revenues, approximately 60% will be related in infrastructure end uses and approximately 55% of the total will be focused in Western Canada.

In funding these Acquisitions, the Fund increased its debt facility by \$125 million to \$190 million. In addition, the Fund has utilized \$47.5 million of the \$50.0 million available in 2008 under the Normal Growth Guidelines through the issuance of additional units of the Fund by way of a private placement. For the balance of the fiscal year, management will remain focused on the integration of the operations and realizing on the cross divisional opportunities that are now possible through the expanded geographic and product offerings of the Fund.

## **Second Quarter Results**

### **REVENUE**

For the three-month period ended June 30, 2008, revenues totalled \$90.8 million, representing an 82.4% increase over the comparable period in 2007. The Con-Force division, acquired in October 2007, contributed \$34.5 million in revenues as a result of continued strong activity for 2008 in British Columbia and Alberta. Manitoba experienced delays in a large parkade project due to unfavourable weather conditions but production has caught up and returned to the original schedule in the second quarter.

The Armtec division also experienced a modest increase of \$1.0 million in second quarter revenues as compared to the same period in 2007. The improvement in the quarter was attributed to the increase in activity in the building trades market in Central and Eastern Canada offset primarily by a decrease in the forestry sector in Western Canada which continues to be negatively impacted by the severe decline in the U.S. housing market.

International project activity in the second quarter of 2008 was stronger than the same period in 2007 due to a number of projects across the Con-Force and Durisol divisions and an improvement in Armtec division shipment levels.

The new Durisol division was established on June 5, 2008, and has contributed \$5.4 million towards the revenue growth of \$41.0 million during the quarter.

### **EARNINGS FROM OPERATIONS**

Earnings from operations for the three months ended June 30, 2008, were \$10.6 million compared to \$7.2 million, an increase of \$3.4 million or 47.8% over the same period of 2007. Durisol contributed approximately \$0.6 million since the date of acquisition, June 5, 2008. The earnings from operations achieved by Con-Force in the second quarter improved over the first quarter of 2008. In the first quarter, the Manitoba operations were delayed as a result of the

harsh weather. In particular the installation of the Tecumseh parkade was delayed. The facility was fully operational throughout the second quarter, with the parkade project returning to its original schedule. The Armtec division experienced softer earnings in the quarter related to a shift in product mix from the more value added engineered products to more distribution based products which contributed a lower margin on average. Sales levels in Western Canada decreased although were offset by improved sales levels in Central and Eastern Canada.

Gross margin for the three months ended June 30, 2008, was \$26.4 million, an improvement of \$10.3 million over \$16.1 million in 2007 or a 64.3% increase. As a percentage of sales, gross margin decreased to 29.1% as compared to 32.3% in 2007. The decrease in margin percentage was attributed to the Armtec division experiencing a shift in product mix and, to a lesser extent, geographic mix as well as the addition of the Con-Force division whose growth in revenue contributed a slightly lower margin percentage than the Armtec division has historically achieved. Amortization of property, plant and equipment increased to \$1.7 million from \$0.9 million in 2007 due to the addition of Con-Force assets.

Distribution and warehousing costs, which vary with the mix of products sold, were up \$0.8 million over the same three-month period in 2007. During the second quarter, Armtec and Con-Force started work on a joint warehouse location in Alberta.

Selling, general and administrative expenses were \$9.5 million as compared to \$5.8 million for 2007. The largest increase relates to the addition of Con-Force, which represented \$3.5 million of the increase in the quarter. Selling and administrative costs in the Armtec division increased slightly, related to increased sales efforts in Eastern and Western Canada. Additional costs were incurred at the Fund level related to the strengthening of the management team to support the current and future growth in the new multi-divisional organization. A division president was appointed to the Armtec division and the CFO position was filled in March of 2008. As well, a vice-president of information technology was added to support the growing needs of an expanding business platform.

Amortization of intangible assets increased by \$2.4 million over 2007 due principally to the amortization of the intangible assets acquired with Con-Force. Further intangible assets subject to amortization will be allocated on the finalization of the purchase allocation related to Durisol, AE Concrete, Brooklin and Boucher. Amortization of the new intangible assets commence subsequent to the respective acquisition date.

## **Year to Date Results**

### **REVENUE**

Revenues for the six months ended June 30, 2008, were \$137.2 million, an increase of \$65.6 million, or a 91.6% increase over the same period in 2007. Of this increase, \$63.1 million related to the revenues generated by the Con-Force division. The Con-Force division recorded strong revenues relating to the continuation of large projects in each location. The largest contributor was the Golden Ears Bridge which will be completed this year. During the second quarter, Con-Force commenced production on the Calgary Airport parkade – the largest single contract award in Con-Force's history at over \$40 million.

The Armtec division experienced a decrease of \$3.0 million in revenues over the same period of in 2007, entirely due to softness in the first quarter of 2008. The decrease in revenues was due to reduced volumes. The prolonged winter in Central and Eastern Canada shortened the available time for installation of agricultural products. The sales of these products are expected to return in the third and fourth quarters after the fall harvest. This division has also seen a softening in Western Canada; however, it was offset by growth in Central and Eastern Canada. Sales into the forestry sector, particularly in the west, continued to decline and reflect the difficult market conditions related to the current weakness in the U.S. housing market.

A third division was created through the June 5, 2008 acquisition of Durisol. Product sales of \$5.4 million for the month of June were related primarily to absorptive wall panels and a new slab technology used for resurfacing roadways. The slab product is quicker to install than typical applications, reducing the disruption to traffic flow. This product is currently being installed through a project with the Ministry of Transportation in Ontario.

International project activity in 2008 was stronger than the same period in 2007 in all divisions. The Armtec division's International project backlog is returning to historical levels as compared to a downturn in activity in 2007. These projects are generally part of large infrastructure projects and are subject to variability with customer delivery requirements.

### **EARNINGS FROM OPERATIONS**

Earnings from operations for the six months ended June 30, 2008, were \$8.2 million compared to \$5.1 million, an increase of \$3.1 million, or 62.1%, over the same period in 2007. Gross margin for the period was \$37.2 million or

\$16.0 million over 2007 results of \$21.2 million. As a percentage of sales, gross margin decreased to 27.1% as compared to 29.6% in 2007. During the six months, the Armtec division experienced lower margins, principally impacted by lower sales volumes in Western Canada and product mix. The Con-Force division contributed greater earnings based on sales volume though at somewhat lower gross margin levels than generated by the Fund in 2007. Amortization of property, plant and equipment increased to \$3.1 million from \$1.8 million in 2007 due to the addition of Con-Force assets in October 2007.

Distribution and warehousing costs were \$0.8 million higher at \$4.4 million compared to 2007 costs of \$3.6 million. These costs vary with the sales mix of products sold and delivery service requirements to the end customer. The difference is attributable to a joint warehouse location in Alberta which has not realized any additional sales at this time.

Selling, general and administrative expenses were \$18.7 million as compared to \$11.3 million for 2007. The largest increase relates to the addition of Con-Force, which represented \$6.9 million of the increase year to date. Durisol incurred \$0.3 million as it was acquired on June 5, 2008. The Armtec division incurred a slight increase in administrative expenses related to the continued expansion of sales resources in both Eastern and Western Canada. Additional costs were incurred at the Fund level related to the strengthening of the management team to support the current and future growth in the new multi-divisional organization. A division president was appointed to the Armtec division and the CFO position was filled in March of 2008. As well, a vice-president of information technology was added to support the growing needs of an expanding business platform.

Amortization of intangible assets increased by \$4.5 million over 2007 due principally to the amortization of the intangible assets acquired with Con-Force. Approximately \$2.6 million was related to the customer contract intangible. The Fund expects the remaining \$1.0 million of amortization related to this customer contract intangible to be recognized during the remainder of 2008.

## **Results by Segment**

### **ARMTEC DIVISION**

Results of Operations (in thousands of Canadian dollars) (unaudited)	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2008</b>	<b>June 30, 2007</b>	<b>June 30, 2008</b>	<b>June 30, 2007</b>
Revenues to external customers	\$ 50,847	\$ 49,763	\$ 68,621	\$ 71,611
Earnings from operations	\$ 5,899	\$ 7,204	\$ 1,167	\$ 5,067

### **Revenue**

Revenues for the three and six months ended June 30, 2008, were \$50.8 million and \$68.6 million, respectively. Revenues increased \$1.0 million in the quarter. The improvement in the quarter was attributed to the increase in activity in the building trades market and the addition of Bruce Tile in March 2008, partially offset by a significant decrease in the forestry sector in Western Canada which continues to be negatively impacted by the severe decline in the U.S. housing market. Central and Eastern Canada offset the reduction in sales from Western Canada through improved sales in drainage tubing and CSP sales in the quarter. The Bruce Tile acquisition is performing as expected at this time.

Revenues declined by \$3.0 million for the six months ended June 30, 2008 from a year ago due to the weather related softness experienced in the first quarter of 2008. The sales into the agricultural market were slower in the first quarter due to the prolonged winter mainly in Central and Eastern Canada. The long winter significantly shortened the installation period for these products. Sales in this market are expected to improve during the third and fourth quarters when installations commence again in the fall. Engineered project shipments in the six months ended June 30, 2008 were lower than the same period in 2007. Current order backlog indicates a timing shift to later in 2008.

As noted above, the Armtec division has experienced a decline in the forestry sector, particularly in Western Canada. The decline in Western Canada was further exacerbated by unusually challenging weather conditions. To a lesser extent, there has been some slowdown in infrastructure spending, particularly in Western Canada. Infrastructure installations have been delayed in Manitoba and Saskatchewan as a result of multi-year commitments being weighted more towards later years. Delays have been experienced in Alberta's infrastructure spending. Management believes this pause is related to the Alberta Provincial election and the oil and gas royalties that have recently been introduced. Infrastructure spending in Central and Eastern Canada has improved, offsetting declines in the west. International project activity has returned to historical levels in the first half of 2008. Sales of Platon foundation wrap

increased in conjunction with the U.S. distribution agreement with CertainTeed announced in 2007 as well as continued growth of sales in Canada.

### Earnings from Operations

The earnings from operations for the three months ended June 30, 2008, were \$5.9 million representing a \$1.3 million decrease as compared to the second quarter of 2007. Notwithstanding the \$1.0 million increase in revenue, the reduced gross margin associated with changes in product mix and, to a lesser extent, geographic mix contributed to the lower earnings from operations.

The earnings from operations for the six-month period were \$1.2 million, a decrease of \$3.9 million from the \$5.1 million for the same period one year ago. Decreased sales volume in the first quarter of 2008 coupled with product mix changes and associated lower margins have contributed to the reduced earnings.

Distribution and warehousing costs, which vary with the mix of products sold, were up 19.4% over the same six-month period in 2007. During the second quarter, Armtec and Con-Force started work on a joint warehouse location in Alberta which has not realized any additional sales at this time.

Selling, general and administrative expenses were up 1.8% for the six months ended over the prior year due to the expansion of sales resources in both Western and Eastern Canada. The amortization of intangible assets remained consistent with 2007 levels as expected.

### CON-FORCE DIVISION

Results of Operations (in thousands of Canadian dollars) (unaudited)	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Revenues to external customers	\$ 34,491	\$ -	\$ 63,144	\$ -
Earnings from operations	\$ 4,162	\$ -	\$ 6,462	\$ -

### Revenue

Con-Force's revenues in the three and six months ended June 30, 2008, continued to be derived from a number of bridge projects, architectural precast solutions, and parkade projects. For the six months ended June 30, 2008, the division had sales of \$63.1 million, an increase of 28.8% over the \$49.0 million for the six months ended May 30, 2007 as reported in the prospectus. Standard products, particularly precast utility vaults, also contributed to the revenue growth of the division. The Con-Force division revenues continue to be driven by public infrastructure investment in Western Canada. Revenues for the Con-Force division were \$34.5 million for the three months ended June 30, 2008. Revenues were derived from projects such as the Golden Ears Bridge in British Columbia, the Tecumseh parkade in Winnipeg and a large overpass project in Calgary. The Edmonton parkade project is nearing completion in time for the Alberta location to prepare for the production of the recently announced Calgary airport parkade project. At over \$40.0 million, this project is the largest single contract award in Con-Force's history.

The Fund completed the acquisition of AE Concrete on June 27, 2008. In addition, on July 31 2008, Brooklin and Boucher were also acquired. The results of these acquisitions will be reported as part of the Con-Force division commencing in the third quarter. In the future, the Con-Force division will focus operationally in two key areas: the concrete products group and the structures group. AE Concrete and Brooklin will form part of the standard products group, Boucher will be part of the structures group and Burnco will have operations which service both groups.

### Earnings from Operations

Earnings from operations for the three and six months ended June 30, 2008, were \$4.2 million or 12.1% of sales and \$6.5 million or 10.2% of sales, respectively. The operating earnings for the six months ended June 30, 2008, adjusted for the amortization of intangible assets, were \$10.7 million, an improvement of \$3.3 million over the six months ended May 30, 2007.

The earnings from operations achieved in the second quarter improved over the first quarter of 2008 by \$1.9 million. In the first quarter, the Manitoba operations were delayed as a result of the harsh weather. In particular the installation of the Tecumseh parkade was delayed. The facility was fully operational throughout the second quarter, with the parkade project returning to its original schedule. The Con-Force division is continuing with a capital improvement plan to automate part of the production process and allow for a more effective use of the current facilities. The division will continue to make capital improvements throughout 2008 which will allow for a more effective use of manufacturing capabilities. The division continues its implementation of the lean manufacturing

program recognizing some of the benefits in the current year. Selling general and administration expenses are consistent with prior periods.

Associated with the acquisition of Con-Force, significant intangible assets were identified on which amortization commenced during the fourth quarter of 2007. Contracts in backlog were initially assigned an intangible value of \$5.7 million. Based on the underlying contracts recognized in revenues, \$1.3 million was amortized in the quarter while \$4.7 million was amortized since acquisition. The remaining balance of \$1.0 million is expected to be fully amortized in 2008. The Fund acquired \$7.3 million of intangible assets from AE Concrete on which amortization will commence in the third quarter of 2008.

#### **DURISOL DIVISION**

Results of Operations (in thousands of Canadian dollars) (unaudited)	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Revenues to external customers	\$ 5,420	\$ -	\$ 5,420	\$ -
Earnings from operations	\$ 583	\$ -	\$ 583	\$ -

#### **Revenue**

The new Durisol division's revenues have been driven by a combination of healthy public infrastructure investment in Central Canada and the division's focus on expanding its business in the US. Revenues since the acquisition on June 5, 2008 of \$5.4 million were derived from a number of infrastructure projects in Ontario and the United States. Currently, Durisol is supplying a new slab product to the Ministry of Transportation in Ontario to be used in resurfacing the 427 highway. Production is also underway for sound panels to be installed along Highway 403 in Ontario. In June, Durisol was awarded its first project in Western Canada. The newest division joins both the Armtec and Con-Force divisions as suppliers to the public private partnership program for the Golden Ears Bridge in British Columbia. Durisol has been approved as a supplier in both British Columbia and Alberta. In conjunction with the Con-Force operations and utilizing both the Armtec and Con-Force existing sales force, the Fund will be able to expand the Durisol product line outside of its current region.

#### **Earnings from Operations**

Earnings from operations from June 5, 2008, were \$0.6 million or 10.8% of sales. Similar to Con-Force, the Durisol revenue stream is based on projects involving engineered products. In all divisions, engineered product projects generate margins that are in line with the increased value added component. Durisol has recently completed the manufacture of a portable Durisol batch plant which will expand the geographic market in which Durisol technologies can be used to produce its products. The batch plant can be used in Con-Force or other precast locations to manufacture products for use in Western Canada. The freight costs to manufacture and ship from the Durisol facility in Southern Ontario are prohibitive. The Durisol operations have commenced the Fund's lean manufacturing program and will continue to implement changes over the next year to improve operational effectiveness.

The Fund acquired \$13.5 million of intangible assets of Durisol on which amortization commenced subsequent to June 5, 2008. The intangible assets acquired include trademarks and tradenames, licences, customer contracts, and customer lists.

#### **EBITDA**

For the three- and six-month periods ended June 30, 2008, EBITDA was \$15.4 million and \$17.2 million respectively compared to an EBITDA of \$8.8 million and \$8.2 million in the comparable periods of 2007. The increases of \$6.6 million in the quarter and \$9.0 million for the year to date were due to the addition of the Con-Force and Durisol divisions. The Armtec division's results have softened compared to the 2007 second quarter and year to date results in 2007. The Armtec division continues to be negatively impacted by the state of the forestry market, particularly in Western Canada. Earnings have also been impacted by the change in product and geographic mix of its business. First quarter results were also impacted by a shorter installation period related to a longer than normal 2008 winter in Central and Western Canada.

## Interest and Financing Expenses

For the three- and six-month periods ended June 30, 2008, interest incurred on borrowings was \$1.2 million and \$2.2 million, respectively, as compared to \$0.5 million and \$0.9 million during the same periods of 2007. On October 1, 2007, term facility borrowing levels increased \$48.0 million to \$65.0 million related to the Con-Force acquisition. As part of the acquisition, the Fund also assumed capital leases related to certain manufacturing equipment. In June of 2008, the Fund increased term borrowing facilities to \$110.0 million in connection with the acquisitions of Durisol and AE Concrete.

Effective in the second quarter of 2008, the Fund entered into an interest rate swap to mitigate exposure to floating exchange rates. The swap instrument qualifies for and has been designated as a hedge. As a result, the revaluation on the swap is reflected in the Interim Consolidated Statements of Comprehensive Income in the separately disclosed interim financial statements. During the first two quarters of 2007, the Fund incurred nominal losses, reflected as interest expense, on the revaluation of the Fund's interest rate swap. The swap matured during the third quarter of 2007.

## Income Taxes

As the Fund is a mutual fund trust for Canadian income tax purposes, income allocated to unitholders effectively reduces the Fund's current income tax liability to nil. On June 12, 2007, previously announced tax proposals pertaining to the taxation of income distributed by specified investment flow-through trusts ("SIFTs") and the tax treatment of trust distributions by SIFTs to their unitholders were substantively enacted. Management reviewed the impact of the legislation and determined that there were no significant changes for the Fund. Management anticipates that the Fund will not be subject to income tax until January 1, 2011.

On July 14, 2008, the Canadian Department of Finance published draft legislative proposals and explanatory notes which are intended to facilitate the conversion of a SIFT into corporate form without undue tax effects. The draft is open for comment until September 15, 2008. The Fund is currently reviewing the proposed options and has not made any determination on the effect of conversion to corporate form.

Future income taxes are recognized as a result of temporary differences related primarily to the amortization of intangible assets present in the subsidiaries of the Fund. With the October 2007 Con-Force acquisition, the Fund acquired \$53.6 million in intangible assets subject to amortization. Related to the increased intangible balance, a \$1.5 million recovery of future income taxes was recognized during the first six months of 2008 as compared to \$0.4 million for the same period in 2007. With the 2008 acquisitions of Durisol and AE Concrete, the Fund added further intangible assets of \$20.9 million subject to amortization and creates a further future income tax impact.

## Cash Flow

(in thousands of Canadian dollars) (unaudited)	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
<b>Cash provided by (used in):</b>				
Operating activities	\$ 4,054	\$ 105	\$ 704	\$ (3,624)
Investing activities	(37,820)	(2,126)	(52,762)	(2,658)
Financing activities	33,742	2,237	39,479	6,487
Effect of translation adjustment	(3)	(10)	(5)	(10)
Net increase (decrease) in cash	(27)	206	(12,584)	195
Cash – beginning of period	71	15	12,628	26
<b>Cash – end of period</b>	<b>\$ 44</b>	<b>\$ 221</b>	<b>\$ 44</b>	<b>\$ 221</b>

As at June 30, 2008, the Fund's cash and cash equivalents amounted to \$44 as compared to \$221 in the same period in 2007. The Fund had working capital of \$63.5 million at June 30, 2008, an increase of \$28.0 million compared to working capital of \$35.5 million at June 30, 2007 and \$33.8 million over the December 31, 2007 balance. In addition to the impact of the Con-Force acquisition in October 2007 and recent acquisitions of Bruce Tile, Durisol and AE Concrete, working capital has increased as a result of increased accounts receivables and inventories and increased accounts payable and accrued liabilities which are typical in the first half of the year during the higher volume summer months. Management is of the opinion that the level of working capital is sufficient to meet short-term obligations.

### **Operating Activities**

For the three months ended June 30, 2008, the Fund provided \$4.1 million of cash from operations compared to cash provided of \$0.1 million in the comparative 2007 period. Excluding non-cash items, \$14.3 million was generated before the change in non-cash working capital as compared to cash provided of \$8.3 million in the second quarter of 2007. This improvement was primarily the result of higher earnings, excluding the higher amount of the amortization of property, plant and equipment and intangible assets, due to the inclusion of Con-Force results. Non-cash working capital utilized \$10.2 million of operating cash flow, representing an increase of \$2.0 million over the \$8.2 million used in the prior year. Contributing to the increased working capital is the Armtec division's continuing inventory build, increase in receivables associated with higher revenue levels, being partially offset by increased payables. The Fund continues with its lean manufacturing initiatives intended to improve management of working capital, and this will remain a focus in 2008.

For the six months ended June 30, 2008, the Fund provided \$0.7 million of cash from operations compared to utilizing \$3.6 million in the comparable period in 2007. Cash of \$15.1 million was generated before the change in non-cash working capital for the six months ended June 30, 2008, which was an increase of \$7.6 million over the balance of the comparable period in 2007. Earnings derived from the Con-Force division accounted for the increase. Non-cash working capital utilization increased \$3.3 million from 2007 to \$14.4 million in 2008. This was a result of both Armtec and Con-Force division's increased accounts receivable and inventory balances partially offset by related accounts payables. The building of inventory and receivables during the period relates to the timing and volume of shipments normally expected during the heavier summer months.

In accordance with the seasonal trends of the business, the Fund anticipates building working capital during the first half of 2008 to meet the increased business volumes during the installation season. The Fund's revolving credit facility is available to finance these temporary increases in working capital needs.

### **Investing Activities**

The Fund utilized \$37.8 million related to investing activities during the second quarter of 2008 as compared to the \$2.1 million of cash used in the second quarter of 2007. Of this increase, \$33.6 million was utilized for the acquisitions of Durisol and AE Concrete.

Purchases of property, plant and equipment totalled \$3.8 million for the second quarter of 2008 with \$1.0 million considered sustaining capital expenditures and \$2.8 million considered generative for the purposes of determining distributable cash. Generative expenditures included \$1.9 million related to the purchase of an HDPE corrugator during the second quarter. The \$2.1 million utilized for the purchase of property, plant and equipment in 2007 related to \$1.8 million used for the acquisition of manufacturing equipment leased to the joint venture in South Korea.

The Fund utilized \$52.8 million related to investing activities during the six-month period ending June 30, 2008 as compared to the \$2.7 million of cash used in the same period of 2007. The increase in investing activities for the six months ended June 30, 2008, was primarily the result of the \$10.1 million acquisition of certain tangible and intangible assets and liabilities of Bruce Tile in March 2008, the \$19.0 million acquisition of Durisol in June 2008, and the \$19.7 million acquisition of AE Concrete in June 2008. Of this total consideration, \$41.8 million was paid in cash and \$7.0 million in exchangeable partnership units. Contingent consideration in the form of cash, to a maximum of \$15.0 million, may be payable to the vendor of Durisol in 2010 upon the acquired company exceeding a set threshold of earnings before interest, taxes, depreciation and amortization adjusted for certain inclusions and exclusions. The purchase prices for these acquisitions are subject to adjustment and are expected to be finalized in 2008. The final payment of \$5.9 million, related to the October 1, 2007 acquisition of Con-Force, was also made during the first quarter of 2008.

Purchases of property, plant and equipment totalled \$4.6 million for the first half of 2008 with \$1.5 million considered sustaining capital expenditures with \$0.5 million related to an expansion of a Con-Force plant and development center and \$1.9 million related to the purchase of an HDPE corrugator which are both considered generative for the purposes of determining distributable cash. Of the \$2.4 million of net funds expended in the first half of 2007, \$1.8 million related to property, plant and equipment for the South Korean joint venture, and \$0.2 million for the Armtec division ERP implementation.

### **Financing Activities**

Cash provided by financing activities in the second quarter of 2008 was \$33.7 million as compared to \$2.2 million provided in the second quarter of 2007. During the second quarter of 2008, distributions paid to unitholders amounted to \$7.1 million. In the same period for 2007, \$4.0 million was paid to unitholders. Regular distributions paid in the period were \$0.15 per unit for April 2008 and \$0.17 per unit for May and June 2008 compared to \$0.13 per unit per month for the three months ended June 30, 2007. Distributions were paid on units outstanding which ranged

from 15,163,907 to 15,372,762 for the second quarter of 2008 compared to 10,304,000 units outstanding for 2007. Additional exchangeable partnership units were issued as partial consideration to the vendors of Durisol. During the second quarter of 2008, the Fund borrowed \$41.8 million on its credit facility, with associated bank financing fees of \$1.0 million, compared with borrowings of \$6.3 million on its credit facility during the same quarter of 2007. The funds utilized from the credit facility during the second quarter of 2008 assisted with the acquisitions of Durisol, AE Concrete and funding increases in working capital.

During the six-month period ended June 30, 2008, financing activities provided \$39.5 million compared to \$6.5 million provided in 2007. During the first half of 2008, distributions paid to unitholders amounted to \$16.3 million, of which \$4.7 million was declared and payable in respect of 2007 but paid in January 2008. Regular distributions paid during the six months ended June 30, 2008, were \$0.15 per unit from January 2008 through April 2008 and \$0.17 per unit for May and June 2008. These distributions were paid on units outstanding which ranged from 15,076,073 to 15,372,762 for the first half of 2008 compared to 10,304,000 units outstanding for 2007. Additional exchangeable partnership units were issued as partial consideration to the vendors of Bruce Tile and Durisol. The first six months of 2007 saw \$9.8 million paid on 10,304,000 units outstanding at \$0.13 per unit. During the first half of 2008, the Fund borrowed \$56.8 million on its credit facility, with associated bank financing fees of \$1.0 million, as compared to \$16.3 million drawn in 2007. In addition to funding the increase in working capital, the Fund drew on its credit facilities to fund the acquisitions of Bruce Tile, Durisol, and AE Concrete.

## **Outlook**

The full year impact of the Con-Force acquisition, and the partial year impact of the Durisol and other concrete product business acquisitions, will support the growth of the Fund in 2008. In addition, the industry outlook for the Fund remains positive. Government support for infrastructure spending continues, as a result of the multi-year commitments announced in recent provincial budgets and some new commitments in the 2008 programs. In 2008, the Con-Force division will begin the production of a parkade for the Calgary airport. At over \$40 million, this contract is the single largest contract award in Con-Force's history.

Support for the infrastructure spending across the country is coming from various levels of government and continues to be augmented through the use of public-private partnerships. With anticipated price increases, the number of government projects may be reduced to remain within budgeted spends. Infrastructure spending for repairs and improvements, announced by the Central and Eastern Canadian provincial transportation ministries, is expected to strengthen in 2008 over 2007.

Activity in Canada's commercial and residential building market continues to be above historical levels but housing starts may decline in 2008. New products introduced through the Brooklin acquisition and the proposed Burnco acquisition, in conjunction with the Platon distribution agreement is anticipated to mitigate the impact of a slow down in new home construction. Commercial building activity remains strong, particularly with the activity in Western Canada.

No improvements are anticipated in the natural resources markets in the near term. Investment activity in energy and mining projects is expected to continue, with essentially consistent results expected year over year. The record declines in the US housing market have contributed to a significant decline in the demand for forestry products.

The agriculture market was negatively impacted in the first quarter of 2008 as a result of an abbreviated spring installation season. Consequently, a number of projects have been delayed until the fall installation period. The historically high level of crop prices and increased demand for commodities is translating into increased demand for yield enhancing drainage products.

International sales are generally part of large infrastructure projects and shipments tend to vary depending on customer delivery requirements. The Fund experienced a lower level of activity in 2007; however, this market is returning to historical levels and is now supported by the addition of the Con-Force and Durisol divisions.

In 2008, unprecedented raw material increases are expected in all areas of the Fund's business. Steel costs have increased as a result of cost pushes from suppliers in the industry. More recently, increases have been posted for resins. Aggregates, cement and rebar have been impacted as well. Historically, the Fund has been able to pass changes in raw material pricing through to the customers. The Fund expects to be able to continue with this pricing strategy to mitigate the impact on results.

The majority of the Fund's revenues and purchases are in Canadian dollars. Some products are sold and purchases are sourced internationally in U.S. dollars, however management does not expect the strengthening Canadian dollar to have a significant impact on the results of the Fund.

## **Liquidity, Distributable Cash and Distributions**

### **Definition and Disclosure of Distributable Cash**

Distributable cash is not a defined term under Canadian GAAP but is determined by the Fund as cash flows provided by or used in operating activities adjusted for items not affecting cash, expenditures required to sustain the current state of operations, and the change in non-cash working capital.

Management believes that distributable cash is a useful supplemental measure of performance as it provides investors with an indication of the amount of cash available for distribution to unitholders of the Fund by adjusting for the seasonality of the business via changes in non-cash working capital, adjusting for sustaining capital purchases and other items not affecting cash. Investors are cautioned, however, that distributable cash should not be construed as an alternative to using net earnings and comprehensive earnings as a measure of profitability or the statement of cash flows. Furthermore, the Fund's method of calculating distributable cash may not be comparable to other similarly named calculations from other issuers.

Distributable cash for the three and six months ended June 30, 2008, and 2007 is as follows:

(in thousands of Canadian dollars except unit and per unit amounts)	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Cash provided by (used in) operating activities</b>	<b>\$ 4,054</b>	<b>\$ 105</b>	<b>\$ 704</b>	<b>\$ (3,624)</b>
Items not affecting cash:				
Non-cash post-employment benefits expense	(26)	(10)	(50)	(21)
(Loss) gain on sale of property, plant and equipment	1	(14)	(23)	(21)
Items not affecting operating cash flow:				
Sustaining capital purchases	(1,493)	(145)	(2,045)	(368)
Net increase in non-cash working capital	10,247	8,225	14,428	11,074
<b>Distributable cash</b>	<b>\$ 12,783</b>	<b>\$ 8,161</b>	<b>\$ 13,014</b>	<b>\$ 7,040</b>
Distributable cash per unit	\$ 0.84	\$ 0.79	\$ 0.86	\$ 0.68
Distributions declared	\$ 7,466	\$ 4,018	\$ 14,263	\$ 8,037
Distributions declared per unit	\$ 0.49	\$ 0.39	\$ 0.94	\$ 0.78
Net earnings for the period	\$ 10,271	\$ 6,950	\$ 7,480	\$ 4,638
Basic and diluted earnings per unit	\$ 0.67	\$ 0.67	\$ 0.49	\$ 0.45
Weighted average number of units outstanding	15,223,580	10,304,000	15,155,618	10,304,000

Distributions declared for the six months ended June 30, 2008, were \$14.3 million, representing a 77% increase over distributions for the same period in 2007. Distributions declared for the six months ended June 30, 2008 and 2007, exceeded both distributable cash and net earnings. Distributions declared for the three months ended June 30, 2008 and 2007, were less than both distributable cash and net earnings. Distributions declared are more than cash provided by operating activities during the three and six months ended June 30, 2008 and 2007, due to the timing of working capital and seasonality. Historically, by the fourth quarter of each year, cash provided by operating activities will exceed distributions declared and distributable cash.

The Fund does not believe that any portion of the distributions declared would be regarded as an economic return of capital as Armtec's business is seasonal and historically the annual cash provided by operating activities is in excess of annual distributions as is the case in December each year. The Fund expects cumulative cash provided by operating activities for the foreseeable future to exceed cumulative future distributions. The Fund expects cumulative distributions for the foreseeable future to exceed net earnings as a result of the nature of the temporary differences between net income and taxable income present in the Fund's subsidiaries.

### **Working Capital Policies and Effects on Distributable Cash**

The Fund's business is seasonal, with sales and working capital ramping up during the spring months and generally reaching peak levels during the summer months. This build-up of working capital during the first half of the year is comprised of receivables and inventory which are partially offset by increased accounts payable. This increase in working capital ensures that the Fund can meet the increased business volumes during the summer months. As such, cash provided by operating activities and distributable cash may be negative until receivables are collected and inventory is reduced, partially offset by the settlement of accounts payable. This results in the Fund historically generating positive cash from operating activities nearing the end of the fiscal year. In order to maintain consistent

distributions and sufficient working capital, the Fund historically draws upon its revolving credit facility during the first three quarters.

### Relationship between Distributions, Investing and Financing Activities

The changes in working capital affecting cash provided by or used in operating activities, when supplemented by net borrowings under the revolving portion of the credit facility, provide cash for the Fund's regular distributions to unitholders. Other changes affecting the Fund's ability to fund the regular distributions are investments in capital assets including property, plant and equipment and intangible assets as well as business acquisitions. When the Fund makes an acquisition, funds may be drawn from credit facilities, additional Fund units may be issued, or a combination of both may be used.

The Fund's unfunded post-employment obligation was \$6.8 million and \$6.6 million at June 30, 2008, and 2007, respectively. Post-employment obligations are expected to be settled as incurred. See sections entitled "Capital Resources" and "Off-Balance Sheet Arrangements" of this interim MD&A, as well as the Fund's annual MD&A for a five-year schedule of "Contractual Obligations" for information about items that may affect distributable cash in the future.

### Definition, History and Management Strategy of Productive Capacity

The Fund's business is seasonal and, due to the nature of the products, is often affected by the distance from manufacturing location to installation site. The Con-Force and Durisol divisions are less affected by seasonality but are significantly affected by proximity to the customer and as a result, the Con-Force and Durisol facilities may not run at full capacity depending on the timing of construction contracts underway. As a result, management does not measure total productive capacity.

The Fund continues to make investments in regional productive capacity by investing in sustaining capital expenditures, defined as those investments in property, plant and equipment and intangible assets that allow the current capacity of the Fund to be maintained. Management estimates that approximately \$4.5 million will be spent on an annual basis for sustaining capital expenditures in order to maintain the Fund's manufacturing ability. Management expands productive capacity by making generative capital purchases, defined as those investments in property, plant and equipment and intangible assets that add to manufacturing capacity or further diversify the Fund's product offerings.

The following table reconciles the purchases of sustaining and generative capital expenditures to the purchases of property, plant and equipment, as well as intangible assets:

(in thousands of Canadian dollars)	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Sustaining capital purchases	\$ 1,493	\$ 145	\$ 2,045	\$ 368
Generative capital purchases	2,790	2,046	3,106	2,169
<b>Total purchases</b>	<b>\$ 4,283</b>	<b>\$ 2,191</b>	<b>\$ 5,151</b>	<b>\$ 2,537</b>
Purchase of property, plant and equipment	\$ 3,786	\$ 2,113	\$ 4,579	\$ 2,362
Purchase of intangible assets	497	78	572	175
<b>Total purchases</b>	<b>\$ 4,283</b>	<b>\$ 2,191</b>	<b>\$ 5,151</b>	<b>\$ 2,537</b>

Generative expenditures for the six months ended June 30, 2008, included: \$0.5 million related to an expansion of a Con-Force plant and development center, \$1.9 million related to the purchase of an HDPE corrugator. For the six months ended June 30, 2007, the generative related expenditures included \$1.8 million related to manufacturing equipment to be used in the South Korean joint venture.

Management's strategy of investing in productive capacity is intended to both maintain existing capacity and to continually seek ways to improve operational efficiencies in the Fund's various operations. Initiatives affecting productive capacity are the continuous improvements obtained from lean manufacturing activities.

See the section entitled "Risks and Uncertainties" of the Fund's annual MD&A for further information about various risks potentially affecting productive capacity.

## Financing Strategy and Compliance with Financial Covenants

The Fund has credit facilities that provide the cash resources necessary to fund changes in working capital needs and to fund the Acquisitions. Armtec anticipates continually renewing current debt facilities as required. See the section entitled "Capital Resources" for further discussion.

The Fund regularly monitors current and forecasted debt levels to ensure debt covenants are not violated. Generally, the most significant financing restrictions relate to permitted investments and distributions, as well as the maintenance of certain financial ratios. These financial ratios are primarily linked to trailing operating earnings before interest, taxes, depreciation and amortization adjusted for certain inclusions and exclusions. The Fund must maintain a ratio below 2.75:1 of debt over adjusted earnings as referred above from January 1 through September 30 or 2.25:1 from October 1 to December 31 in any fiscal year. The Fund must also maintain a ratio above 4:1 of adjusted earnings as referred to above over interest paid. The Fund meets all financial covenants for the six months ended June 30, 2008.

On June 12, 2007, previously announced tax proposals pertaining to the taxation of income distributed by SIFTs and the tax treatment of trust distributions by SIFTs to their unitholders were substantively enacted. Currently, the Fund does not pay tax on income which it distributes to its unitholders. As a result of the SIFT legislation passed in June 2007, the Fund is subject to certain equity growth restrictions referred to as Normal Growth Guidelines. These Guidelines limit the amount of unitholders' equity that can be issued by the Fund from November 1, 2006 to December 31, 2010 and is generally limited to the greater of 20% of the market capitalization of the Fund on October 31, 2006 or \$50.0 million per year. Any unused balance up to the 20% yearly limit may be carried forward for use in future periods. If the Normal Growth Guideline is exceeded at any time, the Fund may be subject to tax prior to 2011.

During the first quarter of 2008, the balance of normal growth capital was reduced by \$2.0 million related to exchangeable partnership units issued for the acquisition of certain tangible and intangible assets and liabilities of Bruce Tile. During the second quarter of 2008, the balance of normal growth capital was reduced by \$5.0 million related to exchangeable partnership units issued for the acquisition of Durisol.

On July 10, 2008, the Fund issued additional units for gross proceeds of \$37.5 million. On July 31, the Fund issued exchangeable partnership units of Armtec Exchangeable Partnership ("AEP") for a value of \$3.0 million as part of the consideration in the purchase of the Brooklin assets from Clearford. As a result of these transactions, the Fund has an allowable capital growth balance of \$2.5 million available for the balance of 2008.

In addition to capital growth restrictions, the Fund also monitors its foreign ownership levels. In order to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Accordingly, the Declaration of Trust provides that at no time may non-residents of Canada be the beneficial owners of more than 49% of the units then outstanding. The Fund is in compliance with this requirement as at June 30, 2008.

## Distributions

The Fund makes regular monthly distributions to unitholders of record on the last business day of each month. Distributions to unitholders were calculated and recorded when declared.

Regular distributions of \$7.5 million and \$14.3 million were declared for the three- and six-month periods ended June 30, 2008 as compared to \$4.0 million and \$8.0 million for 2007. Distributions are financed through cash from operations and seasonal borrowings under the revolving credit facility.

Distributions for the six months ended June 30, 2008, were as follows:

(in Canadian dollars)

<b>Period</b>	<b>Record date</b>	<b>Payment date</b>		<b>Per unit</b>		<b>Amount</b>
January 2008	January 31, 2008	February 15, 2008	\$	0.15	\$	2,261,411
February 2008	February 29, 2008	March 14, 2008		0.15		2,261,411
March 2008	March 31, 2008	April 15, 2008		0.15		2,274,586
April 2008	April 30, 2008	May 15, 2008		0.15		2,274,586
May 2008	May 31, 2008	June 15, 2008		0.17		2,577,864
June 2008	June 30, 2008	July 15, 2008		0.17		2,613,370
			\$	<b>0.94</b>	\$	<b>14,263,228</b>

## **Capital Resources**

On June 5, 2008, the Fund completed amendments to its existing term and revolving credit facilities. The principal amendments to the credit facilities include increased term financing from \$65.0 million to \$110.0 million and available revolving facilities increased from \$40.0 million to \$50.0 million. Both the term and revolving credit facilities maturity dates remain in October 2012. Proceeds from the increased term facility, net of transaction costs, were used to finance the acquisitions of Durisol and AE Concrete during the second quarter of 2008.

On July 31, 2008, the Fund completed further amendments to its term and revolving credit facilities. The principal amendments include increased term financing from \$110.0 million to \$140.0 million, to assist in the acquisition of Brooklin, Boucher and Burnco. A new non-revolving bridge term facility of \$50.0 million will be used to assist in the acquisition of Burnco. Revolving credit facilities remain unchanged at \$50.0 million. Maturity dates for both the term and revolving credit facilities remain in October 2012 whereas the bridge term credit facility matures in June 2009. Also in conjunction with the acquisition of Boucher, the Fund has issued a \$5.0 million promissory note to the vendor, payable over a five-year period.

The facilities each bear interest at rates that depend on certain financial ratios of the Fund and vary in accordance with borrowing rates in Canada and the United States. There are no mandatory principal repayments on the term or revolving facilities prior to maturity. Effective during the second quarter of 2008, the Fund entered into an interest rate swap on \$32.5 million of its term credit facility converting the interest expense from a floating interest rate to a fixed interest rate of 3.85% plus pricing margin.

As at June 30, 2008, as required under the credit agreement, the \$110.0 term facility was fully drawn. Approximately \$5.0 million was outstanding on the revolving credit facility. Due to the seasonality of the business, the revolving credit facility is available to support temporary cash requirements for working capital and distributions.

Although anticipated cash distributions to unitholders are not commitments at December 31, 2007, the Fund is required to distribute an amount equal to or greater than its taxable income in order to eliminate the Fund's income tax liability.

## **Financial Instruments**

The Fund has classified its cash and cash equivalents as held for trading, accounts receivable and long-term notes receivable have been classified as loans and receivables, and accounts payable and long-term debt have been classified as other financial liabilities.

The Fund may from time to time enter into forward contracts to reduce its exposure to fluctuations in foreign exchange rates. The Fund may also enter into interest rate swaps to reduce its exposure to fluctuations in interest rates. The Fund may elect to apply hedge accounting for foreign exchange forward contracts and interest rate swaps if certain criteria are met, including documenting all relationships between hedging instruments and hedged items, as well as the Fund's risk management objective and strategy for undertaking various hedge transactions. The Fund may, at its discretion, decide to discontinue hedge accounting for a specific hedging relationship by terminating the designation of that relationship. If the Fund does not account for forward contracts and interest rate swaps using hedge accounting, these instruments are measured at fair value with changes recognized in earnings and the fair value of the interest rate swap would be included with current assets.

The Fund does not use any derivative financial instrument for speculative purposes.

The carrying values of cash and cash equivalents, accounts receivable, other assets, and accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturity of these financial instruments. The fair value of the Fund's long-term debt approximates its carrying value as it bears interest at a floating rate.

The Fund has exposure to movements in interest rates primarily due to the Fund's credit facilities that vary in accordance with borrowing rates in Canada and the United States. The Fund may enter into interest rate swaps to mitigate the exposure to floating interest rates. Effective during the second quarter of 2008, the Fund entered into an interest rate swap on \$32.5 million of its term credit facility converting the interest expense from a floating interest rate to a fixed interest rate of 3.85% plus pricing margin. As this swap qualifies for accounting as a cash flow hedge and the Fund has designated the swap as a hedge, the fair value of unrealized gains and losses were included in other comprehensive income, net of taxes, and the fair value of the interest rate swap designated as a hedge was included in long-term debt. As at June 30, 2007, the Fund applied mark-to-market accounting for its interest rate swap as it

did not apply hedge accounting to this instrument. The swap in place as at June 30, 2007, was outstanding for \$11.5 million and the contract was revalued to market value resulting in an unrealized loss of \$15 and \$28 for the three- and six-month periods ended June 30, 2007. In 2007, the fair value of the interest rate swap not designated as a hedge was included in current assets.

The Fund's exposure to interest rate risk relates to the floating interest rate on its term and revolving credit facilities. The increase or decrease in interest expense for the six-month period ending June 30, 2008 on the floating rate credit facilities could amount to \$297 for each 1% absolute change in the floating interest rate.

## **Off-Balance Sheet Arrangements**

The Fund's off-balance sheet arrangements consist of operating leases. Operating leases are for facilities and vehicles with market terms and do not have associated escalating rent or make-good provisions that materially affect the interim consolidated financial statements. Please see note 19 of the separately issued annual consolidated financial statements of the Fund for the year ended December 31, 2007 for disclosure of these operating leases.

## **Outstanding Unit Data**

An unlimited number of trust units may be issued by the Fund pursuant to the Fund's Declaration of Trust. Each unit is transferable and represents an equal, undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund. Each unit entitles the holder to one vote at all meetings of unitholders. As at July 31, 2008, there are 15,561,800 trust units issued and outstanding.

An unlimited number of exchangeable partnership units may be issued by AEP. Holders of each exchangeable partnership unit are entitled to distributions from AEP at the same time and in the same amount, on a unit-for-unit basis, as distributions made by the Fund to holders of Fund units. Each exchangeable partnership unit is non-transferable without approval from the general partner, Armtec AEP GP Limited. All exchangeable partnership units are of the same class with equal rights and privileges. Exchangeable partnership units are non-voting. Exchangeable partnership units are exchangeable into units of the Fund on a unit-for-unit basis provided that the holder of the exchangeable partnership units must exchange at least 1/6 of the original number of exchangeable partnership units issued to such holder at a time.

As part of the consideration for the acquisition on June 5, 2008, of the shares of the Durisol companies, the Fund issued 208,855 exchangeable partnership units of AEP. On March 20, 2008, 87,834 exchangeable partnership units of AEP were issued as part of the consideration for certain tangible and intangible assets and liabilities of Bruce Tile. These exchangeable partnership units or, in the event that such units are exchanged for units of the Fund; are subject to the terms of an escrow arrangement entered into in connection with these acquisitions.

On July 31, 2008, the Fund acquired all of the tangible and intangible assets and liabilities of Brooklin. As part of the consideration paid, 117,371 exchangeable partnership units of AEP were issued. Two-thirds of these securities will be held in escrow for two years to support Clearford's obligations under the purchase agreement.

As at July 31, 2008, there are 1,481,133 exchangeable partnership units issued and outstanding.

As at July 31, 2008, the number of units issued and outstanding using the "if converted" method is 17,042,933.

## **Summary of Quarterly Results**

(in thousands of Canadian dollars except for unit data)

(unaudited)

<b>Three months ended</b>	<b>Jun 30, 2008</b>	<b>Mar 31, 2008</b>	<b>Dec 31, 2007</b>	<b>Sep 30, 2007</b>	<b>Jun 30, 2007</b>	<b>Mar 31, 2007</b>	<b>Dec 31, 2006</b>	<b>Sep 29, 2006</b>
Revenue	\$ 90,758	\$ 46,427	\$ 70,768	\$ 63,847	\$ 49,763	\$ 21,848	\$ 35,825	\$ 60,079
Net earnings (loss)	\$ 10,271	\$ (2,791)	\$ 7,225	\$ 11,026	\$ 6,950	\$ (2,312)	\$ 2,938	\$ 9,751
Basic and diluted earnings (loss) per unit	\$ 0.67	\$ (0.18)	\$ 0.48	\$ 1.07	\$ 0.67	\$ (0.22)	\$ 0.30	\$ 1.08

The Fund's business is seasonal, with sales ramping up in the spring months and generally reaching peak levels in the summer months. As such, losses in the first quarter are not unexpected with the Fund historically generating

positive net earnings throughout the remainder of the year. A revolving credit facility is available to allow regular distributions and working capital investments during slower quarters.

## **Non-GAAP Measures**

### **i) Earnings before Interest, Taxes, Depreciation and Amortization (“EBITDA”)**

References to EBITDA are to earnings before interest, taxes (other than capital taxes), depreciation and amortization. Management believes that in addition to net earnings, EBITDA is a useful supplemental measure of cash available for distributions prior to debt service, changes in working capital, capital expenditures and income taxes. However, EBITDA is not a recognized measure under Canadian GAAP. Investors are cautioned that EBITDA should not be construed as an alternative to net and comprehensive earnings determined in accordance with GAAP as an indicator of the Fund's performance or as an alternative to cash flows from operating, investing and financing activities as a measure of the Fund's liquidity and cash flows. The Fund's method of calculating EBITDA may differ from the methods used by other issuers and, accordingly, the Fund's EBITDA may not be comparable to similarly named measures used by other issuers.

<b>The Fund</b> (in thousands of Canadian dollars) (unaudited)	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b> <b>2008</b>	<b>June 30,</b> <b>2007</b>	<b>June 30,</b> <b>2008</b>	<b>June 30,</b> <b>2007</b>
<b>Earnings for the period</b>	<b>\$ 10,271</b>	<b>\$ 6,950</b>	<b>\$ 7,480</b>	<b>\$ 4,638</b>
Recovery of future income taxes	(800)	(270)	(1,517)	(430)
Amortization of property, plant and equipment	1,662	923	3,116	1,793
Amortization of intangible assets	3,066	656	5,845	1,313
Interest and financing expenses	1,173	524	2,249	859
<b>EBITDA</b>	<b>\$ 15,372</b>	<b>\$ 8,783</b>	<b>\$ 17,173</b>	<b>\$ 8,173</b>

### **ii) Pro-forma acquisitions**

(in thousands of Canadian dollars except unit and per unit amounts)  
(unaudited)

	<b>Pro-forma combined</b>
<b>Pro-Forma earnings</b>	<b>\$ 43,648</b>
Provision for current and future income taxes	11,804
Amortization of property, plant and equipment	11,267
Amortization of intangible assets	2,853
Interest and financing expenses	12,857
<b>EBITDA</b>	<b>\$ 82,429</b>
Interest	12,857
Purchase of sustaining property, plant and equipment	6,506
<b>Distributable cash</b>	<b>\$ 63,066</b>
Distributable cash per unit	\$3.70
Pro-forma number of units	17,042,933

The pro-forma combined results are based on the last 12 months for the most recent fiscal year for each acquisition plus the Con-Force results for the 12 months ended November 30, 2007 and the Armtec division for the year ended December 31, 2007.

See the section entitled “Liquidity, Distributable Cash and Distributions” of this MD&A for the disclosure definition of distributable cash that is not a recognized measure under Canadian GAAP.

## **Critical Accounting Estimates**

The Fund's discussion and analysis of its financial condition and results of operations, including the discussion on liquidity and capital resources, is based upon the Fund's interim consolidated financial statements, which have been prepared in accordance with Canadian GAAP except where noted. The preparation of these interim consolidated financial statements requires the Fund to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates and judgments, particularly those related to the determination of the estimated

recoverable amount of accounts receivable, inventory, goodwill and intangible assets, post-employment benefit liabilities and future income taxes. Armtec bases its estimates on historical experience and on various other assumptions, which are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Please refer to the Fund's annual MD&A for a detailed discussion of the more significant judgments and estimates used in the preparation of the Fund's interim consolidated financial statements. No known trends, commitments, events or other uncertainties are currently believed to materially affect the assumptions used. There are no material updates to these estimates based on events from January 1, 2008 to July 31, 2008.

## **Accounting Policy Changes Including Initial Adoptions**

### **INITIAL ADOPTIONS AND APPLICATIONS OF ACCOUNTING PRONOUNCEMENTS**

Effective January 1, 2008, the Fund adopted Canadian Institute of Chartered Accountants ("CICA") Section 1535, "Capital disclosures", Section 3862, "Financial Instruments – Disclosures", Section 3863, "Financial Instruments – Presentation"; and Section 3031, "Inventories". The principal changes due to the adoption of these accounting standards are described below.

**a) Capital disclosures**

This section requires the disclosure of both qualitative and quantitative information regarding the entity's objectives, policies and processes for managing capital, and what the entity regards as capital. Other than disclosure, the adoption of CICA Section 1535 had no effect on the Fund's consolidated financial condition on the date of adoption.

**b) Financial instruments – disclosures and presentation**

These sections revise and enhance certain disclosure requirements including the significance of financial instruments on the entity's financial condition, the nature and extent of risks arising from financial instruments and how these risks are managed. Other than disclosure, the adoption of CICA Sections 3862 and 3863 had no effect on the Fund's consolidated financial condition on the date of adoption.

**c) Inventories**

This section requires inventory to be measured at the lower of cost and net realizable value. The standard provides guidance on the types of costs that can be included and requires the reversal of previous inventory write-downs if economic circumstances change. Other than disclosure, the adoption of CICA Section 3031 had no effect on the Fund's consolidated financial condition on the date of adoption.

### **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

**a) Goodwill and intangible assets**

The CICA issued Section 3064, "Goodwill and Intangible Assets", which establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The standard is effective and the Fund will adopt it for interim and annual periods commencing in the Fund's 2009 fiscal year. The Fund has not yet determined the impact of the adoption of this standard on its consolidated financial condition.

**b) International financial reporting standards**

The Canadian Accounting Standards Board confirmed in February 2008 plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to be effective for interim and annual periods commencing January 1, 2011. The Fund is monitoring and reviewing CICA plans to make the transition to IFRS. The Fund is currently reviewing and assessing the potential impact of IFRS on the Fund's financial reporting, business and IT systems but has not yet determined the outcome of these changes on its consolidated financial condition.

## **Proposed Transactions**

In July 2007, the Fund signed an agreement with the City of Saskatoon for the expropriation of part of the Saskatoon location for proceeds of \$1.2 million with an original closing date of November 2007. The closing date has been delayed pending the City's completion of the severance of the property to be sold. The current operations will not be required to move to a new location until May 2009. On April 14, 2008, the Fund received \$1.1 million of proceeds related to this transaction. The funds will remain in a trust account until all conditions of sale, including the severance of the parcel of land, have been satisfied.

On July 21, 2008, the Fund announced the acquisition of the outstanding shares in 1219316 Alberta Ltd., a division of Burnco Rock Products Limited. The Fund anticipates closing the transaction during the third quarter of 2008. Closing of the transaction is conditional on a number of matters typical of a transaction of this type, including certain regulatory approvals.

## **Forward-Looking Statements**

This MD&A may contain "forward-looking" statements within the meaning of applicable securities legislation which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Fund or industry results, to be materially different from any future results, events, expectations, performance or achievements expressed or implied by such forward-looking statements. All such forward-looking statements are made pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. Forward-looking statements may include comments with respect to the Fund's objectives, strategies to achieve those objectives, expected financial results, and the outlook for the Fund's business. Forward-looking statements typically contain such words or phrases such as "may", "outlook", "objective", "intend", "estimate", "anticipate", "should", "could", "would", "will", "expect", "believe", "plan" and other similar terminology suggesting future outcomes or events. These statements reflect current expectations regarding future events and operating performance and are based on information currently available to the Fund's management.

Forward-looking statements involve numerous assumptions, and significant and inherent risks and uncertainties, should not be read as guarantees of future performance or results and will not necessarily be accurate indications of whether or not such results will be achieved. You should not unduly rely on forward-looking statements as a number of factors, many of which are beyond the control of the Fund, could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to the factors listed below and those discussed in the Fund's materials filed with the Canadian securities regulatory authorities from time to time including the Annual Information Form and the Annual MD&A. Those risks and uncertainties include, but are not limited to: industry cyclicality; competition; acquisition and expansion risk; capital and liquidity risk; reductions in demand for the Fund's products; information management; credit risk; relationships with suppliers; lack of long-term agreements; expiration of rights under license and distribution arrangements; availability and price volatility of raw materials; product liability; intellectual property; reliance on key personnel; labour markets; environmental; collective bargaining; currency fluctuations; interest rates; uninsured and underinsured losses; operating hazards; risk of future legal proceedings; securities laws compliance and corporate governance standards; geographical risk; seasonality and adverse weather; geopolitical; and certain risks associated with the structure of the Fund including dependence of the Fund on Armtec entities; income tax matters; leverage and restrictive covenants; credit facilities; nature of units; distribution of securities on redemption or termination of the Fund; restrictions on potential growth; effect of market interest rates on the price of units; undiversified and illiquid holdings in Armtec Operating Trust; potential dilution. These and other factors may cause the Fund's performance to differ materially from that contemplated by forward-looking statements. Cash distributions are not guaranteed.

There have been no material changes to the Fund's business or other events or circumstances from January 1, 2008 to July 31, 2008, that require an update to the discussion of the applicable risks or forward-looking statements. Although the forward-looking statements contained in this report are based upon what management of the Fund believes are reasonable assumptions, the Fund cannot assure investors that actual results will be consistent with these forward-looking statements. All forward-looking statements in this MD&A are qualified by these cautionary statements. These forward-looking statements and outlook are made as of the date of this MD&A and, except as required by applicable law, the Fund assumes no obligation to update or revise them to reflect new events or circumstances.