

Armtec Infrastructure Income Fund



Interim Consolidated Financial Statements (unaudited)

For the period ended:

March 31, 2007

These interim consolidated 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

(in thousands of Canadian dollars)

	March 31 2007 (unaudited)	March 31 2006 (unaudited)	December 31 2006
Assets			
Current assets			
Cash and cash equivalents	\$ 15	\$ 16	\$ 26
Accounts receivable	17,299	14,647	18,446
Inventory	24,666	23,017	19,778
Prepaid expenses and other assets	1,041	1,185	1,025
Future income tax assets	101	157	101
	43,122	39,022	39,376
Property, plant and equipment	31,929	32,073	32,575
Notes receivable	383	382	442
Goodwill	39,548	36,310	39,548
Intangible assets	43,490	42,719	44,050
	\$ 158,472	\$ 150,506	\$ 155,991
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	\$ 13,939	\$ 13,627	\$ 13,294
Distributions payable	1,340	1,082	3,091
	15,279	14,709	16,385
Long-term debt	25,708	40,466	15,641
Post-employment obligations	6,607	6,595	6,596
Future income tax liabilities	14,385	16,126	14,545
	61,979	77,896	53,167
Unitholders' equity			
Capital contributions	105,773	82,248	105,773
Cumulative earnings	31,908	14,820	34,220
Cumulative distributions	(41,188)	(24,458)	(37,169)
	96,493	72,610	102,824
	\$ 158,472	\$ 150,506	\$ 155,991

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

INTERIM CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

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

For the three months ended March 31	2007	2006
Revenue	\$ 21,848	\$ 20,440
Cost of sales	15,864	15,494
Amortization of property, plant and equipment	870	866
Gross margin	5,114	4,080
Distribution and warehousing	1,138	1,442
Selling, general and administrative	5,456	5,367
Amortization of intangible assets	657	542
Loss from operations	(2,137)	(3,271)
Interest	288	471
Amortization of deferred financing fees	47	45
Interest and financing expenses	335	516
Loss before taxes	(2,472)	(3,787)
Recovery of future income taxes	160	168
Loss and comprehensive loss for the period	\$ (2,312)	\$ (3,619)
Basic and diluted loss per unit	\$ (0.22)	\$ (0.40)
Basic and diluted weighted average number of units outstanding	10,304,000	9,015,000

Armtec Infrastructure Income Fund

INTERIM CONSOLIDATED STATEMENT OF UNITHOLDERS' EQUITY

(in thousands of Canadian dollars)
(unaudited)

	Accumulated Comprehensive Loss	Unitholders' Capital	Cumulative Earnings	Cumulative Distributions	Total
Balance - December 31, 2006	\$ -	\$ 105,773	\$ 34,220	\$ (37,169)	\$ 102,824
Loss for the period	-	-	(2,312)	-	(2,312)
Other comprehensive income	-	-	-	-	-
Distributions for the period (Note 5)	-	-	-	(4,019)	(4,019)
Balance - March 31, 2007	\$ -	\$ 105,773	\$ 31,908	\$ (41,188)	\$ 96,493
Balance - December 31, 2005	\$ -	\$ 82,248	\$ 18,439	\$ (21,302)	\$ 79,385
Loss for the period	-	-	(3,619)	-	(3,619)
Other comprehensive income	-	-	-	-	-
Distributions for the period	-	-	-	(3,155)	(3,155)
Balance - March 31, 2006	\$ -	\$ 82,248	\$ 14,820	\$ (24,457)	\$ 72,611

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

Armtec Infrastructure Income Fund

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of Canadian dollars)
(unaudited)

For the three months ended March 31	2007	2006
Cash provided by (used in):		
Operating activities		
Net loss for the year	\$ (2,312)	\$ (3,619)
Items not affecting cash:		
Amortization of property, plant and equipment	870	866
Amortization of intangible assets	657	542
Amortization of deferred financing fees	47	45
Future income taxes recovery	(160)	(168)
Non-cash post-employment benefits expense	11	71
Loss on sale of property, plant and equipment	7	-
	(880)	(2,263)
Net increase in non-cash working capital (Note 7)	(2,849)	(498)
Cash used in operating activities	(3,729)	(2,761)
Investing activities		
Purchase of property, plant and equipment	(249)	(121)
Proceeds from sale of property, plant and equipment	18	15
Decrease in long-term notes receivable	59	21
Purchase of intangible assets	(97)	(180)
Business acquisitions (Note 9)	(263)	(7,460)
Cash used in investing activities	(532)	(7,725)
Financing activities		
Net borrowings under credit facility	10,020	15,756
Payment of bank financing fees	-	(215)
Distributions to unitholders	(5,770)	(5,049)
Cash provided by financing activities	4,250	10,492
Net (decrease) increase in cash and cash equivalents	(11)	6
Cash and cash equivalents - Beginning of period	26	10
Cash and cash equivalents - End of period	\$ 15	\$ 16
Supplemental cash flow information		
Interest paid	\$ 323	\$ 529
Income taxes paid	\$ -	\$ -

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

Armtec Infrastructure Income Fund

NOTES TO CONSOLIDATED INTERIM 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. Basis of presentation

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 months ended March 31, 2007 and 2006. 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, except as noted below.

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 2006 financial statements.

Note 3. Changes in Accounting Policies

The Fund has adopted the Canadian Institute of Chartered Accountants ("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.

a) Financial Assets and Liabilities (Section 3855) and Hedging relationships (Section 3865)

Under the new standard, all financial instruments were classified into the following categories: held for trading, held to maturity investments, loans and receivables, available for sale financial assets or other financial liabilities. All financial instruments within the scope of the standard are included in the consolidated financial statements and are initially measured at fair value. Subsequently, all financial instruments are re-measured to fair value at each reporting period except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Held for trading financial investments are subsequently measured at fair value and all gains and losses as a result of re-measurement are included in net income in the period in which they arise. Available for sale financial instruments are subsequently measured at fair value with revaluation gains and losses included in other comprehensive income until the instrument is derecognized or impaired.

As a result of the adoption of this standard, the Fund has classified its cash and cash equivalents as held for trading. Accounts receivable and long-term notes receivable have been classified as loans and receivables. Accounts payable and long-term debt have been classified as other financial liabilities.

The Fund continues to apply mark-to-market accounting to its \$11.5 million interest rate swap as it does not apply hedge accounting to this instrument. The contract has been revalued to market value resulting in an unrealized loss of \$13 for the period ended March 31, 2007 (2006 – unrealized gain of \$19). The fair value of the interest rate swap was included with current assets as at March 31, 2007.

Management has assessed the impact of adopting these standards and has determined that there were no significant changes to the presentation and measurement of financial instruments in the consolidated financial statements except for the reclassification of deferred financing fees from intangible assets to long-term debt.

b) Comprehensive income (Section 1530)

Comprehensive income or loss introduces a new requirement to present, among other things, certain unrealized gains and losses outside of net income or loss. Section 1530 defines comprehensive income or loss as a change in net assets arising from transactions and other events and circumstances from non-owner sources. The new standard requires the presentation of a statement of comprehensive income or loss. Management has assessed the impact of adopting this standard and has determined that there is no

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

significant change and as a result has combined the statement of comprehensive income of loss with the former statement of income or loss.

Note 4. Seasonal Nature of the Business

The Fund's results for the three month periods ended March 31, 2007 and 2006 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 5. Distributions

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 period ended March 31, 2007 were as follows:

Period	Record date	Payment date	Per unit	Amount
January 2007	January 31, 2007	February 15, 2007	\$ 0.13	\$ 1,339.52
February 2007	February 28, 2007	March 15, 2007	0.13	1,339.52
March 2007	March 30, 2007	April 13, 2007	0.13	1,339.52
			\$ 0.39	\$ 4,018.56

Note 6. Incentive Plans

Long Term Incentive Plan ("LTIP")

Armtec maintains a long-term incentive plan 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 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 the 2006 year. These funds were used to purchase units throughout April 2007.

The units available in the plan vest as follows:

Year awarded	Award amount	Year units purchased	Number of units	Vesting year – December 31				
				2005	2006	2007	2008	2009
2004	\$ 271	2005	20,015	6,671	6,672	6,672	-	-
2005	541	2006	28,995	-	9,665	9,665	9,665	-
2006	410	2007	21,999	-	-	7,333	7,333	7,333
Total	\$1,222		71,009	6,671	16,337	23,670	16,998	7,333

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The associated expense is recognized over a term consisting of the current and three vesting periods. The expense, prepaid expense and associated liability recognized in the periods ended March 31, 2007 and 2006 were as follows:

For the three months ended March 31	2007	2006
Prepaid expenses and other assets	\$ 79	\$ 13
Accounts payable and accrued liabilities	(148)	(195)
	\$ (69)	\$ (182)
Included in selling, general and administration expense	\$ 94	\$ 62

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 the period ended March 31, 2007, 3,312 phantom units (2006 – nil) were issued under the plan for a total units outstanding of 10,699 (2006 - nil). The Fund recorded a compensation expense of \$54 in selling, general and administrative with regard to the phantom units issued in the period ended March 31, 2007 (2006 - \$nil).

Note 7. Changes in Non-Cash Working Capital

For the three months ended March 31	2007	2006
Cash provided by (used in):		
Accounts receivable	\$ 1,147	\$ 4,835
Inventory	(4,888)	(3,894)
Prepaid expenses and other assets	(16)	32
Accounts payable and accrued liabilities	908	(1,471)
	\$ (2,849)	\$ (498)

Note 8. Segmented Information

The Fund operates in one industry segment, manufacturing drainage products and engineered solutions primarily for infrastructure applications. The Fund derives its revenue from a large base of customers across Canada and internationally. During the period ended March 31, 2007 and 2006, 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 ("other").

With the recent new product additions, management has re-evaluated the products classified as engineered products and other products. As a result of this review, sales of gates and CONTECH Stormwater detention systems, previously classified as other, will be classified as engineered products. In addition, guardrail, signposts and other steel based products which do not involve the same level of engineering will be moved from engineered products and grouped with other products. Prior years' figures have been restated to reflect the new classification.

For the three months ended March 31, 2007:

	Pipe	EP	Other	Total
Revenues by significant product line:	\$ 12,462	\$ 5,038	\$ 4,348	\$ 21,848
		Canada	International	Total
Domestic and import revenues:		\$ 20,638	\$ 1,210	\$ 21,848

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For the three months ended March 31, 2006:

	Pipe	EP	Other	Total
Revenues by significant product line:	\$ 12,251	\$ 3,290	\$ 4,899	\$ 20,440
		Canada	International	Total
Domestic and import revenues:		\$ 18,184	\$ 2,256	\$ 20,440

Note 9. Business Acquisitions

In February 2006, Armtec completed the acquisition of the Twister Pipe Ltd. ("Twister") for a total cost of \$7.7 million with \$0.2 million paid in the first quarter of 2007. In November 2006, the Fund completed the acquisition of Prairie Steel Products Ltd. and Prairie Steel Manufacturing Ltd. ("Prairie Steel") for a total cost of \$7.2 million with \$0.1 million paid in the first quarter of 2007.

Twister Acquisition

On February 1, 2006, the Fund completed the acquisition of the construction products division of Twister Pipe Ltd. located in Calgary Alberta. Consideration used for preliminary fair value estimates at March 31, 2006 was \$7.5 million. Total consideration and transaction costs incurred during 2006 amounted to \$7.7 million.

Net Assets Acquired

Accounts receivable	\$ 465
Inventories	1,021
Property and equipment	534
Goodwill	2,289
Intangibles	3,151
Consideration	\$ 7,460

This acquisition has 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 10. Comparative Figures

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

Note 11. Subsequent Events

On April 19, 2007, a \$0.13 per unit (for an aggregate of \$1,339.5) distribution in respect of April 2007 was declared. The record date of the distribution was April 30, 2007, with a payment date of May 15, 2007.