

# Armtec Infrastructure Income Fund

## INTERIM CONSOLIDATED BALANCE SHEET

(in thousands of Canadian dollars)

	September 30, 2007 (unaudited)	September 29, 2006 (unaudited)	December 31, 2006
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 119	\$ 9	\$ 26
Accounts receivable	37,925	36,807	18,446
Inventory	22,118	23,336	19,778
Prepaid expenses and other assets	1,791	1,243	1,025
Future income tax assets	101	157	101
	<b>62,054</b>	<b>61,552</b>	<b>39,376</b>
<b>Property, plant and equipment</b>	31,837	32,033	32,575
<b>Note receivable</b>	175	461	442
<b>Goodwill</b>	39,012	36,331	39,548
<b>Intangible assets</b>	42,279	41,943	44,050
	<b>\$ 175,357</b>	<b>\$ 172,320</b>	<b>\$ 155,991</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 21,684	\$ 19,077	\$ 13,294
Distributions payable	1,340	1,172	3,091
	<b>23,024</b>	<b>20,249</b>	<b>16,385</b>
<b>Long-term debt</b>	25,981	47,386	15,641
<b>Post-employment obligations</b>	6,624	6,734	6,596
<b>Future income tax liabilities</b>	13,314	15,820	14,545
	<b>68,943</b>	<b>90,189</b>	<b>53,167</b>
<b>Unitholders' equity</b>	<b>106,414</b>	<b>82,131</b>	<b>102,824</b>
	<b>\$ 175,357</b>	<b>\$ 172,320</b>	<b>\$ 155,991</b>

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 EARNINGS

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

(unaudited)

	Three Months Ended		Nine Months Ended	
	September	September	September	September
	30, 2007	29, 2006	30, 2007	29, 2006
<b>Revenue</b>	<b>\$ 63,847</b>	<b>\$ 60,079</b>	<b>\$ 135,458</b>	<b>\$ 130,341</b>
Cost of sales	41,853	39,974	90,455	88,933
Amortization of property, plant and equipment	911	853	2,704	2,584
<b>Gross margin</b>	<b>21,083</b>	<b>19,252</b>	<b>42,299</b>	<b>38,824</b>
Distribution and warehousing	3,214	2,826	6,776	6,642
Selling, general and administrative	5,847	5,375	17,121	16,033
Amortization of intangible assets	656	603	1,969	1,745
<b>Earnings from operations</b>	<b>11,366</b>	<b>10,448</b>	<b>16,433</b>	<b>14,404</b>
Interest	503	812	1,268	1,907
Amortization of deferred financing fees	47	41	141	128
Interest and financing expenses	550	853	1,409	2,035
<b>Earnings before taxes</b>	<b>10,816</b>	<b>9,595</b>	<b>15,024</b>	<b>12,369</b>
Recovery of future income taxes	210	156	640	474
<b>Net earnings for the period</b>	<b>\$ 11,026</b>	<b>\$ 9,751</b>	<b>\$ 15,664</b>	<b>\$ 12,843</b>
<b>Basic and diluted earnings per unit</b>	<b>\$ 1.07</b>	<b>\$ 1.08</b>	<b>\$ 1.52</b>	<b>\$ 1.42</b>
<b>Basic and diluted weighted average number of units outstanding</b>	<b>10,304,000</b>	<b>9,015,000</b>	<b>10,304,000</b>	<b>9,015,000</b>

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

## Armtec Infrastructure Income Fund

### INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 29, 2006	September 30, 2007	September 29, 2006
<b>Net earnings for the period</b>	<b>\$ 11,026</b>	<b>\$ 9,751</b>	<b>\$ 15,664</b>	<b>\$ 12,843</b>
Other comprehensive loss, net of taxes:				
Unrealized losses on translating financial statements of self-sustaining foreign operations	(8)	-	(18)	-
<b>Comprehensive income for the period</b>	<b>\$ 11,018</b>	<b>\$ 9,751</b>	<b>\$ 15,646</b>	<b>\$ 12,843</b>

## Armtec Infrastructure Income Fund

### INTERIM CONSOLIDATED STATEMENT OF CHANGES IN UNITHOLDERS' EQUITY

(in thousands of Canadian dollars)

(unaudited)

	Unitholders' Capital	Accumulated Other Comprehensive Loss	Cumulative Earnings	Cumulative Distributions	Total
Balance – December 31, 2006	\$ 105,773	\$ -	\$ 34,220	\$ (37,169)	\$ 102,824
Earnings for the period	-	-	15,664	-	15,664
Other comprehensive loss for the period	-	(18)	-	-	(18)
Distributions for the period (Note 5)	-	-	-	(12,056)	(12,056)
<b>Balance – September 30, 2007</b>	<b>\$ 105,773</b>	<b>\$ (18)</b>	<b>\$ 49,884</b>	<b>\$ (49,225)</b>	<b>\$ 106,414</b>
Balance – December 31, 2005	\$ 82,248	\$ -	\$ 18,439	\$ (21,302)	\$ 79,385
Earnings for the period	-	-	12,843	-	12,843
Other comprehensive loss for the period	-	-	-	-	-
Distributions for the period	-	-	-	(10,097)	(10,097)
<b>Balance – September 29, 2006</b>	<b>\$ 82,248</b>	<b>\$ -</b>	<b>\$ 31,282</b>	<b>\$ (31,399)</b>	<b>\$ 82,131</b>

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

# Armtec Infrastructure Income Fund

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of Canadian dollars)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September	September	September	September
	30, 2007	29, 2006	30, 2007	29, 2006
<b>Cash provided by (used in):</b>				
<b>Operating activities</b>				
<b>Net earnings for the period</b>	<b>\$ 11,026</b>	<b>\$ 9,751</b>	<b>\$ 15,664</b>	<b>\$ 12,843</b>
Items not affecting cash:				
Amortization of property, plant and equipment	911	853	2,704	2,584
Amortization of intangible assets	656	603	1,969	1,745
Amortization of deferred financing fees	47	41	141	128
Recovery of future income taxes	(210)	(156)	(640)	(474)
Non-cash post-employment benefits expense	7	70	28	210
Loss (gain) on sale of property, plant and equipment	357	(157)	378	(157)
	<b>12,794</b>	<b>11,005</b>	<b>20,244</b>	<b>16,879</b>
Net increase in non-cash working capital (Note 7)	(3,450)	(8,315)	(14,524)	(17,585)
<b>Cash provided by (used in) operating activities</b>	<b>9,344</b>	<b>2,690</b>	<b>5,720</b>	<b>(706)</b>
<b>Investing activities</b>				
Purchase of property, plant and equipment	(209)	(1,399)	(2,571)	(1,853)
Proceeds from sale of property, plant and equipment	198	211	227	226
Decrease (increase) in long-term notes receivable	154	(79)	267	(58)
Purchase of intangible assets	(23)	(78)	(198)	(607)
Business acquisitions (Note 9)	536	-	273	(7,481)
<b>Cash provided by (used in) investing activities</b>	<b>656</b>	<b>(1,345)</b>	<b>(2,002)</b>	<b>(9,773)</b>
<b>Financing activities</b>				
Net borrowings under credit facility	(6,076)	2,119	10,199	22,593
Payment of bank financing fees	-	-	-	(215)
Distributions to unitholders	(4,019)	(3,516)	(13,807)	(11,900)
<b>Cash provided by (used in) financing activities</b>	<b>(10,095)</b>	<b>(1,397)</b>	<b>(3,608)</b>	<b>10,478</b>
<b>Effect of translation adjustment</b>	<b>(7)</b>	<b>-</b>	<b>(17)</b>	<b>-</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(102)</b>	<b>(52)</b>	<b>93</b>	<b>(1)</b>
<b>Cash and cash equivalents – Beginning of period</b>	<b>221</b>	<b>61</b>	<b>26</b>	<b>10</b>
<b>Cash and cash equivalents – End of period</b>	<b>\$ 119</b>	<b>\$ 9</b>	<b>\$ 119</b>	<b>\$ 9</b>
<b>Supplemental cash flow information:</b>				
Interest paid	\$ 350	\$ 635	\$ 1,174	\$ 1,839
Income taxes paid	\$ -	\$ -	\$ 593	\$ -

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", "Armtec", or "the Company") 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 line of water control and geosynthetic products, and sells internationally certain high value-added engineered products manufactured in Canada and South Korea.

### 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, its wholly owned subsidiaries and the Fund's portion of its joint venture for the three and nine months ended September 30, 2007 and September 29, 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" 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 for interest rate swaps as it does not apply hedge accounting to this instrument. As at September 30, 2007 no swap was outstanding (September 29, 2006 - \$11.5 million). While outstanding in the quarter, the contract was revalued to market value resulting in an unrealized loss of \$16 and \$44 for the three and nine month periods ended September 30, 2007 (September 29, 2006 - unrealized loss of \$35 and unrealized gain of \$20) 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.

# Armtec Infrastructure Income Fund

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

### 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.

### Note 4. Seasonal Nature of the Business

The Fund's results for the three and nine month periods ended September 30, 2007 and September 29, 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 nine month period ended September 30, 2007 were as follows:

Period	Record date	Payment date	Per unit	Amount (Whole Dollars)
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
July 2007	July 31, 2007	August 15, 2007	0.13	1,339,520
August 2007	August 31, 2007	September 14, 2007	0.13	1,339,520
September 2007	September 28, 2007	October 15, 2007	0.13	1,339,520
			\$ 1.17	\$ 12,055,680

### 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. 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.

# Armtec Infrastructure Income Fund

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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

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 nine month period ended September 30, 2007 and September 29, 2006 were as follows:

	Nine Months Ended	
	September 30, 2007	September 29, 2006
Prepaid expenses and other assets	\$ 228	\$ 235
Accounts payable and accrued liabilities	(75)	-
	\$ 153	\$ 235
Included in selling, general and administration expense	\$ 282	\$ 186

### 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 nine month period ended September 30, 2007, 10,936 phantom units (September 29, 2006 – 2,567) were issued under the plan for a total units outstanding of 18,334 (September 29, 2006 – 2,567). The Fund recorded a compensation expense of \$168 in selling, general and administrative with regard to the phantom units issued in the nine month period ended September 30, 2007 (September 29, 2006 – \$52).

### Note 7. Changes in Non-Cash Working Capital

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 29, 2006	September 30, 2007	September 29, 2006
Cash provided by (used in):				
Accounts receivable	\$ (5,146)	\$ (3,536)	\$ (19,479)	\$ (17,325)
Inventory	5,558	(1,899)	(2,340)	(4,213)
Prepaid expenses and other assets	(816)	200	(767)	(26)
Accounts payable and accrued liabilities	(3,046)	(3,080)	8,062	3,979
	\$ (3,450)	\$ (8,315)	\$ (14,524)	\$ (17,585)

### 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 three and nine month periods ended September 30, 2007 and September 29, 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 Products"), Engineered Products and Other Products.

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 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.

# Armtec Infrastructure Income Fund

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

	Three Months Ended		Nine Months Ended	
	September	September	September	September
	30, 2007	29, 2006	30, 2007	29, 2006
Revenues by significant product line are as follows:				
Pipe Products	\$ 42,927	\$ 40,154	\$ 90,564	\$ 86,667
Engineered Products	8,106	8,684	18,904	17,540
Other Products	12,814	11,241	25,990	26,134
	<b>\$ 63,847</b>	<b>\$ 60,079</b>	<b>\$ 135,458</b>	<b>\$ 130,341</b>
Domestic and export revenues are as follows:				
Canada	\$ 61,568	\$ 57,433	\$ 129,028	\$ 121,854
International	2,279	2,646	6,430	8,487
	<b>\$ 63,847</b>	<b>\$ 60,079</b>	<b>\$ 135,458</b>	<b>\$ 130,341</b>

### 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. 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.

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 were reflected as a reduction of the original consideration paid resulting in the reduction of goodwill.

### Note 10. Comparative Figures

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

### Note 11. Subsequent Events

#### a) Distributions

On October 1, 2007, a \$0.14 per unit (including distributions of exchangeable partnership units) for an aggregate of \$2,110.7 in respect of October 2007 were declared. The record date of the distribution was October 31, 2007, with a payment date of November 15, 2007.

#### b) Acquisition

On October 1, 2007, the Fund acquired for approximately \$120,000 not including transaction costs and subject to working capital adjustments, all of the outstanding shares of the corporations which, directly or indirectly, carry on the Con-Force business ("Con-Force"). The acquisition was financed with the proceeds from the issuance of additional units, the issuance of exchangeable partnership units of the Fund, committed credit facilities and existing cash balances.

Concurrent with the Con-Force acquisition on October 1, 2007, the Fund completed an issuance of an additional 3,705,000 units of the Fund at a unit price of \$16.40 representing gross proceeds of \$60,762. The Fund also completed an issuance of 1,067,073 exchangeable partnership units of the Fund at a unit price of \$16.40 representing gross proceeds of \$17,500. Proceeds, net of transaction costs, were used to finance the acquisition.

On October 1, 2007, the Fund completed amendments to its existing term and revolving credit facilities. The principal amendments to the credit facilities include term financing to Armtec Operating Trust increased to \$65,000 from \$35,000 and revolving facilities to Armtec Limited Partnership increased to \$40,000 from \$25,000. Both credit facilities mature in October 2012. After the proceeds from the issuance of units and securities exchangeable into units of the Fund are applied to the purchase of Con-Force the remainder of the purchase price will be drawn from the term credit facility and existing cash balances.

# **Armtec Infrastructure Income Fund**

## **Unitholder Information**

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### **Toronto Stock Exchange**

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