

# Armtec Infrastructure Income Fund

## INTERIM CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)

	September 30, 2008 (unaudited)	September 30, 2007 (unaudited)	December 31, 2007
<b>Assets</b>			
<b>Current assets</b>			
Cash	\$ 402	\$ 119	\$ 12,628
Accounts receivable	125,541	37,925	49,313
Inventories (Note 5)	51,843	22,118	22,111
Prepaid expenses and other assets	4,186	1,791	1,644
Future income tax assets	284	101	126
	<b>182,256</b>	<b>62,054</b>	<b>85,822</b>
<b>Property, plant and equipment</b>	134,219	31,837	77,216
<b>Notes receivable</b>	121	175	139
<b>Intangible assets</b>	108,143	42,279	92,422
<b>Goodwill</b>	138,549	39,012	71,028
	<b>\$ 563,288</b>	<b>\$ 175,357</b>	<b>\$ 326,627</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 59,275	\$ 21,684	\$ 32,539
Distributions payable	3,085	1,340	4,674
Income taxes payable	2,182	-	163
Deferred contract revenue	3,228	-	1,495
Current portion of long-term debt	51,474	-	341
Future income tax liabilities	4,177	-	4,594
	<b>123,421</b>	<b>23,024</b>	<b>43,806</b>
<b>Long-term debt</b>	165,232	25,981	65,549
<b>Post-employment obligations</b>	6,724	6,624	6,701
<b>Future income tax liabilities</b>	37,241	13,314	31,466
	<b>332,618</b>	<b>68,943</b>	<b>147,522</b>
<b>Unitholders' equity</b>	<b>230,670</b>	<b>106,414</b>	<b>179,105</b>
	<b>\$ 563,288</b>	<b>\$ 175,357</b>	<b>\$ 326,627</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 STATEMENTS 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, 2008	30, 2007	30, 2008	30, 2007
<b>Revenue</b>	<b>\$ 137,794</b>	<b>\$ 63,847</b>	<b>\$ 274,979</b>	<b>\$ 135,458</b>
Cost of sales	92,481	42,210	189,376	90,833
Amortization of property, plant and equipment	2,493	911	5,609	2,704
<b>Gross margin</b>	<b>42,820</b>	<b>20,726</b>	<b>79,994</b>	<b>41,921</b>
Distribution and warehousing	8,154	3,214	12,560	6,776
Selling, general and administrative	11,215	5,490	29,926	16,743
Amortization of intangible assets	2,745	656	8,590	1,969
<b>Earnings from operations</b>	<b>20,706</b>	<b>11,366</b>	<b>28,918</b>	<b>16,433</b>
Interest	2,519	503	4,633	1,268
Interest related to debt transaction costs	188	47	323	141
Interest and financing expenses	2,707	550	4,956	1,409
<b>Earnings before taxes</b>	<b>17,999</b>	<b>10,816</b>	<b>23,962</b>	<b>15,024</b>
Recovery of future income taxes	1,671	210	3,188	640
<b>Net earnings for the period</b>	<b>\$ 19,670</b>	<b>\$ 11,026</b>	<b>\$ 27,150</b>	<b>\$ 15,664</b>
<b>Basic and diluted earnings per unit (Note 11)</b>	<b>\$ 1.16</b>	<b>\$ 1.07</b>	<b>\$ 1.72</b>	<b>\$ 1.52</b>
<b>Basic and diluted weighted average number of units outstanding (Note 11)</b>	<b>16,902,412</b>	<b>10,304,000</b>	<b>15,742,133</b>	<b>10,304,000</b>

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

## Armtec Infrastructure Income Fund

### INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
<b>Net earnings for the period</b>	<b>\$ 19,670</b>	<b>\$ 11,026</b>	<b>\$ 27,150</b>	<b>\$ 15,664</b>
Other comprehensive income, net of taxes:				
Change in unrealized loss of derivative financial instruments designated as cash flow hedges (net of income taxes of \$Nil) (Note 9 and 14)	(565)	-	(496)	-
Unrealized losses on translating financial statements of self- sustaining foreign operations (Note 9)	(4)	(8)	(14)	(18)
	(569)	(8)	(510)	(18)
<b>Comprehensive income for the period</b>	<b>\$ 19,101</b>	<b>\$ 11,018</b>	<b>\$ 26,640</b>	<b>\$ 15,646</b>

## Armtec Infrastructure Income Fund

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

(in thousands of Canadian dollars)

(unaudited)

	Unitholders' Capital	Accumulated Other Comprehensive Income	Cumulative Earnings	Cumulative Distributions	Total
<b>Balance – December 31, 2006</b>	<b>\$ 105,773</b>	<b>\$ -</b>	<b>\$ 34,220</b>	<b>\$ (37,169)</b>	<b>\$ 102,824</b>
Earnings for the period	-	-	15,664	-	15,664
Other comprehensive income for the period (Note 9)	-	(18)	-	-	(18)
Distributions for the period (Note 8)	-	-	-	(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>
<b>Balance – December 31, 2007</b>	<b>\$ 180,139</b>	<b>\$ (23)</b>	<b>\$ 57,109</b>	<b>\$ (58,120)</b>	<b>\$ 179,105</b>
Units issued for cash consideration (Note 7)	37,500	-	-	-	37,500
Exchangeable partnership units issued for cash consideration (Note 7)	12,500	-	-	-	12,500
Issuance costs related to unit offering (Note 7)	(1,744)	-	-	-	(1,744)
Earnings for the period	-	-	27,150	-	27,150
Other comprehensive income for the period (Note 9)	-	(510)	-	-	(510)
Distributions for the period (Note 8)	-	-	-	(23,331)	(23,331)
<b>Balance – September 30, 2008</b>	<b>\$ 228,395</b>	<b>\$ (533)</b>	<b>\$ 84,259</b>	<b>\$ (81,451)</b>	<b>\$ 230,670</b>

Total cumulative earnings, cumulative distributions, and accumulated other comprehensive income as at September 30, 2008 is \$2,275 and September 30, 2007 is \$641.

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

**Armtec Infrastructure Income Fund**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands of Canadian dollars)  
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
<b>Cash provided by (used in):</b>				
<b>Operating activities</b>				
<b>Net earnings for the period</b>	\$ 19,670	\$ 11,026	\$ 27,150	\$ 15,664
Items not affecting cash:				
Amortization of property, plant and equipment	2,493	911	5,609	2,704
Amortization of intangible assets	2,745	656	8,590	1,969
Interest related to debt transaction costs	188	47	323	141
Recovery of future income taxes	(1,671)	(210)	(3,188)	(640)
Non-cash post-employment benefits expense (recovery)	(27)	7	23	28
Loss on sale of property, plant and equipment	67	357	90	378
	<b>23,465</b>	<b>12,794</b>	<b>38,597</b>	<b>20,244</b>
Net increase in non-cash working capital (Note 12)	(16,617)	(3,450)	(31,045)	(14,524)
<b>Cash provided by operating activities</b>	<b>6,848</b>	<b>9,344</b>	<b>7,552</b>	<b>5,720</b>
<b>Investing activities</b>				
Purchase of property, plant and equipment	(1,583)	(209)	(6,162)	(2,571)
Proceeds from sale of property, plant and equipment	39	198	62	227
Decrease in notes receivable	-	154	18	267
Purchase of intangible assets	(89)	(23)	(661)	(198)
Business acquisitions (Note 16)	(120,488)	536	(168,140)	273
<b>Cash provided by (used in) investing activities</b>	<b>(122,121)</b>	<b>656</b>	<b>(174,883)</b>	<b>(2,002)</b>
<b>Financing activities</b>				
Net proceeds from offering of fund units (Note 7)	35,771	-	35,756	-
Payment of debt transaction costs	(949)	-	(1,912)	-
Net borrowings (repayments) under credit facilities	89,406	(6,076)	146,187	10,199
Distributions to unitholders	(8,596)	(4,019)	(24,920)	(13,807)
<b>Cash provided by (used in) financing activities</b>	<b>115,632</b>	<b>(10,095)</b>	<b>155,111</b>	<b>(3,608)</b>
<b>Effect of translation adjustment</b>	<b>(1)</b>	<b>(7)</b>	<b>(6)</b>	<b>(17)</b>
<b>Net increase (decrease) in cash</b>	<b>358</b>	<b>(102)</b>	<b>(12,226)</b>	<b>93</b>
<b>Cash – Beginning of period</b>	<b>44</b>	<b>221</b>	<b>12,628</b>	<b>26</b>
<b>Cash – End of period</b>	<b>\$ 402</b>	<b>\$ 119</b>	<b>\$ 402</b>	<b>\$ 119</b>
<b>Supplemental cash flow information:</b>				
Interest paid	\$ 2,461	\$ 350	\$ 4,316	\$ 1,174
Income taxes paid	\$ 106	\$ -	\$ 126	\$ 593
<b>Non-cash transactions:</b>				
Acquisition – Issuance of note payable (Note 6)	\$ 5,000	\$ -	\$ 5,000	\$ -
Acquisition – Issuance of exchangeable partnership units (Note 7)	\$ 7,500	\$ -	\$ 12,500	\$ -

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

# Armtec Infrastructure Income Fund

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

### Note 1. Organization and Nature of Business

Armtec Infrastructure Income 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. In these unaudited interim consolidated financial statements, the term "the Fund" means Armtec Infrastructure Income Fund, together with the Fund's portion of its joint venture, Fixon-Armtec Ltd., and its subsidiaries: Armtec Operating Trust, Armtec Exchangeable Partnership, Armtec AEP GP Limited, Armtec Holdings Limited, Armtec Limited Partnership Corp., Armtec Limited Partnership, Durisol Inc., Durisol Consulting Services Inc., Mitchell Wood Recycling Inc., A.E. Concrete Precast Products Ltd., Boucher Precast Concrete Ltd. and 1219316 Alberta Ltd.

The Fund is a leading manufacturer and marketer of a comprehensive range of infrastructure products and engineered construction solutions for customers in a diverse cross-section of industries that are located in every region of Canada, as well as in selected markets in North America and worldwide. These markets include Canada's national and regional public infrastructure markets and private sector markets in agricultural drainage, commercial building, residential construction and natural resources. Operating through its three divisions and with a network of offices and production facilities across the country, the Fund is Canada's only national multi-material manufacturer. The Armtec division specializes in high density polyethylene and corrugated steel pipe products for drainage and bridge applications, and water management systems. The Con-Force division offers a wide variety of precast and pre-stressed concrete products, as well as advanced construction components and high-value engineered solutions to large project customers. The Durisol division provides a full suite of highway noise barriers and related infrastructure products to the transportation sector.

### 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 month periods ended September 30, 2008 and September 30, 2007. 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 described in note 3.

These unaudited interim consolidated financial statements do not contain all the disclosures required in annual audited consolidated financial statements required by Canadian GAAP, and accordingly should be read together with the Fund's 2007 audited annual consolidated financial statements and accompanying notes included therein.

### Recently issued accounting pronouncements

#### a) Goodwill and intangible assets

The Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, "Goodwill and Intangible Assets", which establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The standard is effective and the Fund will adopt it for interim and annual periods commencing in the Fund's 2009 fiscal year. The Fund has not yet determined the impact of the adoption of this standard on its consolidated financial condition.

#### b) International financial reporting standards

The Canadian Accounting Standards Board confirmed in February 2008 plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to be effective for interim and annual periods commencing January 1, 2011. The transition date of January 1, 2011 will require reconciliations between Canadian GAAP and IFRS for the interim and annual periods during the year ended December 31, 2010. Under IFRS, there is significantly more disclosure required and while IFRS uses a conceptual framework similar to Canadian GAAP, there appears to be significant differences in accounting policies that must be addressed. The Fund is continuing to monitor and review CICA plans to make the transition to IFRS. The Fund has not yet determined the impact on its consolidated financial condition.

# Armtec Infrastructure Income Fund

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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### Note 3. Changes in Accounting Policies

Effective January 1, 2008, the Fund adopted CICA Section 1535, "Capital disclosures", Section 3862, "Financial Instruments – Disclosures", Section 3863, "Financial Instruments – Presentation"; and Section 3031, "Inventories". The principal changes due to the adoption of these accounting standards are described below.

**a) Capital disclosures**

This section requires the disclosure of both qualitative and quantitative information regarding the entity's objectives, policies and processes for managing capital, and what the entity regards as capital. Other than disclosure, the adoption of CICA Section 1535 had no effect on the Fund's consolidated financial condition on the date of adoption.

**b) Financial instruments – disclosures and presentation**

These sections revise and enhance certain disclosure requirements including the significance of financial instruments on the entity's financial condition, the nature and extent of risks arising from financial instruments and how these risks are managed. Other than disclosure, the adoption of CICA Sections 3862 and 3863 had no effect on the Fund's consolidated financial condition on the date of adoption.

**c) Inventories**

This section requires inventory to be measured at the lower of cost and net realizable value. The standard provides guidance on the types of costs that can be included and requires the reversal of previous inventory write-downs if economic circumstances change. Other than disclosure, the adoption of CICA Section 3031 had no effect on the Fund's consolidated financial condition on the date of adoption.

### Note 4. Seasonal Nature of the Business

The Fund's results for the three and nine month periods ended September 30, 2008 and September 30, 2007 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in revenue levels. Since many 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 administrative costs, depreciation and amortization and interest expenses remain relatively steady throughout the year.

### Note 5. Inventories

The amount of inventory recognized as an expense through cost of sales during the nine months ended September 30, 2008 was \$137,996 (2007 – \$90,300).

### Note 6. Long-Term Debt

On June 5, 2008, the Fund completed amendments to its existing term and revolving credit facilities. The principal amendments to the credit facilities include increased term financing from \$65,000 to \$110,000 and available revolving facilities increased from \$40,000 to \$50,000. Both the term and revolving credit facilities maturity dates remain unchanged in October 2012. Proceeds, net of transaction costs, were used to finance the acquisitions of Bruce Tile, Durisol Inc. and its related companies ("Durisol") and A.E. Concrete Precast Products Ltd. ("AE Concrete") (Note 16).

On July 31, 2008, the Fund completed further amendments to its term and revolving credit facilities. The principal amendments include increased term financing from \$110,000 to \$140,000, to assist in a transaction with Clearford Industries Inc. ("Clearford"), to acquire Clearford's assets of its Brooklin Concrete division ("Brooklin") and the shares of Boucher Precast Concrete Ltd. ("Boucher") (Note 16). The increased term financing also assisted in the Fund's acquisition of the shares in 1219316 Alberta Ltd. (Con-Force Concrete Products – "CFCP"), a subsidiary of Burnco Rock Products Limited (Note 16). A new non-revolving bridge term facility of \$50,000 was utilized to assist in the acquisition of CFCP. Available revolving credit facilities remain unchanged at \$50,000. Maturity dates for both the term and revolving credit facilities remained in October 2012 whereas the bridge term credit facility matures in June 2009.

**Armtec Infrastructure Income Fund**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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The facilities each bear interest at rates that depend on certain financial ratios of the Fund and vary in accordance with borrowing rates in Canada and the United States. There are no mandatory principal repayments on the term or revolving facilities prior to maturity.

Also in conjunction with the acquisition of Boucher, the Fund has issued a \$5,000 promissory note to the vendor, payable over a five-year period, bearing interest at 8%.

**Note 7. Unitholders' Capital**

<b>Units issued and outstanding</b>	<b>Number of exchangeable partnership units</b>	<b>Number of units</b>	<b>Total number of units as issued</b>	<b>Amount</b>
<b>Balance – December 31, 2006 and September 30, 2007</b>	-	<b>10,304,000</b>	<b>10,304,000</b>	<b>\$ 105,773</b>
<b>Balance – December 31, 2007</b>	<b>1,067,073</b>	<b>14,009,000</b>	<b>15,076,073</b>	<b>180,139</b>
Unit issuance	-	1,552,800	1,552,800	37,500
Exchangeable partnership unit issuance	511,260	-	511,260	12,500
Issuance costs	-	-	-	(1,744)
<b>Balance – September 30, 2008</b>	<b>1,578,333</b>	<b>15,561,800</b>	<b>17,140,133</b>	<b>\$ 228,395</b>

During the first quarter, the Fund completed an issuance of 87,834 exchangeable partnership units of the Fund at a unit price of \$22.77 representing gross non-cash consideration of \$2,000. Proceeds from this issuance were used to fund the acquisition of certain tangible and intangible assets and liabilities of Bruce Tile on March 20, 2008 (Note 16).

During the second quarter, the Fund completed an issuance of 208,855 exchangeable partnership units of the Fund at a unit price of \$23.94 representing gross non-cash consideration of \$5,000. Proceeds from this issuance were used to fund the acquisition of the outstanding shares of Durisol on June 5, 2008 (Note 16).

During the third quarter, the Fund completed an issuance of 1,552,800 additional units of the Fund at a unit price of \$24.15 representing gross proceeds of \$37,500. Proceeds from this issuance were used to assist in the acquisitions of Brooklin, Boucher, and CFCP. The Fund also completed an issuance of 117,371 exchangeable partnership units of the Fund at a unit price of \$25.56 representing gross non-cash consideration of \$3,000. Proceeds from this exchangeable partnership unit issuance were used to assist in a transaction with Clearford to fund the purchase of Clearford's assets of its Brooklin division on July 31, 2008 (Note 16). Also during the third quarter, the Fund completed an issuance of 97,200 exchangeable partnership units of the Fund at a unit price of \$25.72 representing gross non-cash consideration of \$2,500. Proceeds from this issuance were used to purchase property at the Fund's Bruce Tile facility (Note 16).

**Armtec Infrastructure Income Fund**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands of Canadian dollars except unit and per unit amounts)  
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**Note 8. 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 declared for the nine month period ended September 30, 2008 were as follows:

<b>Period</b>	<b>Record date</b>	<b>Payment date</b>	<b>Per unit</b>	<b>Amount (Whole Dollars)</b>
January 2008	January 31, 2008	February 15, 2008	\$ 0.15	\$ 2,261,411
February 2008	February 29, 2008	March 14, 2008	0.15	2,261,411
March 2008	March 31, 2008	April 15, 2008	0.15	2,274,586
April 2008	April 30, 2008	May 15, 2008	0.15	2,274,586
May 2008	May 31, 2008	June 15, 2008	0.17	2,577,864
June 2008	June 30, 2008	July 15, 2008	0.17	2,613,370
July 2008	July 31, 2008	August 15, 2008	0.17	2,897,299
August 2008	August 29, 2008	September 15, 2008	0.18	3,085,224
September 2008	September 30, 2008	October 15, 2008	0.18	3,085,224
			<b>\$ 1.47</b>	<b>\$ 23,330,975</b>

For the nine month period ended September 30, 2007, total distributions of \$12,056 were declared.

**Note 9. Accumulated Other Comprehensive Income**

	<b>Nine Months Ended</b>	
	<b>September 30, 2008</b>	<b>September 30, 2007</b>
(net of income taxes)		
Change in unrealized loss of derivative financial instruments designated as cash flow hedges – Beginning of period	\$ -	\$ -
Other comprehensive loss for the period	(496)	-
Change in unrealized loss of derivative financial instruments designated as cash flow hedges – End of period	\$ (496)	\$ -
Unrealized losses on translating financial statements of self-sustaining foreign operations – Beginning of period	\$ (23)	\$ -
Other comprehensive loss for the period	(14)	(18)
Unrealized losses on translating financial statements of self-sustaining foreign operations – End of period	\$ (37)	\$ (18)
<b>Total Accumulated Other Comprehensive Loss</b>	<b>\$ (533)</b>	<b>\$ (18)</b>

**Note 10. Incentive Plans**

**Long-term incentive plan (“LTIP”)**

The Fund maintains an LTIP to enhance the ability of the Fund 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 LTIP are met, the Fund will set aside a pool of funds with Computershare Trust Company of Canada acting as plan administrator of the LTIP. The funds in this pool are used to purchase units of the Fund in the open market which are 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 \$366 was approved in respect of the 2007 year with the acquisition of 15,786 units completed in April of 2008.

## Armtec Infrastructure Income Fund

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

(unaudited)

Purchased units available in the LTIP vest as follows:

Year awarded	Award amount	Year units purchased	Number of units	Vesting year – December 31,				
				Pre 2007	2007	2008	2009	2010
2004	\$ 271	2005	20,015	13,343	6,672	-	-	-
2005	541	2006	28,995	9,665	9,665	9,665	-	-
2006	410	2007	21,999	-	7,348	7,646	7,005	-
2007	366	2008	15,786			5,262	5,262	5,262
<b>Total</b>	<b>\$ 1,588</b>		<b>86,795</b>	<b>23,008</b>	<b>23,685</b>	<b>22,573</b>	<b>12,267</b>	<b>5,262</b>

The associated expense is recognized over a term consisting of the current and three vesting periods. Once the LTIP is funded, the amount to be recognized as an expense in future periods is classified as a prepaid expense on the consolidated balance sheet. Included in selling, general and administrative expenses for the nine months ended September 30, 2008 are compensation costs of \$382 (2007 – \$282).

Prepaid expense and associated liability recognized as at September 30, 2008 and December 31, 2007 are as follows:

	September 30, 2008	December 31, 2007
Prepaid expenses and other assets	\$ 200	\$ 159
Accounts payable and accrued liabilities	(189)	(133)
	<b>\$ 11</b>	<b>\$ 26</b>

#### Trustees' phantom unit plan

The phantom unit plan, established in June 2006, provides the trustees of the Fund with the opportunity to receive authorized but unissued phantom units in lieu of cash consideration for their quarterly retainer and meeting attendance fees. 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 consolidated balance sheet and compensation expense in the consolidated income statement. During the nine month period ended September 30, 2008, 8,720 phantom units (2007 - 10,936) were issued and 3,270 phantom units (2007 – nil) were redeemed under the plan for total units outstanding of 26,302 (2007 – 18,334). The Fund recorded a compensation expense of \$182 in selling, general and administrative with regard to the phantom units issued and outstanding for the nine month period ended September 30, 2008 (2007 – \$168).

#### Note 11. Earnings per Unit

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Net earnings for the period	\$ 19,670	\$ 11,026	\$ 27,150	\$ 15,664
Weighted average number of units outstanding	16,902,412	10,304,000	15,742,133	10,304,000
Earnings per unit from net earnings				
Basic	\$ 1.16	\$ 1.07	\$ 1.72	\$ 1.52
Diluted	\$ 1.16	\$ 1.07	\$ 1.72	\$ 1.52

For the purposes of weighted average number of units outstanding, the exchangeable partnership units that are issued during the year are treated as if the units were converted to equivalent units of the Fund at the time of issuance. Earnings per unit were calculated using the weighted daily average number of units outstanding during the period.

## Armtec Infrastructure Income Fund

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

(unaudited)

#### Note 12. Changes in Non-Cash Working Capital

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Cash provided by (used in):				
Accounts receivable	\$ (17,768)	\$ (5,146)	\$ (35,729)	\$ (19,479)
Inventories	(987)	5,558	(12,611)	(2,340)
Prepaid expenses and other assets	(401)	(816)	(1,620)	(767)
Accounts payable and accrued liabilities	924	(3,046)	16,885	8,062
Income taxes payable	864	-	864	-
Deferred contract revenue	751	-	1,166	-
	<b>\$ (16,617)</b>	<b>\$ (3,450)</b>	<b>\$ (31,045)</b>	<b>\$ (14,524)</b>

#### Note 13. Capital Management

In the context of managing its capital, the objective of the Fund is to maintain a capital structure that allows multiple options to finance its development and growth along with providing unitholders' with an acceptable return on their investment. The Fund's total capitalization is defined as (i) net debt, which is long-term debt less cash and cash equivalents, and (ii) unitholders' equity less accumulated other comprehensive loss.

	September 30, 2008	December 31, 2007
Long-term debt	\$ 216,706	\$ 65,890
Less: Cash and cash equivalents	(402)	(12,628)
Net debt	216,304	53,262
Unitholders' equity	230,670	179,105
Accumulated comprehensive loss, net of taxes	(533)	23
<b>Total capitalization</b>	<b>\$ 446,441</b>	<b>\$ 232,390</b>
<b>Net debt as a percentage of total capitalization</b>	<b>48.5%</b>	<b>22.9%</b>

Net debt to total capitalization increased between the period ended September 30, 2008 and December 31, 2007 due to the final payments related to the acquisition of Con-Force in October 2007, the purchase of certain tangible and intangible assets and liabilities of Bruce Tile in March 2008, the purchase of outstanding shares of Durisol in June 2008, the purchase of outstanding shares of AE Concrete in June 2008, the purchase of Clearford's assets of its Brooklin division and the shares of Boucher in July 2008 and the purchase of outstanding shares of CFCP in July 2008. The equity issued during the first nine months of 2008 and in October 2007 was the maximum available under normal growth guidelines, as explained below, with the remainder a combination of cash and debt.

The Fund's objective for managing capital is to maximize long-term unitholder value by:

- Ensuring that capital is available for the continuing management of regional productive capacity by investing in capital expenditures that maintain the Fund's manufacturing ability.
- Ensuring that capital is available to expand productive capacity by making investments in capital expenditures and business acquisitions that add to manufacturing capacity and further diversify the Fund's product offerings.
- Maximizing distributions to unitholders of any cash that is not required for financing operations or capital investment growth opportunities that may offer unitholders better value.

The Fund, upon approval from its Board of Trustees, will balance its overall capital structure through unit issuances, the payment of distributions, the issuance of debt, or by undertaking other activities as deemed appropriate under the specific circumstances. The Fund periodically monitors its capital structure. The Fund's objectives, policies and

# **Armtec Infrastructure Income Fund**

## **NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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processes with respect to capital management remains unchanged during the nine months ended September 30, 2008.

The Fund regularly monitors current and forecasted debt levels to ensure debt covenants are not violated. Generally, the most significant financing restrictions relate to permitted investments and distributions, as well as the maintenance of certain financial ratios. These financial ratios are primarily linked to trailing operating earnings before interest, taxes, depreciation and amortization adjusted for certain inclusions and exclusions. Currently, the Fund must maintain a ratio, on a rolling four quarters basis, of below 3.25:1 of debt over adjusted earnings as referred above from January 1 through September 30 and 2.75:1 from October 1 to December 31. The Fund must also maintain a ratio above 4:1 of adjusted earnings as referred to above over interest paid. The Fund meets all financial covenants for the nine months ended September 30, 2008.

On June 12, 2007, previously announced tax proposals pertaining to the taxation of income distributed by publicly listed income trusts and the tax treatment of trust distributions to their unitholders were substantively enacted. Currently, the Fund does not pay tax on income it distributes to its unitholders. Management anticipates that the Fund will not be subject to tax until January 1, 2011. As a result of the Canadian trust taxation legislation passed in June 2007, the Fund is subject to certain capital growth restrictions referred to as normal growth guidelines. These guidelines limit the amount of unitholders' capital that can be issued by the Fund from November 1, 2006 to December 31, 2010 and is generally limited to the greater of 20% of the market capitalization of the Fund on October 31, 2006 or \$50,000 per year. The Fund's limit is \$50,000 per year. Any unused balance up to the 20% yearly limit may be carried forward for use in future periods. If the maximum normal growth limit is exceeded at any time, the Fund may be subject to tax prior to 2011.

The Fund has fully utilized its \$50,000 balance under normal growth guidelines for 2008. The equity was allocated as follows: \$4,500 in exchangeable partnership units were issued for the acquisition of certain tangible and intangible assets and liabilities of Bruce Tile, \$5,000 in exchangeable partnership units were issued as part of the acquisition of Durisol, \$37,500 in additional units of the Fund were issued to finance the acquisitions of Brooklin and Boucher, and \$3,000 in exchangeable partnership units were issued to fund the acquisition of Brooklin (Note 16).

In addition to capital growth restrictions, the Fund also monitors its foreign ownership levels. In order to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Accordingly, the Declaration of Trust provides that at no time may non-residents of Canada be the beneficial owners of more than 49% of the units then outstanding. The Fund is in compliance with this requirement as at September 30, 2008.

### **Note 14. Financial Instruments**

#### **Fair value**

The carrying values of cash and cash equivalents, accounts receivable, other assets, and accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturity of these financial instruments. The fair value of the Fund's long-term debt approximates its carrying value as it bears interest at a floating rate. During the applicable period, the fair value of the interest rate swap was estimated based on the amount that would need to be paid or would be received to terminate the agreement as of the consolidated balance sheet date.

#### **Currency risk**

The Fund is exposed to currency risk comprised primarily of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. There is a risk to the Fund's earnings that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Fund's financial results are reported in Canadian dollars. The Fund's exposure to foreign currency risk is primarily related to fluctuations in the value of the Canadian dollar relative to that of the United States dollar, as a portion of the Fund's transactions occur with customers or suppliers in United States dollars. For the nine months ended September 30, 2008, selling, general and administrative expenses included a foreign exchange gain of \$216 (2007 – foreign exchange gain of \$19).

# Armtec Infrastructure Income Fund

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### **Credit risk**

The Fund's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, accounts receivable and notes receivable. The Fund's credit risk for cash and cash equivalents is reduced as balances are held with major financial institutions. Exposure to credit risk with respect to its accounts and notes receivables are minimized by the Fund's large customer base, which covers a diverse range of business sectors primarily in Canada. The Fund follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Fund maintains provisions for potential credit losses, and any such losses to date have been within management's expectations.

The Fund is also exposed to credit risk from potential default by any of its counterparties on its foreign exchange forward contracts. The Fund manages this credit risk by dealing with counterparties that are major financial institutions and that the Fund anticipates will satisfy their obligations under the contracts.

### **Interest rate risk**

The Fund has exposure to movements in interest rates primarily due to the Fund's credit facilities that vary in accordance with borrowing rates in Canada and the United States. The Fund may enter into interest rate swaps to mitigate the exposure to floating interest rates. Effective during the second quarter of 2008, the Fund entered into an interest rate swap on \$32.5 million of its term credit facility converting the interest expense from a floating interest rate to a fixed interest rate of 3.85% plus pricing margin. As this swap qualifies for accounting as a cash flow hedge and the Fund designated the swap as a hedge, the fair value of unrealized gains and losses are included in other comprehensive income, net of taxes, and the fair value of the interest rate swap designated as a hedge is included in long-term debt. The Fund is required under its credit agreement to enter into an interest rate swap for a minimum of 50% of the term facility outstanding by the end of December 2008. During 2007, the Fund applied mark-to-market accounting for its interest rate swap as it did not apply hedge accounting to this instrument. The swap matured during the third quarter of 2007. In 2007, the fair value of the interest rate swap not designated as a hedge was included in current assets.

The Fund's exposure to interest rate risk relates to the floating interest rate on its term, bridge and revolving credit facilities. The increase or decrease in interest expense for the nine month period ending September 30, 2008 on the floating rate credit facilities could amount to \$659 for each 1% absolute change in the floating interest rate.

### **Note 15. Commitments**

As at September 30, 2008, outstanding commitments for capital expenditures under purchase orders and contracts amounted to approximately \$2,269. Of this amount, \$1,500 relates to commitments to purchase land and buildings, \$142 relating to building improvements and \$627 relates to the purchase of manufacturing equipment. All of these commitments are due in 2008.

### **Note 16. Business Acquisitions**

#### **Bruce Tile**

In March 2008, the Fund completed the acquisition of certain tangible and intangible assets and liabilities of Bruce Tile for total consideration of \$12,707. During the third quarter of 2008, land and building of \$2,612 was purchased.

#### **Durisol Inc. and its related companies ("Durisol")**

In June 2008, the Fund completed the acquisition of the outstanding shares of Durisol for approximate consideration of \$23,815. Contingent consideration in the form of cash, to a maximum of \$15,000, may be payable to the vendor in 2010 upon the acquired company exceeding a set threshold of earnings before interest, taxes, depreciation and amortization adjusted for certain inclusions and exclusions. The contingent consideration may be recognized into the Fund's financial statements as goodwill when and if the contingency is resolved and consideration is issued. The Fund has a commitment to purchase land and buildings of \$1,500.

## Armtec Infrastructure Income Fund

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#### A.E. Concrete Precast Products Ltd. (“AE Concrete”)

In June 2008, the Fund completed the acquisition of the outstanding shares of AE Concrete for approximate consideration of \$19,650 subject to working capital adjustments.

#### Brooklin Concrete (“Brooklin”)

In July 2008, the Fund completed the acquisition of acquire Clearford’s assets of its Brooklin division for approximate consideration of \$44,275 subject to working capital adjustments.

#### Boucher Precast Concrete Ltd (“Boucher”)

In July 2008, the Fund completed the acquisition of the outstanding shares of Boucher for approximate consideration of \$22,435 subject to working capital adjustments.

#### 1219316 Alberta Ltd. (Con-Force Concrete Products – “CFCP”)

In July 2008, the Fund completed the acquisition of the outstanding shares of CFCP, a subsidiary of Burnco Rock Products Limited, for approximate consideration of \$51,146 subject to working capital adjustments.

#### Oxford

In August 2008, the Fund completed the acquisition of certain tangible and intangible assets of Oxford for total consideration of \$5,725, subject to working capital adjustments.

#### Nine Months Ended September 30, 2008

	Bruce Tile	Durisol	AE Concrete	Brooklin	Boucher	CFCP	Oxford	Total
Net assets acquired:								
Accounts receivables	\$ -	\$ 15,025	\$ 2,894	\$ 4,753	\$ 4,112	\$ 13,717	\$ -	\$ 40,501
Inventories	2,602	924	1,918	4,224	387	5,498	1,567	17,120
Other current assets	-	263	269	176	51	166	-	925
Property, plant and equipment	9,412	2,501	4,631	21,662	2,576	13,166	2,664	56,612
Goodwill	-	699	7,813	16,590	17,448	24,971	-	67,521
Intangibles:								
Trademarks and tradenames	-	3,400	-	-	-	-	-	3,400
Customer contracts	-	900	-	-	-	-	-	900
Customer lists	1,116	5,200	6,900	-	-	-	1,494	14,710
Non-compete agreements	-	-	400	-	-	-	-	400
Licences	-	4,000	-	-	-	-	-	4,000
Other intangible assets	-	120	120	-	-	-	-	240
	1,116	13,620	7,420	-	-	-	1,494	23,650
<b>Assets acquired</b>	<b>13,130</b>	<b>33,032</b>	<b>24,945</b>	<b>47,405</b>	<b>24,574</b>	<b>57,518</b>	<b>5,725</b>	<b>206,329</b>
Liabilities assumed:								
Current liabilities	423	4,688	2,495	2,713	1,950	5,240	-	17,509
Long-term debt	-	-	-	417	189	-	-	606
Future income tax liabilities – long-term	-	4,529	2,800	-	-	1,132	-	8,461
<b>Consideration</b>	<b>\$ 12,707</b>	<b>\$ 23,815</b>	<b>\$ 19,650</b>	<b>\$ 44,275</b>	<b>\$ 22,435</b>	<b>\$ 51,146</b>	<b>\$ 5,725</b>	<b>\$ 179,753</b>

# Armtec Infrastructure Income Fund

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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Nine Months Ended September 30, 2008

	Bruce Tile	Durisol	AE Concrete	Brooklin	Boucher	CFCP	Oxford	Total
Consideration comprising:								
Cash	\$ 8,207	\$ 18,815	\$ 19,650	\$ 41,275	\$ 17,435	\$ 51,146	\$ 5,725	\$162,253
Note payable (Note 6)	-	-	-	-	5,000	-	-	5,000
Exchangeable partnership units (Note 7)	4,500	5,000	-	3,000	-	-	-	12,500
<b>Consideration</b>	<b>\$ 12,707</b>	<b>\$ 23,815</b>	<b>\$ 19,650</b>	<b>\$ 44,275</b>	<b>\$ 22,435</b>	<b>\$ 51,146</b>	<b>\$ 5,725</b>	<b>\$179,753</b>

In October 2007, the Fund completed the acquisition of Con-Force for total consideration of \$122,096 of which \$5,887 was paid in the first quarter of 2008.

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. The 2008 acquisition purchase price allocations are subject to adjustment and are expected to be finalized in 2008.

On July 27, 2004, the Fund indirectly acquired all of the securities of Armtec Holdings Limited that held 100% ownership of Armtec Limited for cash consideration of \$78.4 million. In July 2007, cash of \$536 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 17. Segmented Information

On June 5, 2008, the Fund acquired all of the outstanding shares of Durisol. Durisol designs and manufactures highway noise barriers and related infrastructure products, such as retaining walls and acoustic enclosures. With this transaction, the Fund has determined that the Durisol division will form a third operating segment. The differentiating factors between the segments are the unique products and services provided by each division.

The Fund operates in three segments. The Armtec division manufactures drainage products and engineered solutions for infrastructure applications. The Con-Force division manufactures and installs precast and pre-stressed concrete components for a variety of applications including bridges, parkades, stadiums, office and residential buildings. The Durisol division designs and manufactures highway noise barriers and related infrastructure products. The corporate headquarters and other small operating entities are included within the Armtec division operating segment.

The Con-Force and Durisol divisions recognize revenue for construction contracts using the percentage-of-completion method. The Fund ensures that accounting policies are consistently followed among the Fund's operating segments for earnings from operations, net earnings and assets.

### Geographic sales

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Canada	\$ 126,974	\$ 61,568	\$ 252,959	\$ 129,028
International	10,820	2,279	22,020	6,430
<b>Revenues to external customers</b>	<b>\$ 137,794</b>	<b>\$ 63,847</b>	<b>\$ 274,979</b>	<b>\$ 135,458</b>

## Armtec Infrastructure Income Fund

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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#### Operating segments

	Three Months Ended September 30, 2008			
	Armtec division	Con-Force division	Durisol division	Total
Revenues to external customers	\$ 74,859	\$ 51,346	\$ 11,589	\$ 137,794
Amortization of property, plant and equipment	1,067	1,369	57	2,493
Amortization of intangible assets	724	1,618	403	2,745
Earnings from operations	12,308	6,752	1,646	20,706
Net earnings	11,591	6,100	1,979	19,670

	Nine Months Ended September 30, 2008			
	Armtec division	Con-Force division	Durisol division	Total
Revenues to external customers	\$ 143,480	\$ 114,490	\$ 17,009	\$ 274,979
Amortization of property, plant and equipment	3,017	2,517	75	5,609
Amortization of intangible assets	2,126	5,827	637	8,590
Earnings from operations	13,475	13,214	2,229	28,918
Net earnings	11,962	12,704	2,484	27,150
Assets	194,236	333,465	35,587	563,288

	Three Months Ended September 30, 2007			
	Armtec division	Con-Force division	Durisol division	Total
Revenues to external customers	\$ 63,847	\$ -	\$ -	\$ 63,847
Amortization of property, plant and equipment	911	-	-	911
Amortization of intangible assets	656	-	-	656
Earnings from operations	11,366	-	-	11,366
Net earnings	11,026	-	-	11,026

	Nine Months Ended September 30, 2007			
	Armtec division	Con-Force division	Durisol division	Total
Revenues to external customers	\$ 135,458	\$ -	\$ -	\$ 135,458
Amortization of property, plant and equipment	2,704	-	-	2,704
Amortization of intangible assets	1,969	-	-	1,969
Earnings from operations	16,433	-	-	16,433
Net earnings	15,664	-	-	15,664
Assets	175,357	-	-	175,357

#### Note 18. Comparative Figures

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

#### Note 19. Subsequent Event

##### Distribution

On October 14, 2008, a distribution of \$0.18 per unit, or a total of \$3,085 (including distributions attributed to exchangeable partnership units), was declared in respect of October 2008. The record date of the distribution was October 31, 2008, with a payment date of November 14, 2008.