

# **Armtec Infrastructure Income Fund**

## **Management's Discussion and Analysis For the three months ended March 31, 2008**

The following Management's Discussion and Analysis ("MD&A") of Armtec Infrastructure Income Fund for the three months ended March 31, 2008, 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, 2007 and accompanying notes thereto and other public disclosures available. In this MD&A, the terms "the Fund" or "Armtec" 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 Exchangeable Partnership, Armtec AEP GP Limited, Armtec Holdings Limited, Armtec Limited Partnership Corp. and Armtec Limited Partnership.

This MD&A has been prepared as at May 1, 2008. 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 Fund's units trade on the Toronto Stock Exchange under the symbol ARF.UN.

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 that 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 sections entitled "Liquidity, Distributable Cash and Distributions" and "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 bridging solutions for infrastructure applications in a diverse cross-section of industries. These include the public infrastructure market and private sector markets such as natural resources, commercial building, residential construction and agricultural drainage in Canada. The Fund's Armtec division is Canada's only national multi-material manufacturer specializing in corrugated high density polyethylene pipe, corrugated steel pipe for drainage applications and highly engineered solutions, including bridging products and water management systems. The Fund's Con-Force division designs and manufactures a wide range of bridging and construction products including the advanced "NU" bridge girder system that allows for some of the longest spans available in precast concrete technology.

## **Results of Operations**

(in thousands of Canadian dollars unless otherwise noted) (unaudited)	Three Months Ended	
	March 31, 2008	March 31, 2007
<b>Revenue</b>	<b>\$ 46,427</b>	<b>\$ 21,848</b>
Cost of sales	34,224	15,871
Amortization of property, plant and equipment	1,454	870
<b>Gross margin</b>	<b>10,749</b>	<b>5,107</b>
As a % of revenue	23.2%	23.4%
Distribution and warehousing	1,229	1,138
Selling, general and administrative	9,173	5,449
Amortization of intangible assets	2,779	657
<b>Loss from operations</b>	<b>(2,432)</b>	<b>(2,137)</b>
Interest and financing expenses	(1,076)	(335)
<b>Loss before taxes</b>	<b>(3,508)</b>	<b>(2,472)</b>
Interest and financing expenses	1,076	335
Total amortization	4,233	1,527
<b>EBITDA</b>	<b>\$ 1,801</b>	<b>\$ (610)</b>
As a % of revenue	3.9%	(2.8)%

## **Overview**

The Fund's results for the first quarter of 2008 incorporate the Con-Force division which was acquired in October 2007 and the Armtec division's acquisition of certain tangible and intangible assets and liabilities of Bruce Tile in March 2008. The acquisition of Bruce Tile is expected to further increase Armtec division's geographic coverage in Southern Ontario.

Many of the Fund's products require outdoor installation and therefore timing of the installation is subject to weather conditions. The Fund historically generates higher levels of revenue during the summer months in the second and third quarters, while the first and fourth quarters are characterized by lower levels of construction activity associated with the late fall and winter months. The Armtec division takes advantage of this slow installation period to build inventory for the busy summer months as well as make productivity investments in its manufacturing facilities. The Con-Force division is not normally impacted by the seasons to the same extent as the Armtec division. However, installation rates for precast products, particularly in Manitoba, were influenced by severe weather conditions.

As a result, the gross margin typically achieved by the Fund in the first quarter does not fully offset distribution and warehousing, amortization of intangible assets and selling, general and administrative expenses incurred during the period. Also contributing to the loss from operations was the amortization of \$1.3 million associated with customer contracts purchased from Con-Force at the time of acquisition. The remaining balance of \$2.3 million is expected to be amortized over the remainder of 2008. As a result of seasonality and the additional amortization of customer contracts, losses were expected during the first quarter.

During the three months ended March 31, 2008, the Fund achieved revenues of \$46.4 million which was an increase of \$24.6 million over 2007. The results in 2008 incorporate the results of the Con-Force division acquired in October of 2007. Revenue from Con-Force offset the volume decrease experienced by the Armtec division. The Armtec division's revenues returned to a normal seasonal pattern after an unusually strong 2007 first quarter. Additionally, 2008 was negatively impacted by challenging installation conditions. Natural resource, agricultural and infrastructure markets were affected, particularly in Central and Western Canada, by the extended winter experienced in 2008. In 2007, several large engineered products were shipped to customer locations earlier than in other years. The addition of Con-Force, combined with the continuing implementation of lean manufacturing initiatives, contributed to steady margins at approximately 23% for the first quarter of 2008 as compared to 2007.

## First Quarter Results

### REVENUE

For the three months ended March 31, 2008, revenues were \$46.4 million, an increase of \$24.6 million, or 112.5%, over \$21.8 million for the same period in 2007. Of this increase, \$28.6 million related to the revenues generated by the Con-Force division. The Con-Force division recorded strong first quarter revenues reflecting the large number of infrastructure projects the division has in backlog.

The Armtec division experienced a decrease of \$4.0 million in revenues over the same period of in 2007. The decrease in revenues was due to reduced volumes. In the first quarter of 2007, the Armtec division shipped several large engineered product structures earlier for spring installation as a result of a mild winter. With the weather conditions in 2008, many projects returned to seasonally normal shipping timelines.

Agricultural and infrastructure winter shipments declined over last year due to poor installation conditions. Sales into the forestry sector continued to decline and were a reflection of difficult market conditions compounded with the current difficulties in U.S. housing market. International project activity in 2008 was stronger than the same period in 2007 due to a number of Armtec and Con-Force projects.

### GROSS MARGIN

Gross margin for the three months ended March 31, 2008, was \$10.7 million, an improvement of \$5.6 million over \$5.1 million in 2007. As a percentage of sales, gross margin decreased slightly to 23.2% as compared to 23.4% in 2007. The decrease in margin percentage was attributed to the decrease in volumes of the Armtec division partially offset with the results of a continued focus on lean manufacturing initiatives for both divisions. Amortization of property, plant and equipment increased to \$1.5 million from \$0.9 million in 2007 due to the addition of Con-Force assets.

### LOSS FROM OPERATIONS

Loss from operations for the three months ended March 31, 2008, was \$2.4 million compared to \$2.1 million, an increase of \$0.3 million over the same period of 2007. The results from the Con-Force division mitigated the impact of poor installation and weather conditions on the results of the Armtec division.

Selling, general and administrative expenses were \$9.2 million as compared to \$5.4 million for 2007. The largest increase relates to the addition of Con-Force, which represented \$3.4 million of the increase in the quarter. The remaining \$0.4 million increase of expenses over the same period in 2007 was attributed to the Armtec division for the continued expansion of sales resources in response to very competitive Canadian marketplace, particularly in the Western Canadian marketplace. The division also took advantage of the slower winter months to provide training sessions for employees and promote products to various customers before the installation season ramps up.

Distribution and warehousing costs were \$0.1 million higher at \$1.2 million compared to 2007 costs at \$1.1 million. These costs vary with the sales mix of products sold and delivery service requirements to the end customer.

Amortization of intangible assets increased by \$2.1 million over 2007 due principally to the amortization of the intangible assets acquired with Con-Force. Of the total \$53.6 million of intangible assets acquired, \$2.1 million was amortized in the quarter, of which \$1.3 million was related to the customer contract intangible. The Fund expects the remaining \$2.3 million of amortization related to the customer contract intangible to be recognized during the remainder of 2008.

## Results by Segment

### ARMTEC DIVISION

Results of Operations (in thousands of Canadian dollars) (unaudited)	Three Months Ended	
	March 31, 2008	March 31, 2007
Revenues to external customers	\$ 17,774	\$ 21,848
Loss from operations	\$ (4,732)	\$ (2,137)

### Revenue

Revenues for the Armtec division totaled \$17.8 million for the three months ended March 31, 2008, a decrease of \$4.0 million over \$21.8 million in 2007. The first quarter volumes reflect a return to a more normal schedule of

shipments after an unusually heavy volume of winter project work in 2007. Overall levels of order intake and customer enquiries in early 2008 are in line with management's expectations. The decrease in revenues for the first quarter of 2008 was due to decreased volumes installed in the infrastructure, natural resource, particularly forestry, and agricultural markets, partially offset by growth in residential and commercial markets. Agricultural and infrastructure shipments declined over last year due to poor installation conditions related to a longer than normal winter across Canada. Revenues in these markets are expected to improve in the second quarter as weather conditions allow better access to installation sites. Forestry markets continue to be impacted by the soft U.S. housing market.

Commercial markets, representing applications such as storm water solutions for shopping centres and individual retail outlets, showed growth over 2007 levels. International project activity in 2008 has rebounded and appears to be returning to historical activity levels.

Sales of drainage tubing and corrugated steel pipe ("CSP") products decreased throughout Central and Western Canada in 2008. The regions were negatively affected by abnormally poor installation conditions due to a longer, colder winter in comparison to 2007. In the agricultural market during 2007, installation conditions were quite good with drier spring weather allowing access to the fields before the growing season was underway. Also during the first quarter of 2007 an unusually large CSP contract was filled. A similar order was not repeated in 2008.

Engineered Product sales decreased for the three months ended March 31, 2008 as compared to 2007 levels. Sales of engineered products are normally associated with large projects and the customer timing of these orders can have a pronounced effect, particularly during the first quarter when revenue levels are seasonally low. While winter weather conditions usually impede the level of engineered product activity, during the first quarter of 2007, Armtec shipped product for an unusually large number of projects, where scheduling requirements resulted in the need for winter construction and project staging for early spring installations.

The Standard Products group experienced slightly increased sales for the three months ended March 31, 2008 compared to 2007. Sales of Platon increased in conjunction with the U.S. distribution agreement announced in 2007 as well as due to Armtec's participation in a large Geosynthetic project in Eastern Canada.

#### Loss from Operations

The loss from operations for the quarter ended March 31, 2008 was \$4.7 million, an increase of \$2.6 million from the \$2.1 million loss in the first quarter of 2007. A decrease in sales volumes, coupled with lower margins, contributed to the first quarter loss. Selling, general and administrative expenses were up 6.3% over the prior year due to the expansion of sales resources, particularly in the very competitive Western Canadian marketplace. The division also takes advantage of the slower winter months to offer training sessions for employees and promote products to various customers before the installation season ramps up. Distribution and warehousing costs, which vary with the mix of products sold, were up 8.0% over the prior year. The amortization of intangible assets remained consistent with levels expensed in 2007.

#### CON-FORCE DIVISION

Results of Operations (in thousands of Canadian dollars) (unaudited)	<b>Three Months Ended</b>	
	<b>March 31, 2008</b>	<b>March 31, 2007</b>
Revenues to external customers	\$ 28,653	\$ -
Earnings from operations	\$ 2,300	\$ -

#### Revenue

The Con-Force division's revenues have been driven by a combination of healthy public infrastructure investment in Western Canada and the division's continued focus on marketing efforts to expand its business. Revenues in the first quarter were derived from a number of bridge projects, architectural precast solutions, and parkade projects. Standard products, particularly precast utility vaults, also contributed to the revenue growth of the Fund.

Revenues for the Con-Force division were in line with management's expectations at \$28.6 million for the three months ended March 31, 2008. The large backlog of long term projects contributed to revenue during the quarter which remained on schedule in spite of unfavourable weather conditions. In the first quarter, revenues were derived from projects such as the Golden Ears Bridge in British Columbia, the Tecumseh parkade in Winnipeg, a large overpass project in Calgary, and several other public infrastructure projects in Alberta. Cold winter weather in Western Canada, particularly in Manitoba, did delay some shipments for the parkade project in the quarter.

### **Earnings from Operations**

Earnings from operations for the three months ended March 31, 2008, were \$2.3 million, or 8.0% of sales. These results are consistent with the \$2.4 million, or 7.5% of sales, realized in the fourth quarter of 2007. During the first quarter, construction efficiencies on a number of projects contributed to the improved margin over the fourth quarter of 2007. Earnings from operations, supported by strong revenues and margins, help mitigate the effects of seasonality that are typically experienced in the Armtec division. The Con-Force division continues to undertake a capital improvement plan to automate part of the production process and allow for a more effective use of the current facilities. The division will continue the capital improvements throughout 2008. The division is also implementing the lean manufacturing program and the first quarter performance includes some of its benefits.

Associated with the acquisition of Con-Force, significant intangible assets were identified on which amortization commenced during the fourth quarter of 2007. Contracts in backlog were initially assigned an intangible value of \$5.7 million. Based on the underlying contracts recognized in revenues, \$1.3 million was amortized in the quarter while \$2.1 million was amortized during the fourth quarter of 2007. The remaining balance is expected to be fully amortized in 2008. The Con-Force revenue stream is based on a larger percentage of projects involving engineered products compared to the Armtec division. In both divisions, engineered product projects generate margins that are in line with the increased value added component.

### **EBITDA**

For the three month period ended March 31, 2008, EBITDA was \$1.8 million compared to an EBITDA loss of \$0.6 million in the comparable period of 2007. The \$2.4 million increase was due to the addition of the Con-Force division, partially offset by the decreased revenues of the Armtec division. The Armtec division revenues returned to a more normal seasonal pattern and were also impacted by poor installation conditions related to a longer than normal 2008 winter in Central and Western Canada.

### **Interest and Financing Expenses**

During the three months ended March 31, 2008, interest incurred on borrowings was \$1.1 million compared to \$0.3 million in the same period of 2007. On October 1, 2007, term facility borrowing levels increased \$48.0 million to \$65.0 million related to the Con-Force acquisition. As part of the acquisition, the Fund also assumed capital leases related to certain manufacturing equipment. During the first three quarters of 2007, the Fund incurred nominal losses on the revaluation of the Fund's interest rate swap. The swap matured during the third quarter of 2007.

### **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 liability to nil. 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. Management reviewed the impact of the enactment and determined that there were no significant changes noted for the Fund. Management anticipates that the Fund will not be subject to income tax until January 1, 2011.

Future income taxes are recognized as a result of temporary differences related primarily to the amortization of intangible assets present in the subsidiaries of the Fund. With the October 2007 Con-Force acquisition, the Fund acquired \$53.6 million in intangible assets subject to amortization. Related to the increased intangible balance, a \$0.7 million recovery of future income taxes was recognized during the first quarter of 2008 as compared to \$0.2 million for the same period in 2007.

## **Cash Flow**

(in thousands of Canadian dollars) (unaudited)	Three Months Ended	
	March 31, 2008	March 31, 2007
<b>Cash provided by (used in):</b>		
Operating activities	\$ (3,350)	\$ (3,729)
Investing activities	(14,942)	(532)
Financing activities	5,737	4,250
Effect of translation adjustment	(2)	-
Net decrease in cash	(12,557)	(11)
Cash – beginning of period	12,628	26
<b>Cash – end of period</b>	<b>\$ 71</b>	<b>\$ 15</b>

As at March 31, 2008, the Fund held cash of \$71 as compared to \$15 in the same period in 2007. The Fund had working capital of \$44.6 million at March 31, 2008, an increase of \$16.8 million compared to working capital of \$27.8 million at March 31, 2007 and \$14.9 million over the December 31, 2007 balance. In addition to the impact of the Con-Force acquisition in October 2007, working capital has increased as a result of growing inventories and decreased accounts payable and accrued liabilities which are typical in the first quarter of the year as the Fund prepares for the higher volume summer months. 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 March 31, 2008, the Fund utilized \$3.4 million of cash from operations compared to cash utilization of \$3.7 million in the comparative 2007 period. Considering non-cash items, \$0.8 million was generated before the change in non-cash working capital as compared to a use of \$0.9 million in the first quarter of 2007. This improvement was primarily the result of earnings excluding the impact of the amortization of property, plant and equipment and intangible assets.

Non-cash working capital utilized \$4.2 million of operating cash flow, representing an increase of \$1.4 million over the \$2.8 million used in the prior year. The Con-Force division's working capital reflects its current activity level with high levels of accounts receivable and inventories required to fill order requirements. Also contributing to the increased working capital is the early season inventory build, offset by the collection of receivables in the Armtec division. The Fund continues with its lean manufacturing initiatives intended to improve management of working capital, and this will remain a focus in 2008.

In accordance with the seasonal trends of the business, the Fund anticipates building working capital during the first half of 2008 to meet the increased business volumes during the installation season. The Fund's revolving credit facility is available to finance these temporary increases in working capital needs.

### **Investing Activities**

Cash used in investing activities totalled \$14.9 million for the three months ended March 31, 2008, compared to \$0.5 million used in the same period of 2007.

The year-over-year increase is primarily the result of the \$10.2 million acquisition of certain tangible and intangible assets and liabilities of Bruce Tile on March 20, 2008. Of this total consideration, \$8.2 million was paid in cash and \$2.0 million in exchangeable partnership units. The purchase price is subject to adjustment and is expected to be finalized in 2008. The final payment of \$5.9 million, related to the October 1, 2007 acquisition of Con-Force, was also made in the first quarter of 2008.

Purchases of property, plant and equipment totalled \$0.8 million for the first quarter of 2008 with \$0.6 million considered sustaining capital expenditures and \$0.2 million related to an expansion of a Con-Force plant which is considered generative for the purposes of determining distributable cash. Purchase of intangible assets included \$0.1 million related to the successful implementation of the ERP system in the Armtec division which became operational at the end of January 2008.

The \$0.5 million of net funds expended in the first quarter of 2007 comprised of \$0.2 million related to property, plant and equipment, \$0.1 million towards the installation of a new linear corrugator and the ERP implementation as well as \$0.3 million to complete 2006 acquisitions, and \$0.1 million related to the collection of long-term notes receivable.

## **Financing Activities**

Cash provided by financing activities during the first quarter of 2008 were \$5.7 million as compared to cash provided of \$4.3 million in 2007. During the first quarter of 2008, the Fund drew on its credit facilities to fund the increase in working capital and acquisition of certain tangible and intangible assets and liabilities of Bruce Tile. The Fund also incurred \$6 in equity issuance costs related to the issuance of exchangeable partnership units associated with the asset purchase transaction of Bruce Tile.

Distributions paid to unitholders during the first quarter of 2008 were \$9.2 million, of which \$4.7 million was declared and payable in respect of 2007 but paid in January 2008. Distributions paid to unitholders during the first quarter of 2007 were \$5.8 million, of which \$3.1 million was declared and payable in respect of 2006 but paid in January 2007. Regular distributions paid during the first three months of 2007 were at \$0.13 per unit and paid on 10,304,000 units outstanding, whereas distributions for the first three months of 2008 were at \$0.15 per unit and paid on 15,076,073 units outstanding. The March 2008 distributions also included an additional 87,834 exchangeable partnership units issued for partial consideration on the acquisition of certain tangible and intangible assets and liabilities of Bruce Tile.

## **Outlook**

The outlook for both the Con-Force and Armtec divisions remains positive. The comparatively slow start in drainage product shipments this year, due to the challenging weather conditions, is not an accurate reflection of overall market demand. New order levels and customer enquiries are in line with management expectations; however the timing of shipments into Armtec division's drainage market has returned to a more traditional seasonal pattern.

Government support for infrastructure spending continues, as a result of the multi-year commitments announced in recent provincial budgets and some new commitments in the 2008 programs. Support for the infrastructure spending across the country is coming from various levels of government and is also being augmented through the use of public-private partnerships.

Agricultural drainage products are typically installed in the spring, after the ground thaws and in much larger volumes in the fall after harvest. The historically high level of crop prices and increased demand for commodities is translating into increased demand for yield enhancing drainage investments.

No improvements are projected for natural resources markets in the near term. Investment activity in energy and mining projects is expected to continue, with essentially consistent results expected year over year. Forestry markets remain challenged due to low forestry and pulp and paper prices, mill closures as well as government mandated cutting restrictions.

Activity in Canada's residential building market continues to be above average, but housing starts are expected to decline slightly in 2008. Armtec's new distribution arrangement in the U.S. market is expected to mitigate this impact.

The full-year impact of Con-Force operations has increased the Fund's participation in the active Western Canadian marketplace. New large project activity, on which we are developing solutions, supports management's assumptions regarding the long term nature of the construction boom in this region. The acquisition of certain tangible and intangible assets and liabilities of Bruce Tile will increase Armtec's participation in the growing Southern Ontario agricultural market and brings with it new customers to whom we can introduce our broad range of solutions.

International projects to date in 2008 exceed those in the same period in 2007 for the Armtec division. The Fund's international sales are generally part of large infrastructure projects and shipments tend to vary depending on customer delivery requirements. The Fund experienced a lower level of activity in 2007, however first quarter international demand would suggest a recovery to historic levels is underway. Con-Force's northern U.S. sales also contribute to international sales for the Fund. International project revenues will also be supported by the full-year impact of the greenfield joint venture manufacturing operations in South Korea.

The majority of the Fund's revenues and purchases are in Canadian dollars. Some products are sold and purchases are sourced internationally in U.S. dollars, however management does not expect the strengthening Canadian dollar to have a significant impact on the results of the Fund.

## **Liquidity, Distributable Cash and Distributions**

### **Definition and Disclosure of Distributable Cash**

Distributable cash is not a defined term under Canadian GAAP but is determined by the Fund as cash flows provided by or used in operating activities less items not affecting cash, expenditures required to sustain the current state of operations, and the change in non-cash working capital.

Management believes that distributable cash is a useful supplemental measure of performance as it provides investors with an indication of the amount of cash available for distribution to unitholders of the Fund by adjusting for the seasonality of the business via changes in non-cash working capital, adjusting for sustaining capital purchases and other items not affecting cash. Investors are cautioned, however, that distributable cash should not be construed as an alternative to using net loss and comprehensive loss 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 from other issuers.

Distributable cash for the three months ended March 31, 2008, and 2007, is as follows:

(in thousands of Canadian dollars except unit and per unit amounts)	Three Months Ended	
	March 31, 2008	March 31, 2007
<b>Cash used in operating activities</b>	<b>\$ (3,350)</b>	<b>\$ (3,729)</b>
Items not affecting cash:		
Non-cash post-employment benefits expense	(24)	(11)
Loss on sale of property, plant and equipment	(24)	(7)
Items not affecting operating cash flow:		
Sustaining capital purchases	(552)	(223)
Net increase in non-cash working capital	4,181	2,849
<b>Distributable cash</b>	<b>\$ 231</b>	<b>\$ (1,121)</b>
Distributable cash per unit	\$ 0.02	\$ (0.11)
Distributions declared	\$ 6,797	\$ 4,019
Distributions declared per unit	\$ 0.45	\$ 0.39
Net loss for the period	\$ (2,791)	\$ (2,312)
Basic and diluted loss per unit	\$ (0.18)	\$ (0.22)
Weighted average number of units outstanding	15,087,656	10,304,000

Distributions declared for the three months ended March 31, 2008, and 2007, respectively, exceeded distributable cash. As a result of a net loss for the period and due to the effect of seasonality on working capital requirements, the Fund's operations used cash in the first quarter of the year. By the fourth quarter of each year, historically cash provided by operating activities will exceed distributions declared and distributable cash.

The Fund does not believe that any portion of the distributions declared would be regarded as an economic return of capital as Armtec's business is seasonal and historically the annual cash provided by operating activities is in excess of annual distributions as is the case in December each year. The Fund expects cumulative cash provided by operating activities for the foreseeable future to exceed cumulative future distributions. The Fund expects cumulative distributions for the foreseeable future to exceed net earnings as a result of the nature of the temporary differences between net income and taxable income present in the Fund's subsidiaries.

### **Working Capital Policies and Effects on Distributable Cash**

The Fund's business is seasonal, with sales and working capital ramping up during the spring months and generally reaching peak levels during the summer months. This build-up of working capital during the first half of the year comprises receivables and inventory and is partially offset by increased payables. This increase in working capital ensures that the Fund can meet the increased business volumes during the summer months. As such, cash provided by operating activities and distributable cash may be negative until receivables are collected and inventory is reduced, offset by the settlement of payables. This results in the Fund historically generating positive working capital nearing the end of the fiscal year. In order to maintain consistent distributions and sufficient working capital, the Fund historically draws upon its revolving credit facility during the first half of the year.

### Relationship between Distributions, Investing and Financing Activities

The changes in working capital affecting cash provided by or used in operating activities, when supplemented by net borrowings under the credit facility, provide cash for the Fund's regular distributions to unitholders. Other changes affecting the Fund's ability to fund the regular distributions are investments in capital assets including property, plant and equipment and intangible assets as well as business acquisitions. When Armtec makes an acquisition, funds are drawn from existing credit facilities, an issuance of additional units or a combination of both.

The Fund's unfunded post-employment obligation was \$6.7 million and \$6.6 million at March 31, 2008, and 2007, respectively. Post-employment obligations are expected to be settled as incurred. See sections entitled "Capital Resources" and "Off-Balance Sheet Arrangements" of this interim MD&A, as well as the Fund's annual MD&A for a five year schedule of "Contractual Obligations" for more information about items that may affect distributable cash in the future.

### Definition, History and Management Strategy of Productive Capacity

The Fund's business is seasonal and, due to the nature of the products, is often affected by the distance from manufacturing location to installation site. The Con-Force division is less affected by seasonality but is significantly affected by proximity to the customer and as a result, the Con-Force facilities may not run at full capacity depending on the timing of construction contracts underway. As a result, management does not measure total productive capacity.

The Fund continues to make investments in regional productive capacity by investing in sustaining capital expenditures that are defined as those investments in property, plant and equipment and intangible assets that allow the current capacity of the Fund to be maintained. Management estimates that approximately \$3.4 million will be spent on an annual basis for sustaining capital expenditures in order to maintain the Fund's manufacturing ability. Management expands productive capacity by making generative capital purchases defined as those investments in property, plant and equipment and intangible assets that add to manufacturing capacity or further diversify the Fund's product offerings.

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)	Three Months Ended	
	March 31, 2008	March 31, 2007
Sustaining capital purchases	\$ 552	\$ 223
Generative capital purchases	316	123
<b>Total purchases</b>	<b>\$ 868</b>	<b>\$ 346</b>
Purchase of property, plant and equipment	\$ 793	\$ 249
Purchase of intangible assets	75	97
<b>Total purchases</b>	<b>\$ 868</b>	<b>\$ 346</b>

Generative expenditures for the three months ended March 31, 2008, included: \$0.1 million related to the continuing implementation of the ERP system and \$0.2 million related to an expansion of Con-Force's Calgary, Alberta plant. For the three months ended March 31, 2007, the generative related expenditures included \$0.1 million related to the implementation of the ERP system and the purchase and installation of a corrugated high density polyethylene pipe production line in Lethbridge, Alberta.

Management's strategy in investing in productive capacity is intended to both maintain existing capacity and to continually seek ways to improve operational efficiencies in the Fund's various operations. Initiatives affecting productive capacity are the continuous improvements obtained from lean manufacturing activities.

See the section entitled "Risks and Uncertainties" of the Fund's annual MD&A for further information about various risks potentially affecting productive capacity.

### Financing Strategy and Compliance with Financial Covenants

The Fund has credit facilities that provide the cash resources necessary to fund changes in working capital needs. Armtec anticipates continually renewing current debt facilities as required. See the section entitled "Capital Resources" for further discussion.

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. The Fund must maintain a ratio below 2.75:1 of debt over adjusted earnings as referred above from January 1 through September 30 or 2.25:1 from October 1 to December 31 in any fiscal year. 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 three months ended March 31, 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 in each of the next three years and is limited to the greater of 20% of the market capitalization of the Fund on October 31, 2006 or \$50.0 million per year. The Fund's limit is \$50.0 million per year for the next three years. 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. During the first quarter of 2008, the balance of normal growth capital was reduced by \$2.0 million related to exchangeable partnership units issued for the acquisition of certain tangible and intangible assets and liabilities of Bruce Tile (Note 13). For the rest of 2008 the maximum allowable balance of normal growth capital is \$48.0 million.

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 March 31, 2008.

### **Distributions**

The Fund makes regular monthly distributions to unitholders of record on the last business day of each month. Distributions to unitholders were calculated and recorded when declared.

Distributions of \$6.8 million and \$4.0 million were declared for the three months ended March 31, 2008 and 2007 respectively. Distributions are financed through cash from operations and seasonal borrowings under the revolving credit facility.

Distributions for the three months ended March 31, 2008 were as follows:  
(in Canadian dollars)

<b>Period</b>	<b>Record date</b>	<b>Payment date</b>	<b>Per unit</b>	<b>Amount</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
			<b>\$ 0.45</b>	<b>\$ 6,797,408</b>

### **Capital Resources**

Concurrent with the October 1, 2007 closing of the Con-Force acquisition, the Fund completed amendments to its existing term and revolving credit facilities. The term financing, held by Armtec Operating Trust, increased from a maximum level of \$35.0 million to \$65.0 million. The revolving facility, available to Armtec Limited Partnership, increased from a maximum of \$25.0 million to \$40.0 million. The credit facilities both mature in October 2012 and bear interest at variable rates. Prior to March 31, 2008, but effective April 3, 2008, an interest rate swap for \$32.5 million of the term facility was put in place to convert the interest rate exposure from a floating rate to a fixed rate at 3.85% plus pricing margin. There are no mandatory principal repayments on the term or revolving facilities prior to maturity.

As at March 31, 2008 as required under the credit agreement, the \$65.0 million term facility was fully drawn. Approximately \$10.0 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.

Although anticipated cash distributions to unitholders are not commitments at December 31, 2007, the Fund is required to distribute an amount equal to or greater than its taxable income in order to eliminate the Fund's income tax liability.

## **Financial Instruments**

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, and accounts payable and long-term debt have been classified as other financial liabilities.

The Fund may from time to time enter into forward contracts to reduce its exposure to fluctuations in foreign exchange rates. The Fund may also enter into interest rate swaps to reduce its exposure to fluctuations in interest rates. The Fund may elect to apply hedge accounting for foreign exchange forward contracts and interest rate swaps if certain criteria are met, including documenting all relationships between hedging instruments and hedged items, as well as the Fund's risk management objective and strategy for undertaking various hedge transactions. The Fund may, at its discretion, decide to discontinue hedge accounting for a specific hedging relationship by terminating the designation of that relationship. If the Fund does not account for forward contracts and interest rate swaps using hedge accounting, these instruments are measured at fair value with changes recognized in earnings. The fair value of the interest rate swap would be included with current assets.

The Fund does not use any derivative financial instrument for speculative purposes.

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.

The Fund has exposure to movements in interest rates. Prior to March 31, 2008, but effective April 3, 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 the fair value of unrealized gains and losses are included in other comprehensive loss, net of taxes. As at March 31, 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 in place as at March 31, 2007 was outstanding for \$11.5 million and the contract was revalued to market value resulting in an unrealized loss of \$13 for the period.

## **Off-Balance Sheet Arrangements**

The Fund's off-balance sheet arrangements consist of operating leases. Operating leases are for facilities and vehicles with market terms and do not have associated escalating rent or make-good provisions that materially affect the interim consolidated financial statements. Please see note 19 of the separately issued annual consolidated financial statements of the Fund for the year ended December 31, 2007 for disclosure of these operating leases.

## **Outstanding Unit Data**

An unlimited number of trust units may be issued by the Fund pursuant to the Fund's Declaration of Trust. Each unit is transferable and represents an equal, undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund. Each unit entitles the holder to one vote at all meetings of unitholders. As at May 1, 2008, there are 14,009,000 trust units issued and outstanding.

An unlimited number of exchangeable partnership units may be issued by Armtec Exchangeable Partnership ("AEP"). Holders of each exchangeable partnership unit are entitled to distributions from AEP at the same time and in the same amount, on a unit-for-unit basis, as distributions made by the Fund to holders of Fund units. Each exchangeable partnership unit is non-transferable without approval from the general partner, Armtec AEP GP Limited. All exchangeable partnership units are of the same class with equal rights and privileges. Exchangeable partnership units are non-voting. Exchangeable partnership units are exchangeable into units of the Fund on a unit-for-unit basis provided that the holder of the exchangeable partnership units must exchange at least 1/6 of the original number of exchangeable partnership units issued to such holder at a time.

As part of the consideration for the acquisition on March 20, 2008 of certain tangible and intangible assets and liabilities of Bruce Tile, the Fund issued 87,834 exchangeable partnership units of AEP. These exchangeable partnership units or, in the event that such units are exchanged for units of the Fund; are subject to the terms of an escrow arrangement entered into in connection with the acquisition of certain tangible and intangible assets and liabilities of Bruce Tile. As at May 1, 2008, there are 1,154,907 exchangeable partnership units issued and outstanding.

As at May 1, 2008, the number of units issued and outstanding using the "if converted" method is 15,163,907.

## **Summary of Quarterly Results**

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

<b>Three months ended</b>	<b>Mar 31, 2008</b>	<b>Dec 31, 2007</b>	<b>Sep 30, 2007</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>
Revenue	\$ 46,427	\$ 70,768	\$ 63,847	\$ 49,763	\$ 21,848	\$ 35,825	\$ 60,079	\$ 49,822
Net earnings (loss)	\$ (2,791)	\$ 7,225	\$ 11,026	\$ 6,950	\$ (2,312)	\$ 2,938	\$ 9,751	\$ 6,711
Basic and diluted earnings (loss) per unit	\$ (0.18)	\$ 0.48	\$ 1.07	\$ 0.67	\$ (0.22)	\$ 0.30	\$ 1.08	\$ 0.74

The Fund's business is seasonal, with sales ramping up in the spring months and generally reaching peak levels in the summer months. As such, losses in the first quarter are not unexpected with the Fund 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 named measures used by other issuers.

<b>The Fund</b> (in thousands of Canadian dollars) (unaudited)	<b>Three Months Ended</b>	
	<b>March 31, 2008</b>	<b>March 31, 2007</b>
<b>Loss for the period</b>	<b>\$ (2,791)</b>	<b>\$ (2,312)</b>
Recovery of future income taxes	(717)	(160)
Amortization of property, plant and equipment	1,454	870
Amortization of intangible assets	2,779	657
Interest and financing expenses	1,076	335
<b>EBITDA</b>	<b>\$ 1,801</b>	<b>\$ (610)</b>

See the section entitled "Liquidity, Distributable Cash and Distributions" of this MD&A for the disclosure definition and of distributable cash that is not a recognized measure under Canadian GAAP.

## **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 the Fund 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, post-employment benefit liabilities and future income taxes. 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. Please refer to the Fund's annual MD&A for a detailed discussion of the more significant judgments and estimates used in the preparation of the Fund's interim consolidated financial statements. No known trends, commitments, events or other uncertainties are currently believed to materially affect the assumptions used. There are no material updates to these estimates based on events from January 1, 2008 to May 1, 2008.

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

### **INITIAL ADOPTIONS AND APPLICATIONS OF ACCOUNTING PRONOUNCEMENTS**

Effective January 1, 2008, the Fund adopted Canadian Institute of Chartered Accountants ("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.

### **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

**a) Goodwill and intangible assets**

The 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 Fund is monitoring and reviewing CICA plans to make the transition to IFRS. The Fund has not yet determined the impact on its consolidated financial condition.

## **Proposed Transactions**

In July 2007, the Fund signed an agreement with the City of Saskatoon for the expropriation of part of the Saskatoon location for proceeds of \$1.2 million with an original closing date of November 2007. The closing date has been delayed pending the City's completion of the severance of the property to be sold. The current operations will not be required to move to a new location until May 2009. On April 14, 2008, the Fund received \$1.1 million of proceeds related to this transaction. The funds will remain in a trust account until all conditions of sale, including the severance of the parcel of land, have been satisfied.

## **Forward-Looking Statements**

This MD&A may contain "forward-looking" statements within the meaning of applicable securities legislation 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, events, expectations, performance or achievements expressed or implied by such forward-looking statements. All such forward-looking statements are made pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. Forward-looking statements may include comments with respect to the Fund's objectives, strategies to achieve those objectives, expected financial results, and the outlook for the Fund's business. Forward-looking statements typically contain such words or phrases such as "may", "outlook", "objective", "intend", "estimate", "anticipate", "should", "could", "would", "will", "expect", "believe", "plan" and other similar terminology suggesting future outcomes or events. These statements reflect current expectations regarding future events and operating performance and are based on information currently available to the Fund's management.

Forward-looking statements involve numerous assumptions, and significant and inherent 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. You should not unduly rely on forward-looking statements as a number of factors, many of which are beyond the control of the Fund, could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to the factors listed below and those discussed in the Fund's materials filed with the Canadian securities regulatory authorities from time to time including the Annual Information Form and the Annual MD&A. Those risks and uncertainties include, but are not limited to: industry cyclicality; competition; acquisition and expansion risk; capital and liquidity risk; reductions in demand for Armtec's products; information management; credit risk; 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; labour markets; environmental; collective bargaining; currency fluctuations; interest rates; uninsured and underinsured losses; operating hazards; risk of future legal proceedings; securities laws compliance and corporate governance standards; geographical risk; seasonality and adverse weather; geopolitical; and certain risks associated with the structure of the Fund including dependence of the Fund on Armtec entities; income tax matters; leverage and restrictive covenants; credit facilities; nature of units; distribution of securities on redemption or termination of the Fund; restrictions on potential growth; effect of market interest rates on the price of units; undiversified and illiquid holdings in Armtec Operating Trust; potential dilution. These and other factors may cause the Fund's performance to differ materially from that contemplated by forward-looking statements. Cash distributions are not guaranteed.

There have been no material changes to the Fund's business or other events or circumstances from January 1, 2008 to May 1, 2008 that require an update to the discussion of the applicable risks or forward-looking statements. Although the forward-looking statements contained in this report are based upon what management of the Fund believes are reasonable assumptions, the Fund cannot assure investors that actual results will be consistent with these forward-looking statements. All forward-looking statements in this MD&A are qualified by these cautionary statements. These forward-looking statements and outlook are made as of the date of this MD&A and, except as required by applicable law, the Fund assumes no obligation to update or revise them to reflect new events or circumstances.