

Armtec Infrastructure Income Fund Management's Report to Unitholders

The accompanying consolidated financial statements of Armtec Infrastructure Income Fund (the "Fund" or "Armtec") and Management's Discussion and Analysis for the year ended December 31, 2006 have been prepared by management and approved by the Trustees of the Fund. The consolidated financial statements were prepared in accordance with accounting principles generally accepted in Canada and, where necessary, reflect management's estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data contained in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Fund and its subsidiaries maintain a system of internal controls designed to provide reasonable assurance that its assets are safeguarded, only valid and authorized transactions are executed and accurate, timely and comprehensive financial information is prepared.

The Audit Committee of the Fund is comprised of independent Trustees who are neither employees nor officers of Armtec. The Audit Committee meets with management and with external auditors to satisfy themselves that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the auditors' report. The Audit Committee provides recommendations to the Trustees regarding all financial matters. The external auditors have direct access to the Audit Committee.

The consolidated financial statements have been independently audited by PricewaterhouseCoopers LLP on behalf of the Unitholders, in accordance with generally accepted auditing standards in Canada. The Auditors' Report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Fund.

/s/ Charles M. Phillips
Charles M. Phillips, CA
President and Chief Executive Officer
Armtec Infrastructure Income Fund

/s/ R. John Slattery
R. John Slattery, CA
Senior Vice President, Finance and
Chief Financial Officer
Armtec Infrastructure Income Fund

Auditors' Report

To the Unitholders of
Armtec Infrastructure Income Fund

We have audited the consolidated balance sheets of Armtec Infrastructure Income Fund (the "Fund") as at December 31, 2006 and 2005 and the consolidated statements of earnings, unitholders' equity and cash flows for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years ended December 31, 2006 and 2005 in accordance with Canadian generally accepted accounting principles.

/s/ PricewaterhouseCoopers
LLP

Chartered Accountants
Mississauga, Canada
March 8, 2007

Armtec Infrastructure Income Fund

CONSOLIDATED BALANCE SHEET

(in thousands of Canadian dollars)

As at December 31

	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$ 26	\$ 10
Accounts receivable	18,446	19,017
Inventories (note 3)	19,778	18,102
Prepaid expenses and other assets	1,025	1,217
Future income tax assets (note 9)	101	157
	39,376	38,503
Property, plant and equipment (note 4)	32,575	32,299
Notes receivable	442	403
Goodwill (note 5)	39,548	34,021
Intangible assets (note 6)	44,453	40,275
	\$ 156,394	\$ 145,501
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 13,294	\$ 15,098
Distributions payable (note 11)	3,091	2,975
	16,385	18,073
Long-term debt (note 7)	16,044	25,225
Post-employment obligations (note 8)	6,596	6,524
Future income tax liabilities (note 9)	14,545	16,294
	53,570	66,116
Unitholders' equity		
Capital contributions (note 10)	105,773	82,248
Cumulative earnings	34,220	18,439
Cumulative distributions (note 11)	(37,169)	(21,302)
	102,824	79,385
	\$ 156,394	\$ 145,501

Signed on behalf of the Trustees:

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

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

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

Armtec Infrastructure Income Fund

CONSOLIDATED STATEMENT OF EARNINGS

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

For the year ended December 31	2006	2005
Revenue	\$ 166,166	\$ 154,904
Cost of sales	113,555	107,836
Amortization of property, plant and equipment	3,493	3,676
Gross margin	49,118	43,392
Distribution and warehousing	8,555	7,932
Selling, general and administrative	21,719	20,022
Amortization of intangible assets	2,428	2,210
Earnings from operations	16,416	13,228
Interest and financing expenses	2,328	1,661
Earnings before taxes	14,088	11,567
Recovery of future income taxes (note 9)	1,693	676
Net earnings for the year	\$ 15,781	\$ 12,243
Basic and diluted earnings per unit	\$ 1.71	\$ 1.36
Basic and diluted weighted average number of units outstanding	9,251,611	9,015,000

Armtec Infrastructure Income Fund

CONSOLIDATED STATEMENT OF UNITHOLDERS' EQUITY

(in thousands of Canadian dollars)

	Unitholders' Capital	Cumulative Earnings	Cumulative Distributions	Total
Issuance of units on initial public offering	\$ 82,275	\$ 6,196	\$ (7,780)	\$ 80,691
Issuance costs	(27)	-	-	(27)
Net earnings for the year	-	12,243	-	12,243
Distributions	-	-	(13,522)	(13,522)
Balance, December 31, 2005	\$ 82,248	\$ 18,439	\$ (21,302)	\$ 79,385
Units issued for cash consideration (note 10)	25,007	-	-	25,007
Issuance costs related to unit offering (note 10)	(1,482)	-	-	(1,482)
Net earnings for the year	-	15,781	-	15,781
Distributions (note 11)	-	-	(15,867)	(15,867)
Balance, December 31, 2006	\$ 105,773	\$ 34,220	\$ (37,169)	\$102,824

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

Armtec Infrastructure Income Fund

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of Canadian dollars)

For the year ended December 31	2006	2005
Cash provided by (used in)		
Operating activities		
Net earnings for the year	\$ 15,781	\$ 12,243
Items not affecting cash:		
Amortization of property, plant and equipment	3,493	3,676
Amortization of intangible assets	2,428	2,210
Future income taxes recovery	(1,693)	(676)
Gain on interest rate swap	(13)	(201)
Non-cash post-employment benefits expense	72	251
Loss (gain) on sale of property, plant and equipment	(140)	34
	19,928	17,537
Net increase in non-cash working capital (note 13)	(96)	(3,575)
Cash provided by operating activities	19,832	13,962
Investing activities		
Purchase of property, plant and equipment	(3,019)	(1,948)
Proceeds from sale of property, plant and equipment	247	12
Decrease (increase) in long term notes receivable	(39)	(59)
Purchase of intangible assets	(782)	(424)
Business acquisitions (note 16)	(14,589)	-
Cash used in investing activities	(18,182)	(2,419)
Financing activities		
Net proceeds from offering of fund units (note 10)	23,525	(27)
Net borrowings (repayments) under credit facility	(9,181)	225
Payment of bank financing fees	(227)	-
Distributions to unitholders	(15,751)	(14,604)
Cash used in financing activities	(1,634)	(14,406)
Net increase (decrease) in cash and cash equivalents	16	(2,863)
Cash and cash equivalents - Beginning of year	10	2,873
Cash and cash equivalents - End of year	\$ 26	\$ 10
Supplemental cash flow information		
Interest paid	\$ 2,372	\$ 1,844
Income taxes paid	\$ -	\$ -

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

Armtec Infrastructure Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1. Organization and Nature of Business

Armtec Infrastructure Income 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.

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 range of water control and geosynthetic products, and manufactures and distributes certain high value-added engineered products internationally.

Note 2. Summary of Significant Accounting Policies

Basis of consolidation

The Fund prepares its consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles (GAAP). The consolidated financial statements reflect the results of operations for the years ended December 31, 2006 and December 31, 2005.

The consolidated financial statements include the accounts of the Fund and its wholly owned subsidiaries. All significant transactions and balances have been eliminated upon consolidation.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and cash balances with major financial institutions.

Inventories

Inventories are stated at the lower of cost or replacement cost for raw materials and lower of cost or net realizable value for finished goods. Cost is determined based on standards, which approximate actual cost as determined on an average cost basis.

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated amortization. An impairment loss is recognized when the carrying amount of an asset is no longer recoverable from undiscounted future cash flows and exceeds fair value. Amortization is provided using the straight-line method over the estimated useful lives of approximately 30 years for buildings, 12 years for machinery and equipment, and 5 to 10 years for all other items. Leasehold improvements are amortized over the shorter of the useful life of the asset or the term of the lease.

Goodwill

Goodwill is the excess of the purchase price of business acquisitions over the fair value of net tangible and identifiable intangible assets acquired. Goodwill is not amortized but is assessed annually for impairment or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable.

Armtec operates as one reporting unit for purposes of evaluating goodwill. Impairment is recognized when the fair value of the reporting unit is less than the carrying value of the reporting unit's net assets.

Armtec Infrastructure Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Any impairment in the value of goodwill is recorded as a separate charge against earnings and a reduction in the carrying value of goodwill.

Intangible assets

Intangible assets are assets acquired that lack physical substance and that meet the specified criteria for recognition apart from goodwill. Intangible assets consist of trademarks and tradenames, customer contracts, customer lists, non-compete, agreements financing costs, licenses, development costs and the enterprise resource planning system. These assets are amortized over the estimated remaining useful lives on a straight line basis. Amortization is charged to earnings based on the estimated useful lives of the underlying assets as follows:

Trademarks and tradenames	25 years
Customer contracts	7 years
Customer lists	10 - 15 years
Enterprise resource planning ("ERP") system	8 years
Development costs	2 years
Non-compete agreements	The term of the agreement
Licenses	The lesser of the term of the agreement or 20 years
Deferred financing costs	The term of the underlying debt agreement

Intangible assets subject to amortization are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any impairment is recorded as a separate charge against earnings and a reduction of the carrying value of the intangible asset.

Research and development

Research costs are expensed as incurred. Where the criteria under GAAP are met, development costs are deferred and amortized over the estimated useful life of the technology.

Employee future benefits

Certain employees are entitled to post-employment benefits such as medical, dental and life insurance benefits. The Fund's obligation under such plans is determined annually by independent actuaries using management's assumptions and the attribution method. Unamortized actuarial gains and losses in excess of 10% of the benefit obligation are amortized over the expected average remaining service period of active employees expected to receive benefits under the plan.

Income taxes

The Fund is a mutual fund trust for income tax purposes, and therefore is not subject to tax on income distributed to unitholders. Taxes payable on income of the Fund's distribution to unitholders is the responsibility of individual unitholders.

The Fund's subsidiaries apply the liability method of accounting for income taxes. Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Future income taxes are measured using substantively enacted rates and laws that will be in effect when the differences are likely to reverse. If on the basis of available evidence it is more likely than not that all or a portion of a future tax asset will not be realized, a future tax asset is reduced by a valuation allowance.

On October 31, 2006, the Department of Finance announced tax proposals pertaining to the taxation of income distributed by publicly listed income trusts and the tax treatment of trust distributions to their unitholders. Currently, the Fund does not pay tax on income it distributes to its unitholders. If enacted,

Armtec Infrastructure Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

the proposals would apply to the fund effective January 1, 2011 and would result in Fund income being subject to a tax at the trust level

Revenue recognition

Revenue is recognized upon shipment when all significant obligations have been satisfied and collection is reasonably assured.

Translation of foreign currencies

Income and expenses in foreign currencies are translated into Canadian dollars at rates approximating the average rates of exchange during the period. Monetary assets and liabilities denominated in foreign currencies are translated at the period-end rate. Exchange gains and losses arising from translation are included in net earnings for the period.

Fair value of financial instruments

The Fund's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, an interest rate swap and long-term debt.

The carrying values of cash and cash equivalents, accounts receivable, 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 fair value of the interest rate swap is estimated based on the amount that would need to be paid or would be received to terminate the agreement as of the balance sheet date.

Armtec is exposed to credit risk with respect to its accounts receivable; however, this is minimized by Armtec's large customer base, which covers a diverse range of business sectors primarily in Canada. The Fund follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Fund maintains provisions for potential credit losses, and any such losses to date have been within management's expectations.

Hedging relationships

The Fund applies mark-to-market accounting to its \$11.5 million interest rate swap in accordance with the provision of CICA Accounting Guideline 13, "Hedging Relationships". The contract has been revalued to market value resulting in an unrealized gain of \$13 for the year ended December 31, 2006 (2005 - \$201). The fair value of the interest rate swap was included with current assets as at December 31, 2006.

Note 3. Inventories

	2006	2005
Raw materials	\$ 5,478	\$ 3,880
Finished goods	14,300	14,222
	<u>\$ 19,778</u>	<u>\$ 18,102</u>

Armtec Infrastructure Income Fund
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 4. Property, Plant and Equipment

			2006
	Cost	Accumulated Amortization	Net
Land	\$ 3,196	\$ -	\$ 3,196
Buildings	8,469	1,101	7,368
Machinery and equipment	25,769	6,905	18,864
Leasehold improvements	359	179	180
Furniture and fixtures	1,100	352	748
Construction-in-progress	2,219	-	2,219
	<u>\$ 41,112</u>	<u>\$ 8,537</u>	<u>\$ 32,575</u>

			2005
	Cost	Accumulated Amortization	Net
Land	\$ 3,196	\$ -	\$ 3,196
Buildings	8,313	642	7,671
Machinery and equipment	24,364	4,260	20,104
Leasehold improvements	277	98	179
Furniture and fixtures	901	201	700
Construction-in-progress	449	-	449
	<u>\$ 37,500</u>	<u>\$ 5,201</u>	<u>\$ 32,299</u>

Note 5. Goodwill

	2006	2005
Balance – Balance beginning of year	\$ 34,021	\$ 34,021
Goodwill acquired (note 16)	5,527	-
Balance – end of year	<u>\$ 39,548</u>	<u>\$ 34,021</u>

The Fund completed the annual goodwill impairment test and determined that there was no impairment in 2006 or 2005.

Armtec Infrastructure Income Fund
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 6. Intangible Assets

	2006	2005
		\$
Balance - Beginning of year	\$ 40,275	42,061
Intangibles acquired (note 16)	5,597	-
BEBO license acquired	213	-
Development costs incurred	93	-
Deferred financing costs incurred	227	-
ERP system costs incurred	476	424
Amortization	(2,428)	(2,210)
	<hr/>	<hr/>
Balance – End of year	<u>\$ 44,453</u>	<u>\$ 40,275</u>

		Accumulated	2006
	Cost	Amortization	Net
Trademarks and tradenames	\$ 22,500	\$ 1,862	\$ 20,638
Customer contracts	900	233	667
Customer lists	4,372	234	4,138
ERP system	217	13	204
Development costs	93	-	93
Non-compete agreements	1,320	88	1,232
Licenses	18,901	2,506	16,395
Deferred financing costs	876	473	403
ERP system in process	683	-	683
	<hr/>	<hr/>	<hr/>
	<u>\$ 49,862</u>	<u>\$ 5,409</u>	<u>\$ 44,453</u>

		Accumulated	2005
	Cost	Amortization	Net
Trademarks and tradenames	\$ 22,500	\$ 950	\$ 21,550
Customer contracts	600	107	493
Customer lists	395	50	345
ERP system	-	-	-
Development costs	-	-	-
Non-compete agreements	-	-	-
Licenses	18,688	1,570	17,118
Deferred financing costs	649	304	345
ERP system in process	424	-	424
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	<u>\$ 43,256</u>	<u>\$ 2,981</u>	<u>\$ 40,275</u>

Armtec Infrastructure Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 7. Long-Term Indebtedness

	2006	2005
Revolving facility	\$ 1,044	\$ 225
Term facility	15,000	25,000
	<u>\$ 16,044</u>	<u>\$ 25,225</u>

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, this agreement was amended to provide access to a \$35.0 million term facility and a \$25 million revolving credit facility. The entire credit facility is repayable in full on February 9, 2009. On October 26, 2006, the agreement was further amended to allow a one-time repayment on the term facility and also providing for the ability to re-borrow under the term agreement subject to certain conditions.

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. 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 December 31, 2006 and 2005, the Fund was in compliance with these covenants.

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. The unrealized gain recorded in the year ended December 31, 2006 was \$13 (2005 - \$201). The fair value of the interest rate swap was included with current assets.

The average effective interest rate after related fees during the year ended December 31, 2006 was 6.1% (2005 - 5.43%). 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.

Armtec Infrastructure Income Fund
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 8. Post Employment Obligations

The Fund provides post-employment benefits to qualifying retirees. The most recent actuarial valuation of the post-employment benefit plan was as of January 1, 2006, and the next required valuation will be as of January 1, 2009. Information about the Fund's unfunded post-employment benefit plan is as follows:

Change in post-employment benefit obligation:	2006	2005
Post-employment benefit obligation at the beginning of the period	\$ 7,594	\$ 6,677
Change in obligation on revaluation	(1,758)	-
Service cost – benefits earned	31	54
Interest cost	286	380
Actuarial losses	-	666
Benefits paid	(245)	(183)
Post-employment benefit obligation at the end of the period	5,908	7,594
Unamortized net actuarial (gain) loss	688	(1,070)
Accrued post-employment benefit obligation	\$ 6,596	\$ 6,524
The Fund expense		
Service cost – benefits earned	\$ 31	\$ 54
Interest cost	286	380
Net post-employment plan expense	\$ 317	\$ 434
Actuarial assumptions		
Discount rate	5.00%	5.00%
Medical inflation ¹	8.50%	9.00%
Dental inflation	5.00%	5.00%

¹Medical inflation is assumed to be 8.0% in 2007, declining 0.5% per year to 5.0% for 2013 and thereafter.

Effect of change in health care cost trend rate	2006	2005
<i>1% Increase</i>		
Service cost and interest cost	\$ 47	\$ 70
Accrued post-employment benefit	\$ 763	\$ 1,094
<i>1% Decrease</i>		
Service cost and interest cost	\$ (33)	\$ (56)
Accrued post-employment benefit	\$ (643)	\$ (903)

Armtec Infrastructure Income Fund
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 9. Income Taxes

The significant components of the future tax assets and liabilities are as follows:

	2006	2005
Future income tax assets – current		
Accruals, reserves and other	\$ 101	\$ 157
Future income tax liabilities - long-term		
Intangibles	11,340	13,386
Property, plant and equipment	4,333	4,604
Post-employment obligation	(1,997)	(2,232)
Other	869	536
	<u>14,545</u>	<u>16,294</u>
Net future income tax liabilities	<u>\$ 14,444</u>	<u>\$ 16,137</u>

The recovery of income taxes differs from the provision computed at statutory rates as follows:

	2006	2005
Expected income tax at a combined rate of 34.0%	\$ 4,790	\$ 3,957
Net earnings of the Fund not taxable	(5,323)	(4,966)
Impact of enacted rate change	(1,234)	-
Other	74	333
Recovery of future income taxes	<u>\$ (1,693)</u>	<u>\$ (676)</u>

Note 10. Capital Contributions

Authorized:

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. All units are of the same class with equal rights and privileges and are not subject to future calls or assessments. Each unit entitles the holder to one vote at all meetings of unitholders. Units are redeemable at any time at the option of the holder at amounts related to market prices at the time, subject to certain factors including a maximum of \$50 in cash redemptions by the Fund in any particular month. This limitation may be waived at the discretion of the Trustees of the Fund. Redemptions in excess of this amount, assuming no waiving of the limitation, shall be paid by way of a distribution in specie of a pro rata amount of assets of the Fund.

Unitholders' Rights Plan:

On December 1, 2006 the Fund implemented a Unitholders Rights Plan, the primary objective of which is to provide the trustees of the Fund with sufficient time to explore and develop alternatives for maximizing unitholder value if a takeover bid is made for units in the capital of the Fund and to provide that every unitholder is treated fairly in connection with such a bid. The Unitholders Rights Plan encourages a potential acquirer to proceed either by way of a permitted bid, which requires a takeover to satisfy certain minimum standards designed to promote fairness, or with the concurrence of the trustees. The Unitholders Rights Plan as currently implemented must be ratified by the unitholders within six months of the implementation to continue to have force and effect beyond the six month period.

Armtec Infrastructure Income Fund
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Units issued and outstanding:

	Number of units	Amount
Initial issuance of trust units, July 27, 2004	9,015,000	\$ 82,275
Issuance costs in 2005 related to the IPO	-	(27)
Balance, December 31, 2005	9,015,000	\$ 82,248
Unit issuance October 26, 2006	1,289,000	25,007
Issuance costs	-	(1,482)
Balance December 31, 2006	10,304,000	\$105,773

On October 26, 2006 the fund completed a public offering of 1,289,000 units at \$19.40 per unit for cash proceeds of \$25,007 less issuance costs of \$1,482.

Note 11. Distributions

In 2006, the Fund made regular monthly distributions to unitholders of record as of the last business day of each month. Distributions to unitholders were calculated and recorded when declared. Distributions for the year ended December 31, 2006 were as follows:

Period	Record date	Payment date	Per unit	Amount
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
October 2006	October 31, 2006	November 15, 2006	0.13	1,339.52
November 2006	November 30, 2006	December 15, 2006	0.13	1,339.52
December 2006	December 29, 2006	January 15, 2007	0.13	1,339.52
Special Distribution	December 29, 2006	January 26, 2007	0.17	1,751.68
			\$ 1.68	\$15,867.04

For the year ended December 31, 2005, total distributions of \$13,522.5 were declared. Since inception, the Fund has declared \$37,169.4 in distributions.

Note 12. Incentive Plans

Long Term Incentive Plan ("LTIP")

Armtec maintains 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, may be provided to eligible employees annually where certain conditions are met.

When the conditions of the plan are met, the Fund will set aside a pool of funds with Computershare Trust Company of Canada as the plan administrator of the LTIP. 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

Armtec Infrastructure Income Fund
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

units vest evenly over a three-year period and once vested are transferred to the eligible employee. An LTIP entitlement of \$410 was approved in respect of 2006 with the acquisition of units to be completed in the spring of 2007. Units held in the plan as at December 31, 2006 vest as follows:

Year awarded	Award amount	Year units purchased	Number of units	Vesting year			
				2005	2006	2007	2008
2004	\$ 271	2005	20,015	6,671	6,672	6,672	-
2005	541	2006	28,995	-	9,665	9,665	9,665
Total	<u>\$ 812</u>		<u>49,010</u>	<u>6,671</u>	<u>16,337</u>	<u>16,337</u>	<u>9,665</u>

The associated expense is recognized over a term consisting of the current and three vesting periods. Once the LTIP is funded, the amount to be recognized as expense in future periods is classified as a prepaid expense on the balance sheet. The expense, prepaid expense and associated liability recognized in the 2006 and 2005 years are as follows:

	2006	2005
Prepaid expenses and other assets	\$ 173	\$ 75
Accounts payable and accrued liabilities	(148)	(195)
	<u>\$ 25</u>	<u>\$ (120)</u>
Included in selling, general and administration expense	\$ 396	\$ 293

Trustees' Phantom Unit Plan

On June 14, 2006, unitholders of the Fund approved the adoption of a Phantom Unit Plan which provides the Trustees with the opportunity to receive authorized but unissued phantom units in lieu of cash consideration. Each phantom unit awarded is equivalent in value to an actual unit of the Fund. The phantom units vest immediately and are reflected as a liability in the balance sheet and compensation expense in the income statement. During 2006, 7,387 phantom units (2005 – nil) were issued under the plan. The Fund recorded an expense of \$130 in selling, general and administrative associated with the phantom units issued in 2006 (2005 - \$nil).

Note 13. Changes in Non-Cash Working Capital

	2006	2005
Cash provided by (used in)		
Accounts receivable	\$ 1,911	\$ (1,023)
Inventories	(132)	(1,927)
Prepaid expenses and other assets	192	(380)
Accounts payable and accrued liabilities	(2,067)	(270)
Other	-	25
	<u>\$ (96)</u>	<u>\$ (3,575)</u>

Armtec Infrastructure Income Fund
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Note 14. Contingencies and Commitments

- a) The annual commitments under operating leases as of December 31, 2006 are as follows:

2007	\$ 1,639
2008	1,532
2009	1,327
2010	1,135
2011	981
Thereafter	2,281
	<u>\$ 8,895</u>

- b) Royalties

The Fund has entered into licensing agreements whereby it has the right to use certain trademarks on its products in the normal course of business. Royalties under such agreements range from 1.0% to 5.0% of eligible sales.

- c) ERP System

The Fund purchased an ERP System in fiscal 2005 and will continue implementing the system throughout fiscal 2007. Outstanding commitments for consulting services related to the implementation amounted to \$130 at December 31, 2006.

- d) Contingent Liabilities

In the normal course of its business activities, the Fund is subject to a number of claims and legal actions that may be made by customers, suppliers and others in respect of which either an adequate provision has been made or for which no material liability is expected.

Note 15. Segmented Information

The Fund operates in one industry segment, manufacturing 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 year ended December 31, 2006 and 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 products ("EP"), and other products.

For the Year ended December 31, 2006

	Pipe	EP	Other	Total
Revenues by significant product line:	\$110,152	\$ 22,124	\$ 33,890	\$ 166,166
		Canada	International	Total
Domestic and import revenues:		\$155,876	\$10,290	\$ 166,166

For the Year ended December 31, 2005

	Pipe	EP	Other	Total
Revenues by significant product line:	\$101,717	\$19,156	\$34,031	\$154,904
		Canada	International	Total
Domestic and import revenues:		\$144,265	\$10,639	\$154,904

Armtec Infrastructure Income Fund
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(in thousands of Canadian dollars except unit and per unit amounts)

Note 16. Business Acquisitions

Twister Pipe Ltd. (“Twister”)

In January 2006, the Fund completed the acquisition of the construction products division of Twister Pipe Ltd. located in Calgary Alberta. Total consideration was \$7.7 million. Certain adjustments have been made to the purchase allocation throughout the year.

Prairie Steel Products Ltd. and Prairie Steel Manufacturing Ltd. (“Prairie”)

In November 2006, the Fund acquired the culvert manufacturing and distribution division business of Prairie Steel Products Ltd. and Prairie Steel Manufacturing Ltd. for consideration of \$7.2 million.

Net Assets Acquired	Twister	Prairie	Total
Accounts receivable	\$ 464	\$ 863	\$ 1,327
Inventories	1,021	523	1,544
Property and equipment	534	323	857
Goodwill	2,531	2,996	5,527
Intangibles			
Customer contracts	300	-	300
Customer lists	2,370	1,607	3,977
Non-compete	481	839	1,320
	<u>3,151</u>	<u>2,446</u>	<u>5,597</u>
	<u>\$ 7,701</u>	<u>\$ 7,151</u>	<u>\$ 14,852</u>
Consideration			
Consideration – Cash	\$ 7,499	\$ 7,090	\$ 14,589
Payable over the next year	202	61	263
Total Consideration	<u>\$ 7,701</u>	<u>\$ 7,151</u>	<u>\$ 14,852</u>

These acquisitions have been accounted for using the purchase price method and accordingly, the consolidated financial statements include the results of operations for the businesses from the date of acquisition. The purchase price, including transaction costs, has been allocated to the net assets acquired based on management’s best estimate of fair values.

Note 17. Comparative Figures

Certain comparative figures have been reclassified in accordance with the current year’s presentation.

Note 18. Subsequent Events

a) *Declaration of Distributions*

On January 18, 2007, a \$0.13 per unit (for an aggregate of \$1,339.5) distribution in respect of January 2007 was declared. The record date of the distribution was January 31, 2007. This distribution was paid on February 15, 2007.

On February 16, 2007, a \$0.13 per unit (for an aggregate of \$1,339.5) distribution in respect of February 2007 was declared. The record date of the distribution was February 28, 2007. This distribution will be paid on March 15, 2007.