

Armtec Infrastructure Income Fund

Consolidated Financial Statements
For the fiscal period July 27, 2004 to December 31, 2004

Management's Report to Unitholders

The accompanying consolidated financial statements of Armtec Infrastructure Income Fund (the "Fund") and Management's Discussion and Analysis for the period from July 27, 2004 to December 31, 2004 have been prepared by management and approved by the Trustees of the Fund. The consolidated financial statements were prepared in accordance with accounting principles generally accepted in Canada and, where necessary, reflect management's estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data contained in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Fund and its subsidiaries maintain a system of internal controls designed to provide reasonable assurance that its assets are safeguarded, only valid and authorized transactions are executed and accurate, timely and comprehensive financial information is prepared.

The Audit Committee of the Fund is comprised of independent Trustees who are neither employees nor officers of Armtec. The Audit Committee meets with management and with external auditors to satisfy themselves that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the auditors' report. The Audit Committee provides recommendations to the Trustees regarding all financial matters. The external auditors have direct access to the Audit Committee.

The consolidated financial statements have been independently audited by PricewaterhouseCoopers LLP on behalf of the Unitholders, in accordance with generally accepted auditing standards in Canada. The Auditors' Report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Fund.

/s/ Charles Phillips

Charles Phillips
President and Chief Executive Officer
Armtec Infrastructure Income Fund

/s/ R. John Slattery

R. John Slattery
Chief Financial Officer
Armtec Infrastructure Income Fund

Auditors' Report

To the Unitholders of Armtec Infrastructure Income Fund

We have audited the consolidated balance sheet of Armtec Infrastructure Income Fund as at December 31, 2004 and the consolidated statements of earnings, unitholders' equity and cash flows for the period from July 27, 2004 to December 31, 2004. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2004 and the results of its operations and its cash flows for the period from July 27, 2004 to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

/s/ PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Canada
February 17, 2005

Armtec Infrastructure Income Fund

CONSOLIDATED BALANCE SHEET

(expressed in thousands of Canadian dollars)

As at December 31, 2004

Assets

Current assets

| | |
|-----------------------------------|---------------|
| Cash and cash equivalents | \$ 2,873 |
| Accounts receivable | 17,586 |
| Inventories (note 4) | 16,175 |
| Prepaid expenses and other assets | 1,144 |
| Future income tax assets (note 9) | 174 |
| | <hr/> |
| | 37,952 |

| | |
|--|-------------------|
| Property, plant and equipment (note 5) | 34,073 |
| Notes receivable | 344 |
| Goodwill | 34,021 |
| Other intangible assets (note 6) | 42,061 |
| | <hr/> |
| | \$ 148,451 |

Liabilities

Current liabilities

| | |
|--|---------------|
| Accounts payable and accrued liabilities | \$ 15,368 |
| Distributions payable | 4,057 |
| | <hr/> |
| | 19,425 |

| | |
|--|---------------|
| Long-term debt (note 7) | 25,000 |
| Post-employment obligations (note 8) | 6,273 |
| Deferred swap loss payable | 171 |
| Future income tax liabilities (note 9) | 16,891 |
| | <hr/> |
| | 67,760 |

Unitholders' equity

| | |
|--|-------------------|
| Capital contributions (notes 2 and 10) | 82,275 |
| Net earnings for the period | 6,196 |
| Cumulative distributions (note 11) | (7,780) |
| | <hr/> |
| | 80,691 |
| | <hr/> |
| | \$ 148,451 |

Basis of presentation (note 3)

Contingencies and commitments (note 14)

Subsequent events (note 18)

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

CONSOLIDATED STATEMENT OF EARNINGS

(expressed in thousands of Canadian dollars except per unit or unit data)

For the period from July 27, 2004 to December 31, 2004

| | |
|---|------------------|
| Revenue | \$ 77,441 |
| Cost of sales | 57,233 |
| Gross margin | 20,208 |
| Selling, distribution, general, administrative and other expenses | 13,615 |
| Earnings from operations | 6,593 |
| Interest expense | 788 |
| Earnings before taxes | 5,805 |
| Future income taxes (recovery) (note 9) | (391) |
| Net earnings for the period | \$ 6,196 |
| Basic and diluted earnings per unit | \$ 0.69 |
| Basic and diluted weighted average number of units outstanding | 9,015,000 |

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

Armtec Infrastructure Income Fund

CONSOLIDATED STATEMENT OF UNITHOLDERS' EQUITY

(expressed in thousands of Canadian dollars)

| For the period from July 27, 2004 to December 31, 2004 | Unitholders' Capital | Accumulated Earnings | Accumulated Distributions | Total |
|--|-------------------------|-------------------------|------------------------------|-----------------|
| Issuance of units on initial public offering (note 2) | \$ 90,150 | \$ - | \$ - | \$90,150 |
| Issuance costs (note 2) | (2,571) | - | - | (2,571) |
| Underwriter fee (note 2) | (5,304) | - | - | (5,304) |
| Net earnings for the period | - | 6,196 | - | 6,196 |
| Distributions | - | - | (7,780) | (7,780) |
| Balance, end of period | \$ 82,275 | \$ 6,196 | \$ (7,780) | \$80,691 |

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

Armtec Infrastructure Income Fund

CONSOLIDATED STATEMENT OF CASH FLOWS

(expressed in thousands of Canadian dollars)

For the period from July 27, 2004 to December 31, 2004

Cash provided by (used in)

Operating activities

| | |
|--|---------------|
| Net earnings for the period | \$ 6,196 |
| Items not affecting cash | |
| Amortization of property, plant and equipment | 1,547 |
| Amortization of other assets | 771 |
| Future income taxes (recovery) | (391) |
| Loss on interest rate swap | 171 |
| Non-cash post-retirement benefits accrued | 108 |
| Gain on sale of property, plant and equipment | (12) |
| | 8,390 |
| Net increase in non-cash working capital (note 13) | 14,260 |
| Cash provided by operating activities | 22,650 |

Investing activities

| | |
|---|-----------------|
| Acquisition of Armtec Holdings, net of cash acquired (note 2) | (78,424) |
| Purchase of property, plant and equipment | (709) |
| Proceeds from sale of property, plant and equipment | 39 |
| Acquisition of business (note 17) | (2,164) |
| Cash used in investing activities | (81,258) |

Financing activities

| | |
|---|---------------|
| Initial public offering of fund units, net of expenses (note 2) | 82,275 |
| Repayment of acquired Armtec debt | (41,423) |
| Net borrowings from long-term debt | 25,000 |
| Payment of bank financing fees | (648) |
| Distribution to unitholders | (3,723) |
| Cash provided by financing activities | 61,481 |

| | |
|--|--------------|
| Net increase in cash and cash equivalents | 2,873 |
| Cash and cash equivalents - Beginning of period | - |

| | |
|--|-----------------|
| Cash and cash equivalents - End of period | \$ 2,873 |
|--|-----------------|

Supplemental cash flow information

| | |
|-------------------|--------|
| Interest paid | \$ 794 |
| Income taxes paid | \$ - |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

note 1. Organization and Nature of Business

Armtec Infrastructure Income Fund (the “Fund”) is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated June 15, 2004, as amended and restated on July 27, 2004 (the “Declaration of Trust”). The Fund commenced active operations on July 27, 2004 when it completed an initial public offering (“IPO”) of 9,015,000 trust units (“units”) at a price of \$10.00 per unit and indirectly purchased all of the shares of Armtec Holdings Limited (“AHL”) which at the time held 100% ownership of Armtec Limited. Armtec Limited was the entity that carried on the business of Armtec. In these financial statements, the term “Armtec” or the “Company” means the Fund together with its affiliated entities (including AHL).

Armtec is a leading manufacturer and marketer of drainage products and engineered solutions for infrastructure applications in a diverse cross-section of industries, including the public infrastructure market and private sector markets such as natural resources, residential drainage and agricultural drainage in Canada. Armtec is Canada's only national multi-material manufacturer specializing in corrugated high-density polyethylene pipe, corrugated steel pipe and related engineered products. Armtec also distributes a complete line of water control and geosynthetic products, and manufactures and distributes certain high value-added engineered products internationally.

note 2. Issuance of Fund Units and Acquisition of Armtec

On July 27, 2004, the Fund completed its IPO of 9,015,000 units at the price of \$10.00 per unit for aggregate proceeds of \$90,150. The costs of issuance and underwriter fees were \$7,875 resulting in net proceeds of \$82,275.

In conjunction with the IPO, the Fund acquired indirectly all of the securities of AHL, which held 100% ownership of Armtec Limited.

The acquisition has been accounted for by the purchase method with the results of Armtec’s operations included in the Fund’s earnings from the date of acquisition. These consolidated financial statements reflect the assets and liabilities of Armtec at assigned fair values as follows:

Net Assets Acquired

| | |
|--|------------------|
| Accounts receivable | \$ 26,218 |
| Inventories | 23,582 |
| Prepaid expenses and other assets | 627 |
| Property, plant and equipment | 34,922 |
| Future income taxes recoverable | 174 |
| Goodwill | 33,972 |
| Intangible assets | |
| Trademarks and tradenames | 19,000 |
| Licenses | 22,188 |
| Customer contracts | 600 |
| Accounts payable and accrued liabilities | (18,234) |
| Post-employment obligation | (6,165) |
| Long-term debt | (41,423) |
| Future income tax liabilities | (17,037) |
| | <u>\$ 78,424</u> |
| Consideration – Cash | <u>\$ 78,424</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

note 3. Summary of Significant Accounting Policies

Basis of consolidation

The Fund prepares its consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles. The consolidated financial statements reflect the results of operations for the period from July 27, 2004 to December 31, 2004. As the Fund commenced active operations on July 27, 2004, no comparative information is provided.

The consolidated financial statements include the accounts of the Fund and its wholly owned subsidiaries. All intercompany transactions have been eliminated upon consolidation.

Use of estimates

The preparation of financial statements in conformity with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Inventories

Inventories are stated at the lower of cost or replacement cost for raw materials and lower of cost or net realizable value for work-in-process and finished goods. Cost is determined based on standards, which approximate actual cost as determined on an average cost basis.

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated amortization. An impairment loss is recognized when the carrying amount of an asset is no longer recoverable from undiscounted future cash flows and exceeds fair value. Amortization is provided using the straight-line method over the estimated useful lives of approximately 31 years for buildings, 12 years for machinery and equipment, and 3 to 15 years for all other items. Leasehold improvements are amortized over the shorter of the useful life of the asset or the term of the lease.

Goodwill

Goodwill is the excess of the purchase price of business acquisitions over the fair value of net tangible and identifiable intangible assets acquired.

Armtec operates as one reporting unit for purposes of evaluating goodwill. Annually, the Fund reviews the carrying value of goodwill by estimating the fair value based on its expected future discounted cash flows. When the carrying amount of goodwill exceeds the estimated fair value, an impairment loss is recognized in net earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Other intangible assets

Intangible assets are assets acquired that lack physical substance and that meet the specified criteria for recognition apart from goodwill. Intangible assets consist of trademarks and tradenames, customer contracts, customer lists, financing costs and licenses. Customer lists are amortized on a straight-line basis over their estimated lives of 10 years. Customer contracts are amortized on a straight-line basis over their estimated useful lives of 7 years. Licenses are amortized on a straight-line basis over their estimated lives of 20 years. The trademarks and tradenames are amortized on a straight-line basis over their estimated lives of 25 years.

Management reviews the carrying value of its intangible assets annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Intangible assets with finite lives will be written down to fair value if the carrying amount exceeds the net recoverable amount.

Financing costs are capitalized and amortized over the term of the related debt on a straight-line basis.

Employee future benefits

Certain employees are entitled to post-employment benefits such as medical, dental and life insurance benefits. The Fund's obligation under such plans is determined annually by independent actuaries using management's assumptions and the attribution method.

Income taxes

The Fund is a mutual fund trust for income tax purposes, and therefore is not subject to tax on income distributed to unitholders. Taxes payable on income of the Fund's distribution to unitholders is the responsibility of individual unitholders.

The Fund's subsidiaries apply the liability method of accounting for income taxes. Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Future income taxes are measured using substantively enacted rates and laws that will be in effect when the differences are likely to reverse. If on the basis of available evidence it is more likely than not that all or a portion of a future tax asset will not be realized, a future tax asset is reduced by a valuation allowance.

Revenue recognition

Revenue is recognized upon shipment and when all significant obligations have been satisfied and collection is reasonably assured.

Translation of foreign currencies

Income and expenses in foreign currencies are translated into Canadian dollars at rates approximating the average rates of exchange during the period. Monetary assets and liabilities denominated in foreign currencies are translated at the period-end rate. Exchange gains and losses arising from these transactions are included in net earnings for the period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Fair value of financial instruments

The Fund's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, an interest rate swap and long-term debt.

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities approximates 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 fair value of the interest rate swap is estimated based on the amount that would need to be paid or would be received to terminate the agreements as of the balance sheet date.

Armtec is exposed to credit risk with respect to its accounts receivable; however, this is minimized by Armtec'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.

Hedging relationships

The Fund has elected to apply mark-to-market accounting to its \$11.5 million interest rate swap in accordance with the provision of CICA accounting guideline 13, "Hedging Relationships". The contract has been revalued to market value resulting in an unrealized loss of \$171.

note 4. Inventories

| | December 31, 2004 |
|----------------|-------------------|
| Raw materials | \$ 4,118 |
| Finished goods | 12,057 |
| | <u>\$ 16,175</u> |

note 5. Property, Plant and Equipment

| | December 31, 2004 | | |
|--------------------------|-------------------|-----------------------------|------------------|
| | Cost | Accumulated Amortization | Net |
| Land | \$ 3,121 | \$ - | \$ 3,121 |
| Buildings | 8,137 | 189 | 7,948 |
| Machinery and equipment | 23,334 | 1,271 | 22,063 |
| Leasehold improvements | 217 | 31 | 186 |
| Furniture and fixtures | 477 | 56 | 421 |
| Construction-in-progress | 334 | - | 334 |
| | <u>\$ 35,620</u> | <u>\$ 1,547</u> | <u>\$ 34,073</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars except unit and per unit amounts)

note 6. Other Intangible Assets

| | December 31, 2004 | | |
|---------------------------|-------------------|-----------------------------|------------------|
| | Cost | Accumulated Amortization | Net |
| Trademarks and tradenames | \$ 19,000 | \$ 190 | \$ 18,810 |
| Licenses | 22,188 | 462 | 21,726 |
| Customer contracts | 600 | 21 | 579 |
| Deferred financing costs | 649 | 88 | 561 |
| Customer lists | 395 | 10 | 385 |
| | <u>\$ 42,832</u> | <u>\$ 771</u> | <u>\$ 42,061</u> |

note 7. Long-Term Indebtedness

| | December 31, 2004 |
|-----------------------------|-------------------|
| Non-revolving term facility | \$ 25,000 |
| Revolving credit facility | - |
| | <u>\$ 25,000</u> |

On July 27, 2004, the Fund entered into a three-year syndicated credit agreement that provided the Fund with access to a \$25 million term facility and a revolving credit facility of up to \$25 million. 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. The credit facilities are secured by a first charge on the assets of the Fund and its subsidiaries, except for specified permitted encumbrances. The provisions under these facilities provide for restrictions on the operations and activities of the Fund. Generally, the most significant restrictions relate to permitted investments, distributions, as well as the incurrence and maintenance of certain financial ratios primarily linked to operating earnings before interest, taxes, depreciation and amortization. At December 31, 2004, the Fund was in compliance with these covenants. The entire credit facility is repayable in full on July 27, 2007, and while the revolving facility may fluctuate over the period, any repayments on the term facility cannot be re-borrowed.

The interest rate on the term facility at December 31, 2004 was 4.89% before related fees. During the period between July 27, 2004 and December 31, 2004, the interest rates fluctuated between 4.57% and 5.25% with a weighted average of 4.80%.

In September 2004, the Fund entered into an \$11.5 million interest rate swap, effectively converting the floating rate on a portion of the Fund's \$25 million term loan to a fixed interest rate obligation with an effective interest rate before bank issuance costs of 3.8%. The interest rate swap matures on July 27, 2007.

The average effective interest rate in the period after related fees was 5.5%. This accounts for the effects of the interest rates on the term and revolving facilities in addition to the interest rate swap. At December 31, 2004, the effective blended interest rate was 6.1%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars except unit and per unit amounts)

note 8. Post Employment Obligations

The Fund provides post-employment benefits to qualifying retirees. Information about the Fund's unfunded post-employment benefit plan is as follows:

| | |
|---|-----------------|
| Accrued post-employment benefit obligation | |
| Balance at beginning of period | \$ - |
| Acquired liability | 6,165 |
| Service cost – benefits earned | 18 |
| Interest cost | 160 |
| Benefits paid | (70) |
| Balance and plan deficit at December 31, 2004 | <u>\$ 6,273</u> |
| The Fund expense | |
| Service cost – benefits earned | \$ 18 |
| Interest cost | 160 |
| Net post-employment plan expense | <u>\$ 178</u> |
| Actuarial assumptions | |
| Discount rate | 5.75% |
| Medical inflation ¹ | 9.50 |
| Dental inflation | 5.00 |

¹Medical inflation is assumed to be 9.0% in 2005, declining 0.5% per year to 5.0% for 2013 and thereafter.

note 9. Income Taxes

The significant components of the future tax assets and liabilities are as follows:

| | December 31, 2004 |
|---|-------------------|
| Future income tax assets - current | |
| Accruals, reserves and other | \$ 174 |
| Future income tax liabilities - long-term | |
| Intangibles | 14,177 |
| Property, plant and equipment | 4,792 |
| Post-retirement obligation | (2,164) |
| Other | 86 |
| | <u>16,891</u> |
| Net future income tax liabilities | <u>\$ 16,717</u> |

The recovery of income taxes differs from the provision computed at statutory rates as follows:

| | July 27, 2004 to December 31, 2004 |
|--|------------------------------------|
| Expected income tax at a combined rate of 34.49% | \$ 2,002 |
| Net earnings of the Fund not taxable | (2,348) |
| Other | (45) |
| Recovery of future income taxes | <u>\$ (391)</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

note 10. Capital Contributions

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. All units are of the same class with equal rights and privileges and are not subject to future calls or assessments. Each unit entitles the holder to one vote at all meetings of unitholders. Units are redeemable at any time at the option of the holder at amounts related to market prices at the time, subject to certain factors including a maximum of \$50 in cash redemptions by the Fund in any particular month. This limitation may be waived at the discretion of the Trustees of the Fund. Redemptions in excess of this amount, assuming no waiving of the limitation, shall be paid by way of a distribution in specie of a pro rata amount of assets of the Fund.

Trust unit transactions from inception of the Fund were as follows:

| | Number of units | Gross proceeds | Issuance costs | Net proceeds |
|--|--------------------|-------------------|-------------------|-----------------|
| Initial issuance of trust units, July 27, 2004 | 9,015,000 | \$ 90,150 | \$ 7,875 | \$ 82,275 |
| Balance, December 31, 2004 | 9,015,000 | \$ 90,150 | \$ 7,875 | \$ 82,275 |

note 11. Distributions

The Fund makes regular monthly distributions to unitholders of record as of the last business day of each month. Distributions to unitholders are calculated and recorded when declared. Distributions for the period ended December 31, 2004 are as follows:

| Period | Record date | Payment date | Per unit | Amount |
|---------------------------|--------------------|--------------------|-----------------|-----------------|
| July 27 – August 31, 2004 | August 31, 2004 | September 15, 2004 | \$ 0.113 | \$ 1,019 |
| September 2004 | September 30, 2004 | October 15, 2004 | 0.100 | 901 |
| October 2004 | October 29, 2004 | November 15, 2004 | 0.100 | 902 |
| November 2004 | November 30, 2004 | December 15, 2004 | 0.100 | 902 |
| December 2004 | December 30, 2004 | January 14, 2005 | 0.100 | 901 |
| Special | December 30, 2004 | January 28, 2005 | 0.350 | 3,155 |
| | | | <u>\$ 0.863</u> | <u>\$ 7,780</u> |

The special distribution of \$0.35 per unit declared in December 2004 was necessary in order to distribute the taxable income of the Fund. As a result, the Fund did not report taxable income in 2004.

note 12. Long-term Incentive Plan

Armtec has adopted a long-term incentive plan ("LTIP") to enhance the ability of the Company to attract, retain and motivate key personnel and reward senior management for superior performance and associated cash flow growth of the Fund on a per unit basis. Bonuses, in the form of units of the Fund, will be provided to eligible employees annually where the cash distributed by the Fund exceeds certain specified threshold amounts.

If distributed cash per unit exceeds threshold amounts, a percentage of the excess distributed cash (the participation rate) is contributed by the Fund into a long-term incentive pool. The funds in this pool are used to purchase units of the Fund in the open market, to be provided to eligible employees as bonus compensation. The units vest evenly over a three-year period. As a result of the 2004 distributions exceeding threshold amounts, an LTIP entitlement of \$271 was approved with the acquisition of units to be completed in early 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The associated expense will be recognized over a term consisting of the current and three-year vesting period using the graded amortization method. The expense and associated liability recognized in the period ended December 31, 2004 amounted to \$98.

note 13. Changes in Non-Cash Working Capital

| | December 31, 2004 |
|--|-------------------|
| Cash provided by (used in) | |
| Accounts receivable | \$ 9,336 |
| Inventories | 8,280 |
| Notes receivable | (561) |
| Prepaid expenses and other assets | 249 |
| Accounts payable and accrued liabilities | (3,195) |
| Other | 151 |
| | <u>\$ 14,260</u> |

note 14. Contingencies and Commitments

- a) The annual commitments under operating leases as of December 31, 2004 are as follows:

| | |
|------------|-----------------|
| 2005 | \$ 905 |
| 2006 | 829 |
| 2007 | 705 |
| 2008 | 581 |
| 2009 | 384 |
| Thereafter | 440 |
| | <u>\$ 3,844</u> |

- b) Royalties

The Fund has entered into licensing agreements whereby it has the right to use certain trademarks on its products in the normal course of business. Royalties under such agreements range from 1.0% to 5.0% of eligible sales.

- c) Contingent Liabilities

In the normal course of its business activities, the Fund is subject to a number of claims and legal actions that may be made by customers, suppliers and others in respect of which either an adequate provision has been made or for which no material liability is expected.

note 15. Seasonal Nature of the Business

The Fund's results for the period from July 27, 2004 to December 31, 2004 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in revenue levels. The Fund historically experiences higher levels of revenue during the second and third quarters, while the first and fourth quarters experience lower revenue. Occupancy related expenses, general and administration costs, depreciation and amortization and interest expenses remain relatively steady throughout the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

note 16. Segmented Information

Management believes it operates in one industry segment as the Fund does not have sufficient information to allow full segment disclosure. The Fund makes operating decisions based on certain product line information, consisting of corrugated steel and high-density polyethylene pipe ("Pipe"), engineered steel products ("ESP") and other products with sufficiently distinctive applications to make aggregation with Pipe and ESP difficult.

The Fund's regional business units across Canada exhibit similar economic characteristics as they deliver similar products, used in similar applications by customers, using similar delivery and sales processes. Accordingly, the regional businesses are aggregated for reporting purposes into one segment.

The Fund derives its revenue from a large base of customers across Canada and internationally. During the period between July 27, 2004 and December 31, 2004, no single customer accounted for greater than 10% of the total revenues for the period.

Revenues by product line are as follows:

| | Pipe | ESP | Other | Total |
|----------|-----------|-----------|-----------|-----------|
| Revenues | \$ 51,423 | \$ 11,740 | \$ 14,278 | \$ 77,441 |

Domestic and export revenues are as follows:

| | Canada | International | Total |
|----------|-----------|---------------|-----------|
| Revenues | \$ 72,067 | \$ 5,374 | \$ 77,441 |

note 17. Business Acquisition

On September 15, 2004, the Fund acquired certain assets and assumed certain liabilities comprising the Construction Products Division of Maritime Steel and Foundries Limited. The gross purchase price was \$2,257 including transaction costs. The acquisition has been accounted for using the purchase method and the results of operations have been consolidated with those of the Fund from the date of acquisition. These consolidated financial statements reflect the assets and liabilities of the acquisition at assigned fair values as follows:

Net Assets Acquired

| | |
|-----------------------------------|-----------------|
| Accounts receivable | \$ 431 |
| Inventories | 1,278 |
| Prepaid expenses and other assets | 4 |
| Property and equipment | 100 |
| Goodwill | 49 |
| Intangibles - Customer lists | 395 |
| | <u>\$ 2,257</u> |

Consideration

| | |
|----------------------|-----------------|
| Consideration – Cash | \$ 2,013 |
| Transaction costs | 151 |
| Holdback payable | 93 |
| Total Consideration | <u>\$ 2,257</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

note 18. Subsequent Events

On January 20, 2005, a \$0.10 per unit (for an aggregate of \$901.5) distribution in respect of January 2005 was declared. The record date of the distribution was January 31, 2005 with an ex-dividend trading date of January 27, 2005. This distribution was paid on February 15, 2005.

On February 17, 2005, a \$0.10 per unit (for an aggregate of \$901.5) distribution in respect of February 2005 was declared. The record date of the distribution was February 28, 2005 with an ex-dividend trading date of February 24, 2005. This distribution will be paid on March 15, 2005.