

# Armtec Infrastructure Income Fund



Third Quarter Report  
Period Ended September 29, 2006



# **Armtec Infrastructure Income Fund**

## **Third Quarter Report**

### **For the Period Ended September 29, 2006**

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## To Our Unitholders

We are pleased to report strong performance for Armtec in the third quarter of fiscal 2006.

### **Highlights for the Quarter:**

- Revenue grew by 1.9% (12.5%, adjusted for a shorter billing period and a timing of customer deliveries)
- Gross margin improved to 32.1% from 30.3%
- EBITDA<sup>1</sup> increased 9.0% to \$11.9 million due to revenue growth at improved margins
- Generated distributable cash of \$10.9 million in the quarter, \$16.1 million for the year to date
- Declared distributions of \$3.5 million in the quarter and \$10.1 million for the year to date
- Furthermore, after the quarter end we announced an agreement to acquire in November 2006 the Culvert Division of a Prairie Steel, a Saskatchewan based operation, financing the \$6.6 million purchase with a \$25 million public offering of trust units completed on October 25, 2006. These activities mark our third acquisition since becoming public and our first equity issuance.
- The Fund's 2006 performance is expected to result in a special distribution at year end such that the Fund should not pay income tax on its 2006 earnings.

The Fund continues to benefit from growth in public infrastructure spending across Canada and improved efficiencies in our operations. Similar to previous quarters, the Fund experienced growth in infrastructure, natural resource and residential markets partially offset by a slower agriculture market in Ontario and Québec. The forestry sector of our natural resource market was sluggish but this was more than offset by additional revenues from sales to our mining and oil and gas sectors. We are also pleased report that in the third quarter we completed the first shipment of CONTECH Stormwater Solutions<sup>®</sup> products and anticipate that this distribution agreement will have further positive impact on revenue going forward.

The outlook for infrastructure markets remains stable as a result of 2006 provincial budget spending increases and commitments announced earlier in the year. Recent acquisitions, namely the Construction Products Division of Twister Pipe Ltd. in Alberta and the Culvert Division of Prairie Steel, will increase our manufacturing capacity in the Western region for 2007 and beyond. Continued investment in mining and energy projects should be offset by the slower forestry demand, where recent closures of sawmills in Quebec have adversely affected the forestry sector and poor crop prices and installation conditions continue to hamper the agricultural sector.

We are reviewing the impact on our unitholders of the October 31, 2006 announcement from the federal Minister of Finance concerning a proposed distribution tax on publicly traded income trusts.

We have had a very active year implementing our growth strategy. We have added several new products to our extensive product line and increased capacity in the active Western Canadian region. We have also strengthened our finance team with a view to increasing our ability to pursue opportunities for further growth. Furthermore, the growth activities carried out in 2006 have given rise to increased deductions for income taxes, which will provide greater flexibility in the determination of the appropriate distribution policy. We look forward to updating you on our progress following the completion of our fiscal year.

Sincerely,

Robert J. Wright  
Chairman of the Board of Trustees  
November 1, 2006

Charles M. Phillips  
President and Chief Executive Officer  
November 1, 2006

<sup>1</sup> See Non-GAAP Measures

**Armtec Infrastructure Income Fund  
Management's Discussion and Analysis  
As at November 1, 2006**

The following Management's Discussion and Analysis ("MD&A") for the three and nine months ended September 29, 2006 of Armtec Infrastructure Income Fund should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes thereto as well as the annual MD&A, consolidated financial statements and accompanying notes for the year ended December 31, 2005. In this MD&A, the terms "the Fund", "Armtec" or "the Company" mean the Fund together with its subsidiaries: Armtec Operating Trust, Armtec Holdings Limited, Armtec Limited Partnership Corp. and Armtec Limited Partnership. Other 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 financial information contained herein has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Unless indicated otherwise, all dollar amounts, except per unit amounts, are expressed in thousands of Canadian dollars. The tables and financial information contained in this MD&A have not been subject to a review by Armtec Infrastructure Income Fund's external auditor.

## **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.

Armtec is a leading manufacturer and marketer of drainage products and engineered solutions for infrastructure applications in a diverse cross-section of industries, including the public infrastructure market and private sector markets such as natural resources, residential drainage and agricultural drainage in Canada. Armtec is Canada's only national multi-material manufacturer specializing in corrugated high-density polyethylene pipe, corrugated steel pipe and related engineered products. Armtec also distributes a broad line of water control and geosynthetic products, and sells internationally certain high value-added engineered products manufactured in Canada.

The Fund's units trade on the Toronto Stock Exchange under the symbol ARF.UN.

## THIRD QUARTER RESULTS

### Operating Results for the Three Months Ended

	September 29, 2006	September 30, 2005
<b>Revenue</b>	<b>\$ 60,078</b>	<b>\$ 58,937</b>
Cost of sales	40,776	41,095
<b>Gross Margin</b>	<b>19,302</b>	<b>17,842</b>
As a % of revenue	32.1%	30.3%
Selling, distribution, general and administrative expenses	9,052	8,383
Gain on sale of property, plant and equipment	(157)	-
Interest and financing expenses	812	464
<b>Earnings before taxes</b>	<b>\$ 9,595</b>	<b>\$ 8,995</b>
Interest and financing expenses	812	464
Depreciation and amortization	1,496	1,457
<b>EBITDA<sup>1</sup></b>	<b>\$ 11,903</b>	<b>\$ 10,916</b>
As a % of Revenue	19.8%	18.5%

<sup>1</sup> EBITDA is not a defined term under Canadian GAAP. For more information, refer to the Non-GAAP Measures section of this MD&A.

### Overview

During the three months ended September 29, 2006, revenues increased by \$1.1 million or 1.9% due primarily to the continued strength in public infrastructure markets across the country. The diversity of end-use markets and geographic regions resulted in revenue growth despite softening in forestry and agricultural markets. The improved margins experienced during the third quarter of 2006 are due to continuing price leadership, product mix and improved manufacturing processes with the net result being growth in EBITDA of \$1.0 million or 9.0%.

The Fund's practice of closing each period on the last Friday of the month resulted in the third quarter of 2006 containing one fewer billing week in comparison to the third quarter of 2005. The extra week was in June 2005 when the average weekly sales were \$4.9 million. In addition, the timing and terms of customer deliveries for certain products in the second quarter of 2005 resulted in revenues of approximately \$1.2 million being recognized during the third quarter of that year compared to similar product shipments in 2006. These two factors increased the revenue and related margins recognized in the third quarter of 2005 as compared to the same quarter in 2006. Adjusting for these items, revenues rose 12.5% in the third quarter of 2006 over 2005.

### Revenue

Revenues increased by \$1.1 million or 1.9% to \$60.1 million for the three months ended September 29, 2006, compared to revenues of \$58.9 million for the three months ended September 30, 2005. As noted previously, the modest increase was impacted by the shorter billing period and by the timing of customer deliveries compared to the third quarter of 2005. Strength in the public infrastructure market was the primary source of revenue growth in the third quarter as the increased provincial spending noted in the 2006 budgets continued to support demand in most regions across Canada. The improvements in public infrastructure markets were partially offset by softer demand from natural resource and agricultural markets. Natural resource markets were affected by weaker demand from forestry customers caused by the continuing effects from harvesting restrictions in Eastern Canada, and the uncertainty surrounding the softwood lumber trade dispute. The decline in demand from forestry customers was partially offset by increased investment in mining projects during the quarter. Demand in agricultural markets remains below 2005 levels due to poor crop prices and installation conditions.

## Revenues by Product Category

	September 29, 2006	September 30, 2005
Pipe	\$ 40,154	\$ 39,126
Engineered Products	8,359	8,466
Other Products	11,565	11,345
<b>Total</b>	<b>\$ 60,078</b>	<b>\$ 58,937</b>

Revenues from pipe sales increased by \$1.0 million or 2.6% to \$40.2 million in the three months ended September 29, 2006. The increase in revenues occurred in spite of one less billing week compared to the third quarter of 2005. The primary factor influencing pipe sales in the third quarter was the strength of public infrastructure markets throughout Canada. These increases were partially offset by a reduction in sales to natural resource customers due to the decline in forestry markets in Quebec and Western Canada and by lower agricultural shipments.

Engineered product revenues in the third quarter of 2006 were flat to 2005 levels at \$8.4 million. Comparing the third quarters is complicated by the extra billing week in 2005 and the timing of customer shipments. Adjusting for these factors, revenues from engineered products benefited from increased demand in the third quarter of 2006. Year-to-date results are based on the same number of billing weeks and are a better indicator of demand for engineered products in 2006 since quarterly issues with comparability have been offset. A large energy project in New Brunswick delivered during the third quarter was the primary factor of the demand increase, while revenues in Western Canada were stable.

Other products accounted for revenues of \$11.6 million in the three months ended September 29, 2006, an increase of \$0.3 million or 1.9%. The extra billing week and the timing of customer shipments in 2005 were offset by increased revenues from water control gates for a water treatment facility in Central Canada. During the quarter, the Fund made its first shipment of CONTECH Stormwater Solutions<sup>®</sup> under the agreement announced in May 2006.

### Gross Margin

Gross margin for the three months ended September 29, 2006 was \$19.3 million, an improvement of \$1.5 million or 8.2% over the \$17.8 million for the three months ended September 30, 2005. On a percentage basis, third quarter gross margin increased to 32.1% of revenue compared to 30.3% for in the same quarter of 2005. The margin improvement was a result of the Fund's continued ability to manage raw material price fluctuations and utilization as well as productivity gains resulting from increased volumes. The continuing implementation of lean manufacturing practices in the production of HDPE products has resulted in more consistent end product and savings per kilogram of pipe manufactured.

### Selling, Distribution, General and Administrative Expenses

Selling, distribution, general and administrative expenses for the three months ended September 29, 2006 were \$9.1 million, an increase of \$0.7 million over the \$8.4 million incurred during the three months ended September 30, 2005. Excluding the variance in distribution costs, which vary with sales levels, the increase was \$0.4 million. Of the increase, additional employment and travel expenses accounted for \$0.3 million. This comparative increase relates primarily to the addition of Twister in 2006 and additional employees added near the end of 2005 in Western Canada to capitalize on the growth experienced in that region. Additional administrative salaries were also added to support the Fund's growth strategy. The amortization of the intangible assets acquired from Twister accounted for an additional \$0.1 million during the quarter.

## Interest and Financing Expenses

During the three months ended September 29, 2006, interest incurred on borrowings amounted to \$0.8 million and a marginal unrealized loss was recognized on the interest rate swap. During the three months ended September 30, 2005, interest on borrowings amounted to \$0.6 million and an unrealized gain on the interest rate swap of \$0.1 million was recorded during the quarter. Interest incurred on borrowings increased by \$0.2 million, primarily due to higher average borrowing levels and higher average effective interest rates. Borrowings on the term facility were increased by \$7.7 million to finance the acquisition of Twister in February 2006.

## Income Taxes

As the Fund is a mutual fund trust for Canadian income tax purposes, income allocated to unitholders effectively reduced the Fund's current income tax to nil. The Fund generated a future income tax recovery of \$0.2 million due to the amortization of intangible assets and other timing differences.

## EBITDA (See Non-GAAP Measures)

EBITDA for the three months ended September 29, 2006 was \$11.9 million, compared to \$10.9 million earned in the three months ended September 30, 2005. The change in EBITDA was attributed to the growth in revenues and improved margins partially offset by the increase in selling, distribution, general and administrative costs.

## YEAR TO DATE RESULTS

### Operating Results for the Nine Months Ended

	September 29, 2006	September 30, 2005
<b>Revenue</b>	<b>\$ 130,340</b>	<b>\$ 119,139</b>
Cost of sales	91,365	85,427
<b>Gross Margin</b>	<b>38,975</b>	<b>33,712</b>
As a % of revenue	29.9%	28.3%
Selling, distribution, general and administrative expenses	24,856	22,187
Gain on sale of property, plant and equipment	(157)	-
Interest and financing expenses	1,907	1,359
<b>Net earnings before taxes</b>	<b>\$ 12,369</b>	<b>\$ 10,166</b>
Interest and financing expenses	1,907	1,359
Depreciation and amortization	4,476	4,412
<b>EBITDA<sup>1</sup></b>	<b>\$ 18,752</b>	<b>\$ 15,937</b>
As a % of Revenue	14.4%	13.4%

<sup>1</sup>EBITDA is not a defined term under Canadian GAAP. For more information, refer to the Non-GAAP Measures section of this MD&A.

## Overview

Revenues reported for the nine months ended September 29, 2006, increased by \$11.2 million or 9.4%, due primarily to the continued strength in public infrastructure markets across the country and increased demand experienced in certain residential markets. The diversity of end markets and geographic regions resulted in the Fund experiencing growth despite a decline in some market areas. The improved margins experienced during the first nine months of 2006 are due to continuing price leadership, product mix and improved manufacturing processes with the net result being growth in EBITDA of \$2.8 million or 17.7%.

The results for the nine months ended September 29, 2006 cover the same number of weeks as the comparative figures for the period ending September 30, 2005.

## Revenue

Revenues increased by \$11.2 million or 9.4% to \$130.3 million for the nine months ended September 29, 2006, compared to revenues of \$119.1 million for the nine months ended September 30, 2005. Increased revenues due to the investment in public infrastructure markets resulted in improvements in most geographical regions. High commodity prices and favourable economic conditions have also led to increased investment in mining and energy projects. Despite the April 2005 discontinuation of the DRICore product, residential markets generated positive demand in the first nine months of 2006, primarily in Quebec and Western Canada. Agricultural markets remained soft as the result of poor crop prices and unfavourable installation conditions.

## Revenues by Product Category

	September 29, 2006	September 30, 2005
Pipe	\$ 86,667	\$ 78,475
Engineered Products	16,523	14,084
Other Products	27,150	26,580
<b>Total</b>	<b>\$ 130,340</b>	<b>\$ 119,139</b>

Revenues from pipe sales increased by \$8.2 million or 10.4% in the nine months ended September 29, 2006. Infrastructure projects accounted for the majority of the sales increase with all regions, including international markets, experiencing growth in the period. Natural resource markets were largely stable during the first nine months of 2006, with increased investment in the mining and energy sectors being offset by reduced activity into the forestry sector. Forestry harvesting restrictions in Quebec, lower lumber and pulp prices as well as the uncertainty surrounding the softwood lumber trade dispute were among the factors that limited growth during the period. Residential pipe sales improved during the nine months ended September 29, 2006, primarily due to positive demand in Quebec and Western Canada. The Twister acquisition contributed additional pipe revenues in Western Canada of \$3.5 million. The additional infrastructure revenues attributed to the acquisition have offset soft agricultural market conditions in Ontario and Quebec.

Engineered product revenues increased by \$2.4 million or 17.3% to \$16.5 million during the period ended September 29, 2006. Large mining and energy projects in Atlantic and Western Canada generated most of this increase, as strong global commodity demand continues to spur new investment.

Other products accounted for revenues of \$27.2 million during the nine months ended September 29, 2006, an increase of \$0.6 million or 2.1%. Increased revenues from water control gates in Ontario were largely offset by reduced custom gate sales in Western Canada. Offsetting the revenue reduction associated with the discontinuation of the DRICore product line in April 2005, demand for geosynthetic products increased in conjunction with the growth in infrastructure projects, primarily in Ontario and Western Canada. Infrastructure applications represent one of the main uses for the Fund's geosynthetic products.

## Gross Margin

Gross margin for the nine months ended September 29, 2006 was \$39.0 million, an improvement of \$5.3 million or 15.6% over the \$33.7 million of gross margin for the nine months ended September 30, 2005. On a percentage basis, gross margin improved to 29.9% of revenue during the nine months ended September 29, 2006, from 28.3% for the comparable period in 2005. The margin improvement was due to volume increases and price leadership in response to raw material price fluctuations in combination with improved raw material utilization. The implementation of lean manufacturing practices, particularly in the production of HDPE products, has resulted in more consistent output and savings per kilogram of pipe manufactured.

### **Selling, Distribution, General and Administrative Expenses**

Selling, distribution, general and administrative expenses for the nine months ended September 29, 2006 were \$24.9 million, an increase of \$2.7 million over the \$22.2 million incurred during the nine months ended September 30, 2005. Excluding the variance in distribution costs, which vary with sales levels, the increase was \$1.6 million. Additional employment costs and travel expenses of \$0.9 million related to additional staff added near the end of 2005 in Western Canada and through the Twister addition in February 2006. The incremental staffing was in response to the increased activity levels in that growing region. Administrative salaries were also added during the current year to support the Fund's growth strategy.

The amortization of the intangible assets acquired from Twister accounted for an additional \$0.2 million in expenses during the first nine months of 2006. Additional property costs associated with the new head office building amounted to \$0.3 million. The remaining \$0.2 million in additional expenses includes employee training, foreign exchange losses and was partially offset by a reduction in other miscellaneous costs.

### **Interest and Financing Expenses**

During the nine months ended September 29, 2006, interest incurred on borrowings amounted to \$1.9 million and a marginal unrealized gain was recognized on the interest rate swap. During the nine months ended September 30, 2005, interest on borrowings amounted to \$1.5 million and an unrealized gain of \$0.1 million was recognized on the interest rate swap. Interest incurred on borrowings increased by \$0.4 million, primarily due to higher average borrowing levels and higher average effective interest rates during the period. Borrowings on the term facility were increased by \$7.7 million to finance the acquisition of Twister in February 2006.

### **Income Taxes**

As the Fund is a mutual fund trust for Canadian income tax purposes, income allocated to unitholders effectively reduced the Fund's current income tax to nil. The Fund generated a future income tax recovery of \$0.5 million during the nine months ended September 29, 2006 due to the amortization of intangible assets and other timing differences.

### **EBITDA (See Non-GAAP Measures)**

EBITDA for the nine months ended September 29, 2006 was \$18.8 million, compared to \$15.9 million earned in the nine months ended September 30, 2005. The growth in EBITDA was due primarily to the growth in revenues with improved margins and partially offset by the increase in selling, distribution, general and administrative costs.

### **DISTRIBUTIONS**

The Fund makes regular monthly distributions to unitholders of record as of the last business day of each month. Distributions to unitholders are calculated and recorded when declared. Distributions declared for the nine months ended September 29, 2006 are as follows:

<u>Period</u>	<u>Record date</u>	<u>Payment date</u>	<u>Per unit</u>	<u>Amount</u>
January 2006	January 31, 2006	February 15, 2006	\$ 0.11	\$ 991.65
February 2006	February 28, 2006	March 15, 2006	0.12	1,081.80
March 2006	March 31, 2006	April 13, 2006	0.12	1,081.80
April 2006	April 28, 2006	May 15, 2006	0.12	1,081.80
May 2006	May 31, 2006	June 15, 2006	0.13	1,171.95
June 2006	June 30, 2006	July 14, 2006	0.13	1,171.95
July 2006	July 31, 2006	August 15, 2006	0.13	1,171.95
August 2006	August 31, 2006	September 15, 2006	0.13	1,171.95
September 2006	September 29, 2006	October 13, 2006	0.13	1,171.95
			<u>\$ 1.12</u>	<u>\$ 10,096.80</u>

On October 19, 2006, a \$0.13 per unit distribution (for an aggregate of \$1,340) in respect of October 2006 was declared. The record date of the distribution was October 31, 2006 with an ex-dividend trading date of October 27, 2006. This distribution will be paid on November 15, 2006.

### DISTRIBUTABLE CASH (See Non-GAAP Measures)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 29, 2006</u>	<u>September 30, 2005</u>	<u>September 29, 2006</u>	<u>September 30, 2005</u>
<b>Net earnings for the period</b>	\$ 9,751	\$ 9,165	\$ 12,843	\$ 10,673
Amortization of property, plant and equipment	853	903	2,584	2,752
Amortization of intangible assets	643	554	1,892	1,660
Interest and financing expenses	812	464	1,907	1,359
Recovery of future income taxes	(156)	(170)	(474)	(507)
<b>EBITDA<sup>1</sup></b>	<b>\$ 11,903</b>	<b>\$ 10,916</b>	<b>\$ 18,752</b>	<b>\$ 15,937</b>
Interest and financing charges	(812)	(464)	(1,907)	(1,359)
Sustaining capital expenditures	(194)	(222)	(730)	(972)
<b>Distributable cash</b>	<b>\$ 10,897</b>	<b>\$ 10,230</b>	<b>\$ 16,115</b>	<b>\$ 13,606</b>
<b>Distributions declared</b>	<b>\$ 3,516</b>	<b>\$ 2,975</b>	<b>\$ 10,097</b>	<b>\$ 8,564</b>
<b>Net earnings per unit</b>	<b>\$ 1.08</b>	<b>\$ 1.02</b>	<b>\$ 1.42</b>	<b>\$ 1.18</b>
<b>Distributable cash per unit</b>	<b>\$ 1.21</b>	<b>\$ 1.13</b>	<b>\$ 1.79</b>	<b>\$ 1.51</b>
<b>Distributions declared per unit</b>	<b>\$ 0.39</b>	<b>\$ 0.33</b>	<b>\$ 1.12</b>	<b>\$ 0.95</b>

<sup>1</sup> See Non-GAAP Measures

The table below reconciles distributable cash to cash flow from operations:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 29, 2006</u>	<u>September 30, 2005</u>	<u>September 29, 2006</u>	<u>September 30, 2005</u>
<b>Distributable cash</b>	<b>\$ 10,897</b>	<b>\$ 10,230</b>	<b>\$ 16,115</b>	<b>\$ 13,606</b>
Items not affecting cash:				
Gain on sale of property, plant and equipment	(157)	-	(157)	-
(Gain) loss on interest rate swap	35	(124)	(20)	(82)
Non-cash post-employment benefits accrued	70	62	210	190
Items not affecting operating cash flow:				
Sustaining capital expenditures	194	222	730	972
Net (increase) decrease in non-cash working capital	(8,427)	(3,033)	(17,619)	(16,052)
<b>Cash provided by operating activities</b>	<b>\$ 2,612</b>	<b>\$ 7,357</b>	<b>\$ (741)</b>	<b>\$ (1,366)</b>

The Fund generated \$10.9 million in distributable cash during the third quarter of 2006 and declared distributions totalling \$3.5 million. During the third quarter of 2005, the Fund generated \$10.2 million in distributable cash and declared distributions totalling \$3.0 million.

During the nine months ended September 29, 2006, the Fund generated \$16.1 million in distributable cash with distributions totalling \$10.1 million. The Fund generated \$13.6 million in distributable cash during the nine months ended September 30, 2005 with distributions totalling \$8.6 million. The increase in distributable cash for the three and nine months ended September 29, 2006 was due primarily to the increase in EBITDA for the periods and partially offset by the rise in interest costs.

Armtec's business is subject to seasonality, with sales ramping up as spring arrives and generally reaching peak levels in the summer months. The Fund has structured its distribution policy to declare regular monthly distributions evenly throughout the year, despite the seasonality of its earnings. Consequently, the results of the third quarter or for the nine months ended should not be considered representative of a twelve-month period of distributable cash.

The table below reconciles sustaining capital expenditures to the cash used in investing activities.

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 29, 2006</u>	<u>September 30, 2005</u>	<u>September 29, 2006</u>	<u>September 30, 2005</u>
<b>Sustaining capital expenditures</b>	\$ 194	\$ 222	\$ 730	\$ 972
Proceeds from sale of property, plant and equipment	(226)	-	(226)	-
Expenditures for growth initiatives	1,298	-	1,730	-
Acquisition of business	-	-	7,481	-
<b>Cash used in investing activities</b>	<b>\$ 1,266</b>	<b>\$ 222</b>	<b>\$ 9,715</b>	<b>\$ 972</b>

Sustaining capital expenditures for the three months ended September 29, 2006 amounted to \$0.2 million, consistent with the comparable period in 2005. During the nine months ended September 29, 2006, sustaining capital expenditures amounted to \$0.7 million, compared to \$1.0 million during the comparable period in 2005. Annual sustaining capital expenditures required to maintain Armtec's capacity are expected to be consistent with historical levels with the timing of purchases responsible for the lower expenditures incurred during the nine months ended September 29, 2006. The majority of the Fund's capital expenditures occur during the first and fourth quarters, when sales volumes are seasonally lower and maintenance activities are not disruptive to production requirements.

Expenditures of \$1.3 million were incurred for growth initiatives during the three months ended September 29, 2006. Included in this amount are \$1.1 million for the purchase of a linear corrugator to be installed in Lethbridge, Alberta and \$0.2 million for the implementation of the new ERP system. During the nine months ended September 29, 2006, expenditures for growth initiatives included \$1.1 million for the purchase and installation of the linear corrugator, \$0.4 million for the implementation of the new ERP system and \$0.2 million for the acquisition of a distribution license from BEBO Arch of Canada.

## OUTSTANDING UNIT DATA

An unlimited number of units may be issued 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 in the event of termination or winding-up of the Fund. Each unit entitles the unitholder thereof to one vote at all meetings of unitholders. On October 26, 2006, the Fund completed a secondary issuance of 1,289,000 trust units at a unit price of \$19.40. As at November 1, 2006, there were 10,304,000 units issued and outstanding.

On June 14, 2006, unitholders of the Fund approved the adoption of a Phantom Unit Plan which will provide the Trustees with the opportunity to receive Phantom Units, each of which is equivalent in value to a Unit of the Fund, in lieu of cash compensation for services provided to the Fund. As at September 29, 2006, 2,567 units had been awarded.

## SUMMARY OF QUARTERLY RESULTS

### For the Three Months Ended:

	Sept 29, 2006	June 30, 2006	Mar 31, 2006	Dec 31, 2005	Sept 30, 2005	June 24, 2005	Mar 25, 2005	Dec 31, 2004
Revenue	\$ 60,078	\$ 49,822	\$ 20,440	\$ 35,765	\$ 58,937	\$ 42,236	\$ 17,966	\$ 41,569
Net earnings (loss)	\$ 9,751	\$ 6,711	\$ (3,619)	\$ 1,570	\$ 9,165	\$ 4,692	\$ (3,184)	\$ 1,885
Net earnings (loss) per unit	\$ 1.08	\$ 0.74	\$ (0.40)	\$ 0.17	\$ 1.02	\$ 0.52	\$ (0.35)	\$ 0.21

Armtec's business is seasonal, with sales ramping up as spring arrives and generally reaching peak levels in the summer months. As such, losses in the first quarter are expected, with the Company historically generating positive net earnings as the second quarter unfolds. A revolving credit facility is available to allow regular distributions and working capital investments during slower quarters.

## CASH FLOW AND LIQUIDITY

As at September 29, 2006, the Fund's cash and cash equivalents amounted to \$9 as compared to \$17 at September 30, 2005. Declared but unpaid distributions at September 29, 2006 were \$1.2 million as compared to \$1.0 million at September 30, 2005.

The Fund had working capital of \$41.1 million at September 29, 2006, an increase of \$5.9 million compared with the working capital of \$35.2 million at September 30, 2005, which is sufficient to meet short-term obligations.

### Cash Flow from Operations

	Three Months Ended		Nine Months Ended	
	September 29, 2006	September 30, 2005	September 29, 2006	September 30, 2005
Cash provided before changes in non-cash working capital	\$ 11,039	\$ 10,390	\$ 16,878	\$ 14,686
Cash provided by (used in) non-cash working capital:				
Accounts receivable	(3,647)	(6,992)	(17,384)	(17,064)
Inventories	(1,899)	6,091	(4,213)	(1,253)
Prepaid expenses and other assets	197	(681)	(75)	(310)
Accounts payable and accrued liabilities	(3,145)	(1,367)	4,037	2,551
Other	67	(84)	16	24
Net increase in non-cash working capital	(8,427)	(3,033)	(17,619)	(16,052)
<b>Cash provided by (used in) operating activities</b>	<b>2,612</b>	<b>7,357</b>	<b>(741)</b>	<b>(1,366)</b>

For the three months ended September 29, 2006, \$11.0 million of cash flow was generated before changes in non-cash working capital compared to \$10.4 million generated in the comparable period in 2005. The increase in cash generated during the period is due primarily to the higher earnings generated in the third quarter. Increases in non-cash working capital in the third quarter of 2006 required a use of \$8.4 million in cash from operations, compared to the \$3.0 million used during the third quarter of 2005. At the completion of the third quarter of 2006, inventory levels were higher than the 2005 comparative as a result of the timing of mainly raw material receipts. The combination of cash flow from operations and increases in non-cash working capital provided \$2.6 million of cash during the three months ended September 29, 2006, and \$7.4 million in the comparable period in 2005.

For the nine months ended September 29, 2006, \$16.9 million of cash flow was generated before changes in non-cash working capital compared to \$14.7 million generated in the comparable period in 2005. Increases in non-cash working capital during the first nine months of 2006 required a use of \$17.6 million in cash from operations, compared to a use of \$16.1 million during the nine months ending September 30, 2005. The increase in cash used for non-cash working capital is primarily due to the increase in inventory levels. The combination of cash flow from operations and increases in non-cash working capital used \$0.7 million of cash during the nine months ended September 29, 2006, and \$1.4 million in the comparable period in 2005.

### **Investing Activities**

Capital expenditures for the third quarter of 2006 totalled \$1.5 million, of which \$1.3 million was related to growth-related projects, specifically the Lethbridge corrugator and ERP implementation. Partially offsetting these expenditures was \$0.2 million received from the sale of surplus machinery. During the third quarter of 2005, capital expenditures amounted to \$0.2 million, all of which were considered sustaining capital expenditures.

Capital expenditures for the nine months ended September 29, 2006 totalled \$2.2 million, including \$1.7 million incurred for growth-related projects. On February 1, 2006, the Fund acquired the assets of the Construction Products Division of Twister Pipe Ltd. for approximately \$7.5 million after transaction costs. During the nine months ended September 30, 2005, \$1.0 million was incurred for sustaining capital expenditures.

### **Financing Activities**

Distributions paid to unitholders amounted to \$3.5 million during the third quarter ended September 29, 2006, compared to \$3.0 million during the third quarter of 2005. The increase is as a result of the higher level of monthly distributions announced in February 2006 and May 2006. For the nine months ended September 29, 2006, distributions paid to unitholders amounted to \$11.9 million of which monthly distributions accounted for \$9.9 million and the remainder being the payment of the special distribution declared in December 2005 of \$2.0 million. For the nine months ended September 30, 2006, distributions paid to unitholders amounted to \$11.6 million of which monthly distributions accounted for \$8.5 million with the balance being the payment of the special distribution declared in December 2004 of \$3.2 million. The 2006 distributions were funded with operating cash flow and supplemented through borrowings under the revolving credit facility.

During the three months ended September 29, 2006, the Fund borrowed \$2.1 million on its revolving credit facility, which was consistent with expectations, compared with repayments of \$4.2 million during the third quarter of 2005, as a result of inventory purchases in response to announced raw material price increases.

In conjunction with the February 2006 acquisition of the Construction Products Division of Twister Pipe Ltd., the Fund negotiated an increase to its term facility of \$10.0 million for a total of \$35.0 million. During the nine months ended September 29, 2006, net borrowings on the Fund's debt facilities amounted to \$22.6 million, of which \$7.7 million was used to finance the acquisition through the term facility and \$14.9 million financed the required distributions, working capital investments and growth capital expenditures through the revolving facility. Bank financing fees of \$0.2 million were paid as part of the negotiated amendments. Armtec was in compliance with all covenants as at September 29, 2006.

## **CAPITAL RESOURCES**

At September 29, 2006, Armtec had credit facilities that provide a \$35.0 million term facility and a \$25.0 million revolving credit facility, both at variable interest rates. The interest rate on \$11.5 million of the term facility has been fixed through a swap agreement, resulting in an effective interest rate, before bank issuance costs, of 3.8%. At September 29, 2006, \$32.7 million had been advanced on the term facility and was outstanding, while \$15.1 million was outstanding on the revolving credit facility. There are no mandatory principal repayments on the term or revolving facilities prior to maturity in February 2009. Due to the seasonality of the business, the revolving credit facility is available to support temporary cash requirements for working capital and distributions. Armtec is in compliance with all covenants.

On October 25, 2006, the Fund completed amendments to its existing term and revolving credit facilities. The proceeds from the issuance of 1,289,000 trust units will first be applied to the acquisition of Prairie Steel with the balance applied reduce outstanding term debt. The principal amendments to the borrowing facilities include a reduction in the variable interest rate on both the term and revolving credit facilities and the ability to re-borrow funds on the term facility up to the original \$35 million limit.

Armtec has committed to implementing a new ERP system during 2006 and 2007. Approximately \$0.4 million is expected to be incurred in the fourth quarter of 2006 of which \$0.2 million is currently committed under signed agreements. In the third quarter of 2006, Armtec purchased a linear corrugator to be installed in Lethbridge, Alberta. Remaining installation costs are approximately \$0.9 million and will be incurred in the fourth quarter of 2006. In addition, approximately \$1.5 million is estimated to be spent annually on sustaining capital expenditures in order to maintain Armtec's current manufacturing capacity.

Anticipated cash distributions to unitholders are not commitments at September 29, 2006. However, the Fund is required to distribute an amount equal to or above its taxable income in order to eliminate the Fund's income tax liability. The Board of Trustees have set monthly distributions at \$0.13 per unit, equivalent to \$1.56 annually.

Cash flow from operations over the fiscal year together with cash and cash equivalents on hand are expected to be sufficient to meet capital maintenance expenditures and anticipated cash distributions.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Fund's off-balance sheet arrangements consist of operating leases and royalty licenses. Operating leases are for facilities and vehicles with market terms and do not have associated escalating rent or make-good provisions that materially impact the financial statements. The Fund's royalty licenses require payments at certain predetermined levels based on the profitability of certain products. Royalty obligations are accrued when the associated profit is recognized. At September 29, 2006, the amount of royalty payments owing was \$0.2 million. For the nine months ended September 29, 2006, royalty expense amounted to \$0.2 million.

Armtec also has various operating leases, loans and purchase commitments to finance certain assets of the business. The amounts of estimated future payments are disclosed in the annual MD&A for the period ended December 31, 2005 and have not materially changed during the nine months ended September 29, 2006.

## **OUTLOOK**

The outlook for infrastructure markets remains stable as a result of the 2006 provincial budget spending increases and commitments announced earlier this year. However, provincial budgets are announced in the spring and will be an important barometer of activity in 2007. The recent acquisitions in Alberta and Saskatchewan will increase Armtec's manufacturing capacity in this active region. The acquisition of the Culvert Division of Prairie Steel is expected to close during the fourth quarter when seasonal demand is historically low; therefore, no significant impact on reported results will be experienced in 2006.

The outlook for natural resource markets is mixed. Investment activity in energy and mining projects continues, but further growth from these levels will be challenging with the current competition for labour in Western Canada. The implementation of the softwood lumber agreement should be a positive factor for the forestry sector in Canada, although when this resolution will impact forestry demand cannot be predicted. Recent closures of sawmills in Quebec and lower lumber prices indicate that the recovery in this market may be a slow process. Agricultural markets are expected to remain soft due to a combination of poor economic conditions in this sector and below average installation conditions. The Fund's demand from residential markets is expected to be consistent with prior periods.

The 2006 addition of BEBO concrete arch bridges and CONTECH Stormwater Solutions<sup>®</sup> to Armtec's product offering is expected to contribute revenues in 2007. Both product lines are complementary to Armtec's current product offering and customers will now have access to a broader range of solutions that should generate additional revenues with minimal capital outlay.

The Fund expects sustaining capital expenditures for 2006 to be consistent with historical levels. Two ongoing growth initiatives will account for additional expenditures in the fourth quarter of 2006. The implementation of the new Enterprise Resource Planning system should account for approximately \$0.4 million in expenditures over the fourth quarter of 2006 and the first quarter of 2007. The Fund will also expend approximately \$0.9 million during the fourth quarter to complete the installation of a linear corrugator in Lethbridge, Alberta.

The Fund's 2006 performance is expected to result in a special distribution at year end such that the Fund should not pay income tax on its 2006 earnings. The growth activities carried out in 2006 have given rise to increased deductions for income taxes, which will provide greater flexibility in the determination of the appropriate distribution policy.

We are reviewing the impact on our unitholders of the October 31, 2006 announcement from the federal Minister of Finance concerning a proposed distribution tax on publicly traded income trusts.

## **NON-GAAP MEASURES**

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 distribution prior to debt service, changes in working capital, capital expenditures and 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 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 titled measures used by other issuers.

	Three Months Ended		Nine Months Ended	
	September 29, 2006	September 30, 2005	September 29, 2006	September 30, 2005
<b>Net earnings for the period</b>	\$ 9,751	\$ 9,165	\$ 12,843	\$ 10,673
Recovery of future income taxes	(156)	(170)	(474)	(507)
Amortization of property, plant and equipment	853	903	2,584	2,752
Amortization of intangible assets	643	554	1,892	1,660
Interest and financing expenses	812	464	1,907	1,359
<b>EBITDA</b>	<b>\$ 11,903</b>	<b>\$ 10,916</b>	<b>\$ 18,752</b>	<b>\$ 15,937</b>

“Distributable cash” is not a defined term under Canadian GAAP but is determined by the Fund as net earnings for the period adjusted to remove non-cash items, including amortization and future income taxes, and reduced by capital expenditures (other than business acquisitions). Management believes that distributable cash is a useful measure of performance as it provides investors with an indication of the amount of cash available for distribution to unitholders. Investors are cautioned, however, that distributable cash should not be construed as an alternative to using net 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.

## 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. The preparation of these interim consolidated financial statements requires Armtec 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, and post-employment benefit liabilities. 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. For a detailed discussion of the more significant judgements and estimates used in the preparation of the Fund’s interim consolidated financial statements, refer to the Fund’s annual MD&A for the year ended December 31, 2005. There are no material updates to these estimates based on events from January 1, 2006 to November 1, 2006.

## FINANCIAL INSTRUMENTS

The Fund entered into an interest rate swap agreement on September 3, 2004 for \$11.5 million of its term loan facility, resulting in an effective interest rate before bank issuance costs of 3.8%. The Fund entered into the swap to mitigate its exposure to variable interest rates but is exposed to fluctuations in the market value of the swap itself. There was an increase in the mark-to-market value of the swap during the nine months ended September 29, 2006, classified as a reduction of interest and financing expenses. The mark-to-market value of the swap is derived from an independent valuator using appropriate market assumptions.

## **ACCOUNTING POLICY CHANGES**

There have been no changes in accounting policy for the nine months ended September 29, 2006. There are no changes currently contemplated for fiscal 2006 that management expects will have a material impact on the financial results of the Fund.

The Fund is required to adopt new Canadian Institute of Chartered Accountants (the "CICA") Handbook standards contained in Section 1530 entitled "Comprehensive Income", Section 3855 entitled "Financial Instruments – Recognition and Measurement Income" and Section 3865 entitled "Hedges" on January 1, 2007. The Fund is currently evaluating the impact on its consolidated financial statements of adopting these recommendations on January 1, 2007.

## **RISKS AND UNCERTAINTIES**

The Fund is subject to certain risks and uncertainties that could have a material adverse effect on Armtec's results of operations, business prospects, financial condition, cash distributions to unitholders and the trading price of the Fund's units. These uncertainties and risks include, but are not limited to: industry cyclicality; competition; reductions in demand for Armtec's products; collections from customers; relationships with suppliers; lack of long-term agreements; expiration of rights under license and distribution arrangements; raw material price volatility; product liability; intellectual property; reliance on key personnel; collective bargaining agreements; interest rates; uninsured and underinsured losses; environment, health and safety requirements; operating hazards; risk of future legal proceedings; dependence of the Fund on Armtec Limited Partnership; and certain risks associated with the structure of the Fund including income tax matters; leverage and restrictive covenants; credit facility; nature of units; effect of market interest rates on the price of units; restrictions on potential growth; and cash distributions are not guaranteed. Further information about these and other risks and uncertainties can be found in the disclosure documents filed by Armtec Infrastructure Income Fund with the securities regulatory authorities, available at [www.sedar.com](http://www.sedar.com). There have been no material changes to Armtec's business from January 1, 2006 to November 1, 2006 that require an update to the discussion of the applicable risks.

## **FORWARD-LOOKING STATEMENTS**

This MD&A may contain "forward-looking" statements 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, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements contain such words as "may", "will", "expect", "believe", "plan" and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of November 1, 2006.

Forward-looking statements involve significant 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. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Risks and Uncertainties". Although the forward-looking statements contained in this report are based upon what management of Armtec believes are reasonable assumptions, the Fund can not assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A and the Fund assumes no obligation to update or revise them to reflect new events or circumstances.

# **Unaudited Interim Consolidated Financial Statements**

## **Armtec Infrastructure Income Fund**

**September 29, 2006**

**These interim financial statements have not been subjected to a review by Armtec Infrastructure Income Fund's external auditor.**

# Armtec Infrastructure Income Fund

## INTERIM CONSOLIDATED BALANCE SHEET

(expressed in thousands of Canadian dollars)

	September 29, 2006 (unaudited)	September 30, 2005 (unaudited)	December 31, 2005
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 9	\$ 17	\$ 10
Accounts receivable	36,795	35,150	18,946
Inventories	23,336	17,428	18,102
Prepaid expenses and other assets	1,088	1,798	1,590
Future income tax assets	174	174	174
	<b>61,402</b>	<b>54,567</b>	<b>38,822</b>
<b>Property, plant and equipment</b>	32,851	32,293	32,723
<b>Notes receivable</b>	473	-	-
<b>Deferred swap gain (note 2)</b>	50	-	30
<b>Goodwill</b>	36,331	34,021	34,021
<b>Intangible and other assets</b>	41,665	40,401	39,851
	<b>\$ 172,772</b>	<b>\$ 161,282</b>	<b>\$ 145,447</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 19,135	\$ 18,419	\$ 15,098
Distributions payable (note 3)	1,172	992	2,975
	<b>20,307</b>	<b>19,411</b>	<b>18,073</b>
<b>Long-term debt (note 2)</b>	47,818	36,138	25,225
<b>Post-employment obligations</b>	6,734	6,463	6,524
<b>Deferred swap loss payable (note 2)</b>	-	89	-
<b>Future income tax liabilities</b>	15,782	16,408	16,240
	<b>90,641</b>	<b>78,509</b>	<b>66,062</b>
<b>Unitholders' equity</b>			
Capital contributions	82,248	82,248	82,248
Cumulative earnings	31,282	16,869	18,439
Cumulative distributions (note 3)	(31,399)	(16,344)	(21,302)
	<b>82,131</b>	<b>82,773</b>	<b>79,385</b>
	<b>\$ 172,772</b>	<b>\$ 161,282</b>	<b>\$ 145,447</b>

Signed on behalf of the Trustees:

/s/ Robert J. Wright  
Robert J. Wright  
Chairman

/s/ Brian W. Jamieson  
Brian W. Jamieson  
Trustee

# Armtec Infrastructure Income Fund

## INTERIM CONSOLIDATED STATEMENT OF EARNINGS

(unaudited)

(expressed in thousands of Canadian dollars except per unit or unit data)

	Three Months Ended		Nine Months Ended	
	September 29, 2006	September 30, 2005	September 29, 2006	September 30, 2005
<b>Revenue</b>	\$ 60,078	\$ 58,937	\$ 130,340	\$ 119,139
Cost of sales	40,776	41,095	91,365	85,427
<b>Gross margin</b>	19,302	17,842	38,975	33,712
Selling, distribution, general, administrative and other expenses	9,052	8,383	24,856	22,187
<b>Earnings from operations</b>	<b>10,250</b>	<b>9,459</b>	<b>14,119</b>	<b>11,525</b>
Gain on sale of property, plant and equipment	(157)	-	(157)	-
Interest and financing expenses	812	464	1,907	1,359
<b>Earnings before taxes</b>	<b>9,595</b>	<b>8,995</b>	<b>12,369</b>	<b>10,166</b>
Recovery of future income taxes	156	170	474	507
<b>Net earnings for the period</b>	<b>\$ 9,751</b>	<b>\$ 9,165</b>	<b>\$ 12,843</b>	<b>\$ 10,673</b>
<b>Basic and diluted earnings per unit</b>	<b>\$ 1.08</b>	<b>\$ 1.02</b>	<b>\$ 1.42</b>	<b>\$ 1.18</b>
<b>Basic and diluted weighted average number of units outstanding</b>	<b>9,015,000</b>	<b>9,015,000</b>	<b>9,015,000</b>	<b>9,015,000</b>

The accompanying notes are an integral part of these consolidated financial statements.

# Armtec Infrastructure Income Fund

## INTERIM CONSOLIDATED STATEMENT OF UNITHOLDERS' EQUITY

For the nine months ended September 29, 2006

(unaudited)

(expressed in thousands of Canadian dollars)

	<b>Unitholders' Capital</b>	<b>Cumulative Earnings</b>	<b>Cumulative Distributions</b>	<b>Total</b>
<b>Balance, December 31, 2005</b>	<b>\$ 82,248</b>	<b>\$ 18,439</b>	<b>\$ (21,302)</b>	<b>\$ 79,385</b>
Net earnings for the period	-	12,843	-	12,843
Distributions (note 3)	-	-	(10,097)	(10,097)
<b>Balance, September 29, 2006</b>	<b>\$ 82,248</b>	<b>\$ 31,282</b>	<b>\$ (31,399)</b>	<b>\$ 82,131</b>

The accompanying notes are an integral part of these consolidated financial statements.

# Armtec Infrastructure Income Fund

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)  
(expressed in thousands of Canadian dollars)

	Three Months Ended		Nine Months Ended	
	September 29, 2006	September 30, 2005	September 29, 2006	September 30, 2005
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net earnings for the period	\$ 9,751	\$ 9,165	\$ 12,843	\$ 10,673
Items not affecting cash:				
Amortization of property, plant and equipment	853	903	2,584	2,752
Amortization of intangible assets	643	554	1,892	1,660
Recovery of future income taxes	(156)	(170)	(474)	(507)
Gain on sale of property, plant and equipment	(157)	-	(157)	-
Loss (gain) on interest rate swap	35	(124)	(20)	(82)
Non-cash post-employment benefits accrued	70	62	210	190
	11,039	10,390	16,878	14,686
Net increase in non-cash working capital (note 5)	(8,427)	(3,033)	(17,619)	(16,052)
<b>Cash provided by (used in) operating activities</b>	<b>2,612</b>	<b>7,357</b>	<b>(741)</b>	<b>(1,366)</b>
<b>Investing activities</b>				
Purchase of property, plant and equipment	(1,492)	(222)	(2,247)	(972)
Proceeds from sale of property, plant and equipment	226	-	226	-
Acquisition of business (note 8)	-	-	(7,481)	-
Acquisition of distribution license	-	-	(213)	-
<b>Cash used in investing activities</b>	<b>(1,266)</b>	<b>(222)</b>	<b>(9,715)</b>	<b>(972)</b>
<b>Financing activities</b>				
Net borrowings (repayments) under credit facilities	2,118	(4,154)	22,593	11,138
Payment of expenses related to initial public offering	-	-	-	(27)
Payment of bank financing fees	-	-	(238)	-
Distribution to unitholders	(3,516)	(2,975)	(11,900)	(11,629)
<b>Cash provided by (used in) financing activities</b>	<b>(1,398)</b>	<b>(7,129)</b>	<b>10,455</b>	<b>(518)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(52)</b>	<b>6</b>	<b>(1)</b>	<b>(2,856)</b>
<b>Cash and cash equivalents - Beginning of period</b>	<b>61</b>	<b>11</b>	<b>10</b>	<b>2,873</b>
<b>Cash and cash equivalents - End of period</b>	<b>\$ 9</b>	<b>\$ 17</b>	<b>\$ 9</b>	<b>\$ 17</b>
<b>Supplemental cash flow information</b>				
Interest paid	\$ 635	\$ 868	\$ 1,839	\$ 1,411
Income taxes paid	\$ -	\$ -	\$ -	\$ -

The accompanying notes are an integral part of these consolidated financial statements.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

### Note 1. Basis of Presentation

Armtec Infrastructure Income Fund (the “Fund”) is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario. The Fund was established to hold indirectly the securities and assets of Armtec Limited Partnership (“Armtec”).

The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”). The unaudited interim consolidated financial statements reflect the results of operations of the Fund and its wholly owned subsidiaries for the three and nine months ended September 29, 2006 and September 30, 2005. All intercompany transactions have been eliminated upon consolidation.

The preparation of financial data is based on accounting policies and practices consistent with those used in the preparation of the audited annual consolidated financial statements. These unaudited interim financial statements do not contain all the disclosures required in annual audited financial statements by Canadian GAAP, and accordingly should be read together with the audited annual consolidated financial statements and the accompanying notes included in the Fund’s 2005 annual financial statements.

Prior period results have been reclassified to conform to the current presentation of financial information.

### Note 2. Long-Term Indebtedness

	September 29, 2006	September 30, 2005	December 31, 2005
Non-revolving term facility	\$ 32,700	\$ 25,000	\$ 25,000
Revolving credit facility	15,118	11,138	225
	<b>\$ 47,818</b>	<b>\$ 36,138</b>	<b>\$ 25,225</b>

On July 27, 2004, the Fund entered into a three-year syndicated credit agreement that provided the Fund with access to a \$25.0 million term facility and a revolving credit facility of up to \$25.0 million. On February 1, 2006, the Fund renegotiated this agreement to increase the term facility to \$35.0 million. The maturity date for both facilities was extended from July 27, 2007 to February 1, 2009. As mentioned in Note 9, further amendments were made to this agreement in conjunction with the issuance of units in October 2006.

The credit facilities are secured by a first charge on the assets of the Fund and its subsidiaries, except for specified permitted encumbrances. The provisions under these facilities provide for restrictions on the operations and activities of the Fund. Generally, the most significant restrictions relate to permitted investments, distributions, as well as the incurrence and maintenance of certain financial ratios primarily linked to operating earnings before interest, taxes, depreciation and amortization. At September 29, 2006 and December 31, 2005, the Fund was in compliance with these covenants.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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. In September 2004, the Fund entered into an \$11.5 million interest rate swap, effectively converting the floating rate on a portion of the Fund's term loan to a fixed interest rate obligation with an effective interest rate before bank issuance costs of 3.8%. The interest rate swap matures on July 27, 2007. Unrealized gains and losses arising from fluctuations in the value of the interest rate swap are recorded as interest and financing expenses. An unrealized loss of \$35 was recorded in the three months ended September 29, 2006 and an unrealized gain of \$20 was recorded in the nine month period (an unrealized gain of \$123 and \$81 was recorded in the three and nine months ended September 30, 2005 respectively). The fair value of the interest rate swap was included with non-current assets at September 29, 2006 and December 31, 2005 and in long-term liabilities at September 30, 2005.

The average effective interest rate after related fees during the three and nine months ended September 29, 2006 was 6.52% and 6.10% respectively (5.43% and 5.40% for the three and nine months ended September 30, 2005 respectively). This accounts for the effects of the interest rates on the term and revolving facilities, borrowing fees in addition to the interest rate swap, but does not include any unrealized gains or losses in the period resulting from the revaluation of the interest rate swap.

### Note 3. Distributions

The Fund makes regular monthly distributions to unitholders of record as of the last business day of each month. Distributions to unitholders are calculated and recorded when declared. Distributions for the nine months ended September 29, 2006 are as follows:

<u>Period</u>	<u>Record date</u>	<u>Payment date</u>	<u>Per unit</u>	<u>Amount</u>
January 2006	January 31, 2006	February 15, 2006	\$ 0.11	\$ 991.65
February 2006	February 28, 2006	March 15, 2006	0.12	1,081.80
March 2006	March 31, 2006	April 13, 2006	0.12	1,081.80
April 2006	April 28, 2006	May 15, 2006	0.12	1,081.80
May 2006	May 31, 2006	June 15, 2006	0.13	1,171.95
June 2006	June 30, 2006	July 14, 2006	0.13	1,171.95
July 2006	July 31, 2006	August 15, 2006	0.13	1,171.95
August 2006	August 31, 2006	September 15, 2006	0.13	1,171.95
September 2006	September 29, 2006	October 13, 2006	0.13	1,171.95
			<u>\$ 1.12</u>	<u>\$ 10,096.80</u>

### Note 4. Long-Term Incentive Plan

Armtec has adopted a long-term incentive plan ("LTIP") to enhance the ability of the Company to attract, retain and motivate key personnel and reward senior management for superior performance and associated cash flow growth of the Fund on a per unit basis. Bonuses, in the form of units of the Fund, will be provided to eligible employees annually where the cash distributed by the Fund exceeds certain specified threshold amounts.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

If cash distributions declared per unit exceeds threshold amounts, a percentage of the excess cash distributions declared (the participation rate) is contributed by the Fund into a long-term incentive pool. The funds in this pool are used to purchase units of the Fund in the open market, to be provided to eligible employees as bonus compensation. The units vest evenly over a three-year period. As a result of the 2005 distributions exceeding threshold amounts, an LTIP entitlement of \$541 was approved with the acquisition of 28,995 units completed in 2006. An LTIP entitlement of \$271 was approved with respect to the 2004 distributions resulting in an open market acquisition of 20,015 units in 2005 of which, 6,672 units were vested and distributed to the plan participants in December 2005.

### Note 5. Changes in Non-Cash Working Capital

	Three Months Ended		Nine Months Ended	
	September 29, 2006	September 30, 2005	September 29, 2006	September 30, 2005
Cash provided by (used in):				
Accounts receivable	\$ (3,647)	\$ (6,830)	\$ (17,384)	\$ (17,564)
Inventories	(1,899)	6,091	(4,213)	(1,253)
Prepaid expenses, other assets and notes receivable	197	(681)	(75)	(310)
Accounts payable and accrued liabilities	(3,145)	(1,529)	4,037	3,051
Other	67	(84)	16	24
	<b>\$ (8,427)</b>	<b>\$ (3,033)</b>	<b>\$ (17,619)</b>	<b>\$ (16,052)</b>

### Note 6. Seasonal Nature of the Business

The Fund's results for the three and nine month periods ended September 29, 2006 and September 30, 2005 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in revenue levels. Since most of the Fund's products require outdoor installation, the Fund historically experiences higher levels of revenue during the summer months in the second and third quarters, while the first and fourth quarters experience lower revenue during the late fall and winter months. Occupancy related expenses, general and administration costs, depreciation and amortization and interest expenses remain relatively steady throughout the year.

### Note 7. Segmented Information

The Fund operates in one industry segment, manufactured drainage products and engineered solutions for infrastructure applications. The Fund derives its revenue from a large base of customers across Canada and internationally. During the three and nine months ended September 29, 2006 and September 30, 2005, no single customer accounted for greater than 10% of the total revenues.

The Fund's significant product lines include corrugated steel and high-density polyethylene pipe ("Pipe"), engineered steel products ("ESP"), and other products.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
(in thousands of Canadian dollars except unit and per unit amounts)

Revenues by significant product line are as follows:

	Three Months Ended		Nine Months Ended	
	September 29, 2006	September 30, 2005	September 29, 2006	September 30, 2005
Pipe	\$ 40,154	\$ 39,126	\$ 86,667	\$ 78,475
ESP	8,359	8,466	16,523	14,084
Other	11,565	11,345	27,150	26,580
	<u>\$ 60,078</u>	<u>\$ 58,937</u>	<u>130,340</u>	<u>119,139</u>

Domestic and export revenues are as follows:

	Three Months Ended		Nine Months Ended	
	September 29, 2006	September 30, 2005	September 29, 2006	September 30, 2005
Canada	\$ 57,432	\$ 56,606	\$ 121,853	\$ 111,684
International	2,646	2,331	8,487	7,455
	<u>\$ 60,078</u>	<u>\$ 58,937</u>	<u>130,340</u>	<u>119,139</u>

**Note 8. Business Acquisition**

On February 1, 2006, the Fund acquired the assets of the Construction Products Division of Twister Pipe Ltd. for approximately \$7,481, net of working capital adjustments and transaction costs. The acquisition has been accounted for using the purchase method, and the results of operations were consolidated with those of the Fund from the date of acquisition. The following information provides the estimated fair value of the assets acquired at February 1, 2006.

**Net Assets Acquired**

Accounts receivable	\$ 465
Inventories	1,021
Property, plant and equipment	534
Intangible assets	3,151
Goodwill	2,310
	<u>\$ 7,481</u>

**Consideration**

Consideration – Cash	\$ 7,700
Transaction costs	201
Working capital adjustment	(420)
Total Consideration	<u>\$ 7,481</u>

The intangible assets acquired include customer lists, customer contracts and a non-compete agreement with estimated useful lives between 5 and 15 years. The purchase price allocation provided is preliminary and is expected to be finalized by December 31, 2006.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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### Note 9. Subsequent Events

*a) Declaration of Distributions*

On October 18, 2006, a \$0.13 per unit distribution (for an aggregate of \$1,340) in respect of October 2006 was declared. The record date of the distribution was October 31, 2006 with an ex-dividend trading date of October 27, 2006. This distribution will be paid on November 15, 2006.

*b) Acquisition*

On October 10, 2006, the Fund announced the acquisition of the Culvert Division of Prairie Steel Products Ltd. and Prairie Steel Manufacturing Ltd. ("Prairie Steel") for approximately \$6,600, subject to working capital adjustments. The acquisition is expected to close on November 15, 2006. The acquisition will be financed with a portion of the proceeds from the issuance of units on October 26, 2006.

*c) Issuance of Units*

On October 26, 2006, the Fund completed a secondary issuance of 1,289,000 trust units at a unit price of \$19.40. Proceeds after transaction costs amounted to approximately \$23,756. A portion of the proceeds will be used to finance the acquisition of Prairie Steel, with the remaining net proceeds used to reduce the Fund's term debt.

*d) Amendment to Borrowing Facilities*

On October 25, 2006, the Fund completed amendments to its existing term and revolving credit facilities. The proceeds from the issuance of 1,289,000 trust units will first be applied to the acquisition of Prairie Steel, with the balance applied reduce outstanding term debt. The principal amendments to the borrowing facilities include a reduction in the variable interest rate on both the term and revolving credit facilities and the ability to re-borrow funds on the term facility up to the original \$35 million limit.

# Armtec Infrastructure Income Fund

## UNITHOLDER INFORMATION

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### **Auditors**

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### **Investor Relations**

Charles M. Phillips  
President & Chief Executive Officer  
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### **Toronto Stock Exchange Symbol**

ARF.UN

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