

# Armtec Infrastructure Income Fund

## To Our Unitholders

We are pleased to report that Armtec achieved solid performance in the second quarter of fiscal 2007 which built on the strong start recorded in the first quarter. The results reflect the diversity of our markets, which include a range of products serving multiple markets across many geographic regions, delivering overall growth in the Fund despite fluctuations in some markets. The Fund experienced a shift in customer scheduling requirements in 2007 resulting in an unusually strong first quarter. The second quarter results, as compared with 2006, are stable and in-line with management's expectations. The Fund has again achieved overall growth for the first six months of 2007.

### Highlights:

- Revenues of \$49.8 million are consistent with the second quarter of 2006, with sales growth in agricultural markets offsetting a decline in natural resources. For the six month period, revenue grew \$1.3 million to \$71.6 with sales growth in agricultural and infrastructure markets offsetting a decline in natural resources.
- Gross margin improved to 32.4% from 31.1% of revenues for the second quarter and for the six month period to 29.6% from 27.9% of revenues. Margin improvement is a result of a favourable product mix combined with continued lean manufacturing initiatives.
- EBITDA<sup>1</sup> increased to \$8.8 million compared to \$8.7 million for the quarter and to \$8.2 million which represents a 19.7% improvement over the \$6.8 million for the total six month period.
- Distributable cash<sup>1</sup> increased to \$8.2 million from \$7.8 million for the second quarter. For the first six months, distributable cash improved \$1.7 million or 32.3% from \$5.3 million in 2006 to \$7.0 million in 2007.
- Declared distributions of \$8.0 million up from \$6.6 million for the first half of 2006.

Second quarter volumes were supported by improved sales into the agricultural market, due to increased crop prices related in part to a greater demand for ethanol. Also, we continued to benefit from public infrastructure spending across the country, particularly in Western Canada. Our improved margins reflect the contribution of recent strategic investments to increase our manufacturing capacity and better position us to capitalize on increased infrastructure product demand. In addition, the Fund continues to benefit from the impact of lean manufacturing initiatives and improved material utilization, as well as a favourable product mix.

The outlook for the remainder of 2007 is positive. The strategic diversity that defines the Fund will continue to drive future growth in our markets. Infrastructure spending is expected to remain strong as a result of sizable multi-year commitments announced by governments across Canada this year. The outlook for our private markets is mixed with improving conditions in agricultural offset by weakness in forestry and some scheduling issues in international projects.

Our new joint venture in South Korea, currently in the start-up phase of operations, is expected to broaden the Fund's geographic reach. The South Korean market is significant and is expected to expand due to the continuing development of its road system.

Going forward, we continue to seek new growth opportunities across all markets and introduce improved production efficiencies to create greater value for our unitholders.

We look forward to updating you on our progress at the end of the next quarter.

Sincerely,

Robert J. Wright  
Chairman of the Board of Trustees  
August 1, 2007

Charles M. Phillips  
President and Chief Executive Officer  
August 1, 2007

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<sup>1</sup> For more information, refer to the Non-GAAP measures section of the attached Management's Discussion and Analysis.

# **Armtec Infrastructure Income Fund**

## **Management's Discussion and Analysis For the three and six months ended June 30, 2007**

The following Management's Discussion and Analysis ("MD&A") of Armtec Infrastructure Income Fund for the six months ended June 30, 2007 should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes thereto as well as the audited consolidated financial statements for the year ended December 31, 2006, accompanying notes thereto and other public disclosures available. In this MD&A, the terms "the Fund", "Armtec" or "the Company" mean Armtec Infrastructure Income Fund together with the Fund's portion of its joint venture, Fixon-Armtec Ltd., and its subsidiaries: Armtec Operating Trust, Armtec Holdings Limited, Armtec Limited Partnership Corp. and Armtec Limited Partnership.

This MD&A has been prepared as at August 1, 2007.

Additional information regarding the Fund, including continuous disclosure materials such as the Annual Information Form, is available on the Fund's website at [www.armtecincomefund.com](http://www.armtecincomefund.com) or through SEDAR at [www.sedar.com](http://www.sedar.com).

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

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

## **Overview of the Fund**

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

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 ("HDPE") pipe, corrugated steel pipe ("CSP") 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 and South Korea.

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

## Results of Operations

(in thousands of Canadian dollars) (unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
<b>Revenue</b>	<b>\$ 49,763</b>	<b>\$ 49,822</b>	<b>\$ 71,611</b>	<b>\$ 70,262</b>
Cost of sales	32,738	33,465	48,602	48,959
Amortization of property, plant and equipment	923	865	1,793	1,731
<b>Gross margin</b>	<b>16,102</b>	<b>15,492</b>	<b>21,216</b>	<b>19,572</b>
As a % of revenue	32.4%	31.1%	29.6%	27.9%
Distribution and warehousing	2,424	2,374	3,562	3,816
Selling, general and administrative	5,818	5,291	11,274	10,658
Amortization of intangible assets	656	600	1,313	1,142
<b>Earnings from operations</b>	<b>7,204</b>	<b>7,227</b>	<b>5,067</b>	<b>3,956</b>
Interest and financing expenses	(524)	(666)	(859)	(1,182)
<b>Earnings before taxes</b>	<b>6,680</b>	<b>6,561</b>	<b>4,208</b>	<b>2,774</b>
Interest and financing expenses	524	666	859	1,182
Total amortization	1,579	1,465	3,106	2,873
<b>EBITDA</b>	<b>\$ 8,783</b>	<b>\$ 8,692</b>	<b>\$ 8,173</b>	<b>\$ 6,829</b>
As a % of revenue	17.6%	17.4%	11.4%	9.7%

## Overview

Armtec serves a wide range of end markets and geographic regions which enabled the Fund to achieve overall growth for the first half of 2007 despite declines in some markets. The Fund has also experienced a shift in customer scheduling requirements in 2007. Most of Armtec's products require outdoor installation and therefore the timing of installations is subject to weather conditions. The Fund typically generates higher levels of revenues in the summer months during peak construction periods. In 2007, a large number of engineered projects were shipped during the first quarter where scheduling requirements necessitated winter construction or staging for earlier spring installation. The revenue levels achieved in the second quarter in 2007 are consistent with 2006 levels and are in-line with expectations.

## Second Quarter Results

### REVENUE

After a strong start to 2007, due in part to the timing of certain large engineered product orders, second quarter revenues of \$49.8 million were consistent with the second quarter of 2006. Armtec serves a variety of end markets and geographic regions which has supported stable revenues in the quarter despite declines in some markets. Sales growth in the agricultural market during the second quarter of 2007 offset the decline experienced in natural resources. Residential and infrastructure market activity remained consistent with the second quarter of 2006.

### REVENUE BY SIGNIFICANT PRODUCT LINE

(in thousands of Canadian dollars) (unaudited)	Three Months Ended June 30,	
	2007	2006
Pipe Products	\$ 35,175	\$ 34,262
Engineered Products	5,760	5,566
Other Products	8,828	9,994
<b>Total revenue</b>	<b>\$ 49,763</b>	<b>\$ 49,822</b>

During the first quarter of 2007, management re-evaluated the products classified as Engineered Products, and Other Products. As a result of this review, sales of gates and CONTECH<sup>®</sup> Stormwater detention systems, previously classified as Other Products, were classified as Engineered Products. Guardrail, sign posts and other steel based products which do not involve the same level of engineering were moved from Engineered Products and grouped with Other Products. Prior years' figures have been restated to reflect the new classification.

### **Pipe Products**

Pipe revenue increased \$0.9 million to \$35.2 million in the second quarter of 2007 as compared to \$34.3 million in 2006. Sales into agricultural markets across Quebec and Ontario increased over the same quarter of last year. Installation conditions improved over prior years and crop prices are rising due in part to the increase in demand for ethanol. Sales into the infrastructure market were consistent with activity in Western Canada offsetting declines in other parts of the country. Sales of corrugated steel pipe were responsible for the majority of the increase in the second quarter of 2007 as a result of the 2006 acquisitions combined with overall market activity in Western Canada.

### **Engineered Products**

Revenue increased \$0.2 million to \$5.8 million for Engineered Products during the second quarter of 2007 over the same period in 2006. Sales for the second quarter of 2007 include CONTECH Stormwater detention systems. Armtec entered into a distribution agreement with CONTECH Stormwater Solutions late in the second quarter of 2006.

Sales of engineered products are normally associated with large projects and are influenced by the timing of customer requirements. In 2007, a large number of projects required shipment of product earlier in the year in order to accommodate winter construction and staging for early spring construction. This shift in requirements has resulted in a very strong year for Armtec's engineered product line but has resulted in stronger first quarter performance and a flat second quarter when compared to the same periods in 2006. Product shipments for infrastructure applications across Canada increased offsetting declines in international shipments which vary with the timing of large scale long running project installations. Also in 2007, there were fewer shipments for mining and energy projects than in the second quarter of 2006.

On May 18, 2007, Armtec established a joint venture to manufacture bridge products in South Korea. As expected, sales in the first few weeks of production and start-up of the facility are not significant in the quarter.

### **Other Products**

The second quarter of 2007 revenue was \$8.8 million, a decrease of \$1.2 million from sales of \$10.0 million in the second quarter of 2006. Geosynthetic products account for a significant portion of Other Products and experienced a sales decline across Canada during the quarter. In 2006, there were significant Geosynthetic installations related to infrastructure applications in Western Canada. The strengthening of the Canadian dollar has impacted the pricing of these US sourced products. As a resale product, the lower sales value has minimal impact on Armtec's overall margin.

### **GROSS MARGIN**

Gross margin for the second quarter ended June 30, 2007 was \$16.1 million, an improvement of \$0.6 million over \$15.5 million earned in the second quarter of 2006. As a percentage of sales, margins have improved over 2006 levels 1.3 percentage points to 32.4% in the second quarter of 2007. The margin improvement is attributed to implemented lean manufacturing initiatives combined with a favourable product mix. The Fund continues to invest in lean manufacturing in order to continually improve manufacturing processes and material utilization. Amortization of property, plant and equipment was flat at \$0.9 million compared to 2006 levels.

### **EARNINGS FROM OPERATIONS**

Earnings from operations for the second quarter ended June 30, 2007 was \$7.2 million, which is comparable to the three months ended in 2006. Consistent revenues with improved margins, related to lean initiatives and sales mix, were offset by higher selling and administrative costs. Distribution costs were consistent with prior years. Selling, general and administrative expenses increased as a result of increased sales resources required to meet current customer and market demands as well as supporting an expanded product base. Additional one-time costs in the amount of \$0.2 million were incurred in the second quarter of 2007 related to the implementation of the shareholder rights plan and the establishment of the new joint venture.

Amortization of intangible assets increased over the comparative quarter in 2006. In November 2006, Armtec acquired additional intangible assets through the purchase of a culvert manufacturing operation in Saskatchewan. The Fund acquired customer lists and a non-compete agreement. Amortization of these assets commenced in 2007. The Fund also entered into a license agreement to sell BEBO Arch Structures in Central and Western Canada in July 2006 which also contributed to the increase in the quarter.

### **EBITDA**

EBITDA for the three months ended June 30, 2007 was \$8.8 million compared to \$8.7 million in the second quarter of 2006. Sales were consistent at \$49.8 million for both 2007 and 2006 quarters. Margin improvements related to mix and the result of lean initiatives were offset by increased selling, general and administrative costs incurred to support sales efforts in growing markets and the establishment of the joint venture in South Korea.

## Year to Date Results

### REVENUE

For the six months ended June 30, 2007, revenues were \$71.6 million, an increase of \$1.3 million over \$70.3 million for the same period of 2006. The revenue increase was due primarily to improved sales into the agricultural and infrastructure markets. Agricultural installation conditions improved in 2007 as compared to 2006 and crop prices, which drive demand for drainage, are rising due in part to an increased demand for ethanol. Large orders destined for public infrastructure projects across the country also contributed to the growth in the first half of 2007. Natural resource activity was lower in 2007 as compared to levels in the first half of 2006.

### REVENUE BY SIGNIFICANT PRODUCT LINE

(in thousands of Canadian dollars) (unaudited)	Six Months Ended June 30,	
	2007	2006
Pipe Products	\$ 47,637	\$ 46,513
Engineered Products	10,798	8,856
Other Products	13,176	14,893
<b>Total revenue</b>	<b>\$ 71,611</b>	<b>\$ 70,262</b>

### Pipe Products

For the first six months of 2007, revenues from Pipe Product sales were \$47.6 million as compared to \$46.5 million for the same six month period of 2006. Sales into the agricultural markets of Quebec and Central Canada increased over the same period last year. Installation conditions have improved in 2007 with drier spring weather allowing access to the fields before the growing season is underway. Commodity prices have also increased, due in part to increased ethanol demand.

Sales of corrugated steel pipe increased in 2007 partially offset by lower HDPE volumes as compared to the same period of 2006. Sales of CSP into the Western Canada infrastructure market offset declines across other areas of the country. This growth was supported by the 2006 acquisitions of the construction products division of Twister Pipe Ltd. and the culvert manufacturing and distribution operations of Prairie Steel Products Ltd. and Prairie Steel Manufacturing Ltd. HDPE pipe sales for the first half of 2007 remain lower than 2006 levels. Residential construction activity in the United States has declined considerably and has impacted the overall demand for HDPE products in North America. While the Canadian infrastructure HDPE markets served by the company continue to show consistent activity, the surplus capacity in the US, combined with a stronger Canadian dollar, has increased the overall level of competition among North American suppliers.

### Engineered Products

Engineered Product revenues in the six month period ended June 30, 2007 increased \$1.9 million or 21.9% over the same period in 2006. Armtec's sales for the first half of 2007 include some of the first shipments for CONTECH Stormwater detention solutions. Armtec entered into a distribution agreement with CONTECH Stormwater Solutions late in the second quarter of 2006. As a distributor, the margins achieved on these products are lower than the manufactured engineering solutions provided by Armtec.

Gate sales were consistent with 2006 levels while shipments of high-value engineered steel products contributed to the growth noted in 2007. Shipments for infrastructure applications were higher across Canada offsetting lower international and natural resource market projects in 2007 as compared to the first six months in 2006.

### Other Products

For the six month period ended June 30, 2007, revenue was \$13.2 million, a decline of \$1.7 million, from sales of \$14.9 million in the equivalent period in 2006. Geosynthetic products account for a significant portion of Other Products and experienced a sales decline across Canada during the first half of 2007. In 2006, there was a higher than normal level of Geosynthetic installations in Western Canada related to infrastructure applications. The 2007 decline in forestry activity has also impacted the installations of these products. The strengthened Canadian dollar has impacted the pricing of Geosynthetic products which are primarily sourced in the US for distribution in Canada.

## **GROSS MARGIN**

Gross margin for the first six months ended in 2007 was \$21.2 million, an improvement of \$1.6 million over \$19.6 million for the same period in 2006. As a percentage of sales, gross margin increased 1.7 percentage points to 29.6% as compared to 27.9% in the same period of 2006. Increased sales, favourable product mix with growth in higher margin engineered applications and continued lean manufacturing initiatives all contributed to the margin increase. Management continues to focus on lean manufacturing initiatives to continually improve manufacturing processes and the utilization of raw materials. Amortization remains consistent at \$1.8 million for the 2007 period versus \$1.7 million for 2006.

## **EARNINGS FROM OPERATIONS**

Earnings from operations for the six months ended June 30, 2007 was \$5.1 million, an improvement of \$1.1 million over the comparable period in 2006. Growth in revenues with improved margins related to sales mix, and the results of continuous lean manufacturing initiatives, contributed to the improvement in earnings. Distribution and warehousing costs were \$0.3 million lower than 2006. Distribution costs vary with the mix of products sold.

Selling, general and administrative expenses were \$11.3 million as compared to \$10.7 million in the first six months of 2006. The Fund has continued to expand sales resources in active market places in order to meet current customer and market demands as well as support an expanded product base. The Fund has also committed resources to support the ongoing implementation of the ERP system. The Fund expects the implementation to be completed by the end of 2007. Additional one-time costs in the amount of \$0.2 million were incurred in the second quarter of 2007 related to the establishment of the new joint venture and the implementation of the shareholder's rights plan. The Fund continues to devote resources to executing on its growth strategy.

Amortization of intangible assets increased as expected in the first six months of 2007 over 2006. In November 2006, Armtec acquired additional intangible assets through the purchase of a culvert manufacturing operation in Saskatchewan. The Fund acquired customer lists and a non-compete agreement. Amortization of these assets commenced in 2007. The Fund also entered into a license agreement to sell BEBO Arch Structures in Central and Western Canada in July 2006 which also contributed to the increase.

## **EBITDA**

EBITDA for the six months ended June 30, 2007 was \$8.2 million compared to \$6.8 million in the same period of 2006. The \$1.4 million or 19.7% increase was primarily due to a 1.9% growth in revenue and improved margin contribution over 2006. This margin was influenced by a shift in product mix related to increased sales of higher margin Engineered Products offsetting declines in Other Product sales. The continuous review and application of lean manufacturing improvements continues to support earnings in a competitive market place. Higher selling and administrative costs in support of sales efforts in active market areas and the establishment of the joint venture in South Korea offset some of the margin improvements achieved so far this year.

## **Interest and Financing Expenses**

During the three and six months ended June 30, 2007, interest incurred on borrowings amounted to \$0.5 million and \$0.8 million respectively. This expense is primarily interest on borrowings net of nominal losses on the revaluation of the Fund's interest rate swap in place on \$11.5 million of the \$17.0 million term debt. During the comparative quarter and year to date periods of 2006, interest expense amounted to approximately \$0.6 million and \$1.1 million respectively. Included for the three months of 2006 was a nominal gain on the interest rate swap, and for the six months of 2006 a \$0.1 million gain on the interest rate swap. Interest incurred on borrowings decreased during the current year due to lower borrowing levels. The Fund reduced the level of term debt outstanding by \$10.0 million in October 2006 with proceeds from an issuance of additional fund units. During the second quarter of 2007, the Fund advanced approximately \$2.0 million on the term debt to primarily fund the acquisition of manufacturing equipment related to the joint venture in South Korea.

## **Income Taxes**

As the Fund is a mutual fund trust for Canadian income tax purposes, income allocated to unitholders effectively reduces the Fund's current income tax to nil. On June 12, 2007, the previously announced tax proposals were substantively enacted pertaining to the taxation of income distributed by publicly listed income trusts and the tax treatment of trust distributions to their unitholders. Management has reviewed the immediate impact of the enactment and there has been no significant change for the Fund. Management anticipates that the Fund will not be subject to tax until January 1, 2011.

During the second quarter of 2007, the Fund paid \$0.6 million for a reassessment of income taxes related to periods prior to July 27, 2004 and had been provided for previously. On July 27, 2004, the Fund indirectly acquired all of the securities of Armtec Holdings Limited which held 100% ownership of Armtec Limited for cash consideration of \$78.4 million. In July 2007, cash of \$0.5 million was received with respect to an indemnification of income tax liabilities incurred prior to July 27, 2004. The funds received will be reflected as a reduction of the original consideration paid as a reduction of goodwill.

Future income tax recoveries are recognized as a result of temporary differences related primarily to the amortization of intangible assets present in the subsidiaries of the Fund. In the three months ended June 30, 2007, \$0.3 million was recognized (2006 - \$0.2 million). For the six months ended June 30, 2007, \$0.4 million was recognized (2006 - \$0.3 million).

## **Cash Flow and Liquidity**

(in thousands of Canadian dollars) (unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
<b>Cash provided by (used in):</b>				
Operating activities	\$ 105	\$ (635)	\$ (3,624)	\$ (3,396)
Investing activities	(2,126)	(703)	(2,658)	(8,428)
Financing activities	2,237	1,383	6,487	11,875
Effect of translation adjustment	(10)	-	(10)	-
Net increase in cash and cash equivalents	206	45	195	51
Cash and cash equivalents – beginning of period	15	16	26	10
<b>Cash and cash equivalents – end of period</b>	<b>\$ 221</b>	<b>\$ 61</b>	<b>\$ 221</b>	<b>\$ 61</b>

As at June 30, 2007, the Fund's cash and cash equivalents amounted to \$221 as compared to \$61 in the previous year's quarter. The Fund had working capital of \$35.5 million at June 30, 2007, an increase of \$2.5 million compared to working capital of \$33.0 million at June 30, 2006 and \$12.5 million over December 31, 2006 levels. Management is of the opinion that this level of working capital is sufficient to meet short-term obligations.

### **Operating Activities**

For the three months ended June 30, 2007, the Fund provided \$0.1 million of cash from operations compared to a use of \$0.6 million in the comparative period. Cash of \$8.3 million was generated before the change in non-cash working capital. The increase was primarily provided by earnings in the period of \$7.0 million. Cash generated before the change in non-cash working capital in 2006 was \$8.1 million, driven by earnings during the period of \$6.7 million.

The seasonal nature of the business is characterized by an increase in receivables as the main selling period begins and an increase in payables as inventory is sold and replenished. The second quarter use of cash from changes in non-cash working capital in 2007 was \$8.2 million which was lower than the \$8.8 million used in 2006. This is a result of the timing of shipments along with the expected buildup of inventory and improved collections.

For the six months ended June 30, 2007, the Fund used \$3.6 million of cash from operations compared to \$3.4 million in the prior period. During the 2007 period, cash of \$7.5 million was generated before non-cash working capital changes. The increase in earnings over the prior year contributed to the growth. Non-cash working capital utilized \$11.1 million of operating cash flow representing an increase of \$1.8 million over the \$9.3 million used in the prior year. This is due to a larger build up of inventories partially offset by a corresponding increase in payables during the first half of 2007. The build in inventory relates to the timing and volume of shipments expected during the summer months.

In accordance with the seasonal trends of the business, the Fund built working capital during the first half of 2007 to meet the increased business volumes during the summer months. The Fund's revolving credit facility is available to finance these temporary increases in working capital needs.

### **Investing Activities**

The Fund utilized net funds of \$2.1 million related to investing activities during the second quarter of 2007 as compared to the \$0.7 million of cash used in the second quarter of 2006. The \$2.1 million utilized in 2007 is mostly related to purchases of property, plant and equipment. A total of \$1.8 million relates to the acquisition of manufacturing equipment which is being leased to the new joint venture with Fixon Inc. in South Korea. The new venture was formed May 18, 2007 and will manufacture Armtec bridge products for sale in the expanding South

Korean market place. Significant items in the prior year's investing activities included \$0.1 million for the implementation of the ERP system and \$0.2 million the acquisition of a distribution license to sell BEBO concrete bridge technology.

Cash used in investing activities totaled \$2.7 million for the six months ended June 30, 2007 compared to \$8.4 million for the same period in 2006. Purchases of intangibles and property, plant and equipment totaled \$2.5 million for the first half of 2007. Significant items include \$1.8 million of manufacturing equipment for the new joint venture and \$0.2 million related to the ongoing installation of the ERP system. In 2006, \$7.5 million was used to acquire the net assets of the construction products division of Twister Pipe Ltd. located in Calgary, Alberta. Also in 2006 \$0.2 million was incurred for the implementation of the ERP system and \$0.2 million related to the acquisition of the distribution license from BEBO. The joint venture manufacturing equipment, ERP installation and Twister expenditures were considered generative for the purposes of determining distributable cash.

### Financing Activities

Cash provided by financing activities in the second quarter of 2007 was \$2.2 million as compared to \$1.4 million provided in the second quarter of 2006. During the second quarter of 2007, distributions paid to unitholders amounted to \$4.0 million. In the same period for 2006, \$3.3 million was paid to unitholders. Regular distributions paid in the period were \$0.13 per unit for the three months ended June 30, 2007 compared to \$0.12 per unit for April 2006 and \$0.13 per unit for May and June 2006. Distributions were paid on 10,304,000 units outstanding for the second quarter of 2007 compared to 9,015,000 units outstanding for 2006. During the second quarter of 2007, the Fund borrowed \$6.3 million on its credit facility compared with borrowings of \$4.7 million during the same quarter of 2006. Approximately \$1.8 million in 2007 related to the acquisition of the manufacturing equipment used in the South Korean joint venture.

During the six month period ended June 30, 2007, financing activities provided \$6.5 million compared to \$11.9 million provided in 2006. During the first half of 2007, distributions paid to unitholders amounted to \$9.8 million, of which \$3.1 million was declared and payable in respect of 2006 but paid in January 2007. Regular distributions paid during the six months ended June 30, 2007 were at \$0.13 per unit and paid on 10,304,000 units outstanding. The first six months of 2006 saw \$8.4 million paid on 9,015,000 units outstanding. Regular distributions paid in the period were \$0.11 per unit for January 2006, \$0.12 per unit for February through April 2006, and \$0.13 per unit for May and June 2006. Additional trust units were issued in October 2006. During the first half of 2007, the Fund borrowed \$16.3 million on its credit facility as compared to \$20.5 million in 2006. In addition to funding the increase in working capital, the Fund drew on its credit facilities to fund the Twister acquisition. Associated with the Twister acquisition was a renegotiation of the credit facilities in place at the time resulting in \$0.2 million of bank financing fees.

### DISTRIBUTABLE CASH

(in thousands of Canadian dollars except per unit data) (unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
<b>Net earnings for the period</b>	<b>\$ 6,950</b>	<b>\$ 6,711</b>	<b>\$ 4,638</b>	<b>\$ 3,092</b>
Recovery of future income taxes	(270)	(150)	(430)	(318)
Amortization of property, plant and equipment	923	865	1,793	1,731
Amortization of intangible assets	656	600	1,313	1,142
Interest and financing expenses	524	666	859	1,182
<b>EBITDA</b>	<b>8,783</b>	<b>8,692</b>	<b>8,173</b>	<b>6,829</b>
Sustaining capital purchases	(145)	(291)	(368)	(412)
Interest	(477)	(624)	(765)	(1,095)
<b>Distributable cash</b>	<b>\$ 8,161</b>	<b>\$ 7,777</b>	<b>\$ 7,040</b>	<b>\$ 5,322</b>
Distributions declared	\$ 4,018	\$ 3,426	\$ 8,037	\$ 6,581
Earnings per unit	\$ 0.67	\$ 0.74	\$ 0.45	\$ 0.34
Distributable cash per unit	\$ 0.79	\$ 0.86	\$ 0.68	\$ 0.59
Distributions declared per unit	\$ 0.39	\$ 0.38	\$ 0.78	\$ 0.73
Weighted average number of units	10,304,000	9,015,000	10,304,000	9,015,000

Regular distributions of \$4.0 million and \$8.0 million were declared for the three and six month periods ended June 30, 2007 as compared to \$3.4 million and \$6.6 million for 2006. Distributions are financed through the seasonal borrowings under the revolving credit facility.

## DISTRIBUTIONS

The Fund makes 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 six months ended June 30, 2007 were as follows:  
(in Canadian dollars except per unit amount)

<b>Period</b>	<b>Record date</b>	<b>Payment date</b>	<b>Per unit</b>	<b>Amount</b>
January 2007	January 31, 2007	February 15, 2007	\$ 0.13	\$ 1,339,520
February 2007	February 28, 2007	March 15, 2007	0.13	1,339,520
March 2007	March 30, 2007	April 13, 2007	0.13	1,339,520
April 2007	April 30, 2007	May 15, 2007	0.13	1,339,520
May 2007	May 31, 2007	June 15, 2007	0.13	1,339,520
June 2007	June 29, 2007	July 13, 2007	0.13	1,339,520
			<b>\$ 0.78</b>	<b>\$ 8,037,120</b>

## Outlook

Armtec serves a diverse range of markets and geographic areas. The largest of these markets is publicly financed infrastructure which has become a priority for governments at all levels after many years of neglect. The outlook for infrastructure spending is positive as a result of the current projects and the multi-year commitments announced in the 2007 provincial budgets. Increases in the level of spending in Western Canada, as well as consistent activity across the rest of the country, at all levels of government, support the demand from this sector. Identified international projects, on the other hand, do not support the same level of activity as the Fund experienced in 2006. International shipments are generally part of large infrastructure projects and subject to variability with customer delivery requirements.

Natural resource markets continue to have mixed results. Investment activity in energy and mining projects is expected to continue, but further growth from the levels of the last few years is not expected. Forestry markets remain challenged due to the low forestry and pulp and paper prices, mill closures as well as government mandated cutting restrictions.

Agricultural markets are improving. Crop prices are rising due in part to the increased demand for ethanol. Residential construction activity in the United States has declined considerably and this has impacted the demand for certain products across North America. While the Canadian HDPE markets served by the Fund have experienced consistent activity, competition among North American suppliers has increased.

The 2006 acquisition of Twister and the recent completion of HDPE production expansion in Alberta has increased capacity and positioned Armtec as the only manufacturer of both HDPE and CSP manufacturer in the province. In 2006, the Fund also acquired Prairie Steel in Saskatchewan. Future development of proven oil, uranium and potash reserves is expected to generate new investment in this province. Armtec's product offering now includes BEBO bridge products and CONTECH Stormwater Solutions. These new offerings are expected to support the Fund's shipments into the infrastructure market in 2007.

During the second quarter of 2007, the Fund finalized a joint venture in South Korea. While it is still in the early stages of the operation, the joint venture is expected to support Armtec's growth strategy by broadening the Fund's geographic presence. The market in South Korea is significant and is expected to expand due to the continuing development of the country's road system.

## Capital Resources

Armtec has credit facilities that provide a \$35.0 million term facility and a \$25.0 million revolving credit facility, both at variable interest rates. At June 30, 2007, \$17.0 million had been advanced and was outstanding on the term facility while \$15.3 million was outstanding on the revolving credit facility. Due to the seasonality of the business, the revolving credit facility is available to support temporary cash requirements for working capital and distributions. The entire credit facility is repayable in full on February 9, 2009. There are no mandatory principal repayments on the term or revolving facilities prior to maturity in February 2009. Armtec is in compliance with all credit facilities covenants.

Management estimates that approximately \$1.5 million will be spent on an annual basis for sustaining capital expenditures in order to maintain Armtec's current manufacturing capacity.

Although anticipated cash distributions to unitholders are not commitments at June 30, 2007, 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.

## **Off-Balance Sheet Arrangements**

The Fund's off-balance sheet arrangements consist of operating leases and 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 licenses require royalty payments at certain predetermined levels based on the profitability of certain products. Royalty obligations are accrued when the associated profit is recognized.

## **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. As at August 1, 2007, there are 10,304,000 units issued and outstanding.

## **Summary of Quarterly Results**

(in thousands of Canadian dollars except for unit data)  
(unaudited)

<b>Three months ended</b>	<b>Jun 30, 2007</b>	<b>Mar 31, 2007</b>	<b>Dec 31, 2006</b>	<b>Sep 29, 2006</b>	<b>Jun 30, 2006</b>	<b>Mar 31, 2006</b>	<b>Dec 31, 2005</b>	<b>Sep 30, 2005</b>
Revenue	\$ 49,763	\$ 21,848	\$ 35,825	\$ 60,079	\$ 49,822	\$ 20,440	\$ 35,765	\$ 58,937
Net earnings (loss)	\$ 6,950	\$ (2,312)	\$ 2,938	\$ 9,751	\$ 6,711	\$ (3,619)	\$ 1,570	\$ 9,165
Basic and diluted earnings (loss) per unit	\$ 0.67	\$ (0.22)	\$ 0.30	\$ 1.08	\$ 0.74	\$ (0.40)	\$ 0.17	\$ 1.02

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

## **Non-GAAP Measures**

### **Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA")**

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

### **Distributable Cash**

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 expenses, including amortization and future income taxes, and reduced by expenditures required to sustain the current state of operations. 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 and comprehensive earnings as a measure of profitability or the statement of cash flows. Furthermore, the Fund's method of calculating distributable cash may not be comparable to other similarly named calculations.

## EBITDA and Distributable Cash

(in thousands of Canadian dollars) (unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	<b>Earnings for the period</b>	<b>\$ 6,950</b>	<b>\$ 6,711</b>	<b>\$ 4,638</b>
Recovery of future income taxes	(270)	(150)	(430)	(318)
Amortization of property, plant and equipment	923	865	1,793	1,731
Amortization of intangible assets	656	600	1,313	1,142
Interest and financing expenses	524	666	859	1,182
<b>EBITDA</b>	<b>8,783</b>	<b>8,692</b>	<b>8,173</b>	<b>6,829</b>
Sustaining capital purchases	(145)	(291)	(368)	(412)
Interest	(477)	(624)	(765)	(1,095)
<b>Distributable cash</b>	<b>\$ 8,161</b>	<b>\$ 7,777</b>	<b>\$ 7,040</b>	<b>\$ 5,322</b>

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

(in thousands of Canadian dollars) (unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	Sustaining capital purchases	\$ 145	\$ 291	\$ 368
Generative capital purchases	2,046	391	2,169	571
<b>Total purchases</b>	<b>\$ 2,191</b>	<b>\$ 682</b>	<b>\$ 2,537</b>	<b>\$ 983</b>
Purchase of intangible assets	\$ 78	\$ 349	\$ 175	\$ 529
Purchase of property, plant and equipment	2,113	333	2,362	454
<b>Total purchases</b>	<b>\$ 2,191</b>	<b>\$ 682</b>	<b>\$ 2,537</b>	<b>\$ 983</b>

Sustaining capital expenditures excludes assets that are considered generative, which includes for the six months ended June 30, 2007: \$1.8 million related to manufacturing equipment to be used in the South Korean joint venture, \$0.2 million related to the continuing implementation of the ERP system and \$0.2 million related to the purchase and installation of the HDPE production line in Lethbridge, Alberta. For the six months ended June 30, 2006, the generative related expenditures included \$0.2 million related to the new ERP system and \$0.2 million for the acquisition of the BEBO distribution license.

## Cash Flow from Operating Activities Reconciled to Distributable Cash

(in thousands of Canadian dollars) (unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	<b>Cash used in operating activities</b>	<b>\$ 105</b>	<b>\$ (635)</b>	<b>\$ (3,624)</b>
Items not affecting cash:				
Non-cash post-employment benefits expense	(10)	(69)	(21)	(140)
Loss on sale of property, plant and equipment	(14)	-	(21)	-
Items not affecting operating cash flow:				
Sustaining capital purchases	(145)	(291)	(368)	(412)
Net increase in non-cash working capital	8,225	8,772	11,074	9,270
<b>Distributable cash</b>	<b>\$ 8,161</b>	<b>\$ 7,777</b>	<b>\$ 7,040</b>	<b>\$ 5,322</b>

## Critical Accounting Estimates

The Fund's discussion and analysis of its financial condition and results of operations, including the discussion on liquidity and capital resources, is based upon the Fund's interim consolidated financial statements, which have been prepared in accordance with Canadian GAAP except where noted. The preparation of these interim consolidated financial statements requires 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 judgments and estimates used in the preparation of the Fund's interim consolidated financial statements, refer to the Fund's annual MD&A. There are no material updates to these estimates based on events from January 1, 2007 to August 1, 2007.

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

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" and Section 3865 entitled "Hedges" on January 1, 2007. During the second quarter of 2007, it was determined that the foreign operations were self-sustaining and the foreign currency translation was accounted for accordingly.

### **a) Financial assets and liabilities and hedging relationships**

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 a unrealized loss of \$15 and \$28 for the three and six month periods ended June 30, 2007 (2006 – unrealized gain of \$36 and \$55) respectively. The fair value of the interest rate swap is included with current assets.

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**

Comprehensive income introduces a new requirement to present, among other things, certain unrealized gains and losses outside of net income. Section 1530 defines comprehensive income 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. Management has assessed the impact of adopting this standard and has determined that there is no significant change.

### **c) Foreign currency translation**

For foreign operations that are considered self-sustaining, the current rate method of translating foreign currencies has been used. Under this method, assets and liabilities are translated into Canadian dollars at period-end exchange rates and revenues and expenses are translated at average rates during the period. The resulting unrealized exchange gains and losses arising from the translation of the financial statements of these foreign operations are deferred and recorded as a component of accumulated other comprehensive income within unitholders' equity.

Effective January 1, 2008, the Fund will be required to adopt further standards changes from the CICA. The Fund does not expect Section 1535 "Capital Disclosures", Section 3862 "Financial Instruments – disclosures", Section 3863 "Financial Instruments – presentation", and Section 3031 "Inventories" to have a material effect on the financial performance of the Fund, however, management will continue to evaluate the impact of these changes.

## **Proposed Transactions**

The Fund has signed an agreement with the City of Saskatoon for the expropriation of part of the Saskatoon location for proceeds of \$1.2 million with a closing date of November 2007. The operations will not be required to move to a new location until May of 2009.

## **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; acquisition and expansion risk; capital and liquidity risk; 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; availability and price volatility of raw materials; product liability; intellectual property; reliance on key personnel; collective bargaining agreement; interest rates; uninsured and underinsured losses; environmental, health and safety requirements; operating hazards; risk of future legal proceedings; securities laws compliance and corporate governance standards; tax law risk; 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. 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, 2007 to August 1, 2007 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 August 1, 2007.

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 cannot 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.