

# Armtec Infrastructure Income Fund



Third Quarter Report  
Period Ended September 30, 2005



# **Armtec Infrastructure Income Fund**

## **Third Quarter Report**

### **For the Period Ended September 30, 2005**

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## To Our Unitholders:

We are pleased to report that Armtec delivered strong financial results in the third quarter of fiscal 2005. The infrastructure market remains strong and continues to drive demand and growth for Armtec, especially in Western Canada.

A summary of our financial highlights reflects the positive third quarter results.

- Revenue of \$58.9 million represents an increase of \$8.6 million or 17.2% over the comparable third quarter of 2004.
- Excluding the effect of certain unusual and non-recurring charges related to our initial public offering in the third quarter of 2004, the Fund's EBITDA of \$10.9 million represents an increase of \$1.9 million or 20.5% over the third quarter of 2004.
- The Fund generated distributable cash of \$10.2 million and declared distributions totalling \$3.0 million.
- The strong performance in 2005 is expected to result in a special distribution at the end of the year of not less than \$0.20 per unit. This special distribution, which will be in addition to the regular December distribution, will ensure that the Fund does not pay income tax on a portion of its 2005 earnings.

The Fund's accounting practice is to close the monthly accounting periods at the end of the last Friday of each month. As a result of this practice, the results for the three months ended September 30, 2005 include one additional week of operations compared to the results for the three months ended September 24, 2004. The average weekly sales for the month of September 2004 were \$3.9 million.

We are working hard to maintain the momentum. In this regard, we will be moving our headquarters to a new location, consolidating three separate offices into one, and beginning the implementation of a new information system. As our business continues to grow and as the industry leader, uniting operations and obtaining better information is an integral part of our continuous improvement program.

### Outlook

Our outlook is positive for the remainder of 2005 and into early 2006. The 2005 provincial budgets have increased infrastructure spending in most the Fund's major markets. Some of the known projects are long-term in nature and should provide increased demand in the next year. In September 2005, the Alberta government stated that infrastructure is among its top priorities for their remaining budget surplus. The growth of regional economies in Western Canada has had a positive effect on infrastructure requirements in that region and we expect that trend to continue.

The outlook for natural resources remains positive. The strength in this market is as a result of continued investment activity in the mining and oil and gas markets despite a softer forestry market. Large water control gate orders received are expected to increase revenues from the other product category in the fourth quarter of 2005 and early 2006.

Steel prices have softened in 2005 but resin prices remain volatile after recent weather events in the Gulf Coast region disrupted supply. However, through prudent purchasing decisions, we have secured appropriate resin supply for the duration of 2005 and it is anticipated that these events should not have a significant impact on the Fund's operations.

We are pleased with our growth to date, and look forward to updating you on our progress at year-end.

Sincerely,

Robert J. Wright  
Chairman of the Board of Trustees  
November 2, 2005

Charles M. Phillips  
President and Chief Executive Officer  
November 2, 2005

**Armtec Infrastructure Income Fund  
Management's Discussion and Analysis  
November 2, 2005**

The following Management's Discussion and Analysis ("MD&A") for the three and nine months ended September 30, 2005 is a review of the financial condition and results of operations of Armtec Infrastructure Income Fund (the "Fund"). It should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes contained in this quarterly report as well as the annual MD&A, consolidated financial statements and accompanying notes for the period ended December 31, 2004, and other public disclosure documents of the Fund. The financial information contained herein has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Unless indicated otherwise, all dollar amounts are expressed in thousands of Canadian dollars.

We have provided certain supplemental unaudited financial information for the three and nine months ended September 24, 2004, as management believes this will assist the reader in understanding the operating results for the underlying business. The period end information presented includes a combination of the interim financial results of the Fund for the period July 27, 2004 to September 24, 2004 (the "stub period") and the unaudited historical results of Armtec Holdings Limited ("AHL") and subsidiaries prior to the acquisition of Armtec Holdings Limited by the Fund on July 27, 2004. Readers are cautioned that these combined operating results are not the results of the Fund for the periods ended September 24, 2004 and have been presented only to provide the reader with additional information to enhance the comparability of the Fund's operating results.

## **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. In this MD&A, the terms the "Fund", "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.

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

## Operating Results for the Three Months Ended

	<b>The Fund</b> <b>September 30, 2005</b> <b>(unaudited)</b>	<b>Combined</b> <b>Operating</b> <b>Results<sup>1,3</sup></b> <b>September 24, 2004</b> <b>(unaudited)</b>
<b>Revenue</b>	<b>\$ 58,937</b>	<b>\$ 50,290</b>
Cost of sales	41,095	36,436
<b>Gross Margin</b>	<b>17,842</b>	<b>13,854</b>
As a % of revenue	30.3%	27.5%
Selling, distribution, general and administrative expenses	8,383	7,592
Restructuring, severance and other one-time costs	-	3,338
Interest and financing expenses	464	592
<b>Net earnings before taxes</b>	<b>\$ 8,995</b>	<b>\$ 2,332</b>
Interest and financing expenses	464	592
Depreciation and Amortization	1,457	1,298
<b>EBITDA<sup>2</sup></b>	<b>\$ 10,916</b>	<b>\$ 4,222</b>
As a % of Revenue	18.5%	8.4%

<sup>1</sup> The September 24, 2004 results are a combination of the interim financial results of the Fund for the period July 27, 2004 to September 24, 2004 and the unaudited historical Armtec Holdings Limited results for the period June 26, 2004 to July 26, 2004.

<sup>2</sup> EBITDA is not a defined term under Canadian GAAP. For more information, refer to the Non-GAAP Measures section of this MD&A.

<sup>3</sup> Prior period combined results have been reclassified to conform to the current presentation of financial information.

### Overview

The Fund's accounting practice is to close the monthly accounting periods at the end of the last Friday of each month. As a result of this practice, the results for the three months ended September 30, 2005 include one additional week of operations compared to the results for the three months ended September 24, 2004. The average weekly sales for the month of September 2004 were \$3.9 million.

### Revenue

Revenues increased by \$8.6 million or 17.2% to \$58.9 million for the three months ended September 30, 2005 compared to combined revenues of \$50.3 million for the three months ended September 24, 2004. The increased revenue was primarily attributed to revenue improvements from the Fund's infrastructure and residential drainage markets. During the third quarter of 2005, the Fund continued to experience revenue growth in most of the Company's infrastructure markets with particularly strong growth in Western Canada where infrastructure needs are growing in line with expanding regional economies. For the three months ended September 30 2005, the residential drainage markets of the Fund remained robust with revenue improvements across the country, but with emphasis in the provinces of Quebec and Western Canada. More modest revenue improvements, as compared to the combined third quarter of 2004, were found in the Fund's natural resource markets with revenue growth in Western Canada offsetting slower forestry sales in the province of Quebec. The reduced Quebec forestry revenues reflect a general slowdown in the Quebec pulp and paper industry primarily due to low commodity prices and harvesting disruptions due to forest fires and above normal rainfall. The Fund's agricultural market revenues were consistent with the results of the third quarter of 2004.

During the third quarter of 2005, pipe sales accounted for \$39.1 million in revenue, an increase of \$4.0 million or 11.5% from the combined \$35.1 million recorded in 2004. Continued strength in public infrastructure markets across the country accounted for most of the increase, with particularly strong demand experienced in Western Canada. Increases in residential drainage markets across the country provided most

of the remaining increase with pipe sales to the Fund's agricultural and natural resources markets consistent with the levels reported in the combined third quarter of 2004.

For the three months ended September 30, 2005, the Fund reported engineered product sales of \$8.5 million, representing an increase of \$1.8 million or 25.6% from the combined \$6.7 million recorded in 2004. The increase was largely attributed to higher sales from the Fund's Bridge-Plate™ and Multi-Plate® product lines due to increased demand in the infrastructure markets of Ontario and Atlantic Canada. Engineered product revenues from the Fund's remaining markets were consistent with the comparable combined quarter of 2004.

Other products accounted for revenues of \$11.3 million, an increase of \$2.8 million or 33.9% from the combined \$8.5 million recorded in 2004. This increase was due to improved sales of the Fund's water control gates and geosynthetic products. Water control gates continued to experience positive demand across Canada and the United States in the third quarter for infrastructure and natural resource applications. Sales of the Fund's geosynthetic product line increased during the quarter, largely in proportion with the improvements in the Fund's infrastructure pipe sales in Western Canada.

### **Gross Margin**

Gross margin for the three months ended September 30, 2005 was \$17.8 million, an improvement of \$3.9 million or 28.9% over the combined \$13.9 million of gross margin reported for the three months ended September 24, 2004. On a percentage basis, the gross margin improved to 30.3% of revenue in the third quarter of 2005 from 27.5% for the comparable combined period in 2004. The \$3.9 million dollar improvement compared to the combined third quarter of 2004 is primarily attributed to revenue improvements in the quarter, but also reflects a \$1.5 million charge to cost of goods sold during the combined 2004 period which negatively affected margins for that combined quarter. After becoming publicly traded and following a review of the Fund's asset values, the opening value of the Fund's inventory was increased by \$1.5 million. The subsequent sale of this inventory was recorded at reduced margins as this additional value was expensed through cost of sales. After accounting for the effect of this non-recurring adjustment, the 2005 gross margin on a percentage basis was relatively consistent with the combined 2004 results.

### **Selling, Distribution, General and Administrative Expenses**

Selling, distribution, general and administrative expenses for the three months ended September 30, 2005 were \$8.4 million, an increase of \$0.8 million over the \$7.6 million incurred during the combined quarter of 2004.

During the third quarter of 2005, the Fund incurred an additional \$0.4 million in administration and amortization costs related to the Fund operating as a public income trust as compared to the expenses incurred during the combined third quarter of 2004. The combined third quarter results of 2004 reflect only a partial period as a public income trust and thus are not directly comparable to the third quarter of 2005. Consulting and professional services increased \$0.3 million during the third quarter of 2005 due to several ongoing projects. Delivery and distribution expenses increased by \$0.1 million in the third quarter of 2005 as a result of the related revenue growth in the period.

### **Restructuring, Severance and Other One-Time Costs**

There were no restructuring, severance and other one-time costs for the three months ended September 30, 2005 compared to the \$3.3 million incurred in the combined three months ended September 24, 2004. Immediately prior to the Fund's completion of the IPO, Armtec incurred a number of one-time costs associated with the preparation for the IPO and the rationalization of its operations.

## Interest and Financing Expenses

Interest incurred on borrowings increased by \$0.1 million due to higher effective interest rates during the quarter, as well as higher average borrowing levels. The higher interest costs in the current quarter were offset by an unrealized gain of \$0.1 million on the valuation of the Fund's interest rate swap compared to an unrealized loss of \$0.1 million in the combined third quarter of 2004. As a result, net interest and financing costs for the third quarter of 2005 amounted to \$0.5 million as compared to the \$0.6 million incurred in the combined third quarter of 2004.

## Income Taxes

As the Fund is a mutual fund trust for Canadian income tax purposes, income allocated to unitholders effectively reduced the Fund's current income tax to nil. The Fund generated a future income tax recovery of \$0.2 million due to the amortization of intangible assets and other timing differences.

## EBITDA (See Non-GAAP Measures)

EBITDA for the three months ended September 30, 2005 was \$10.9 million compared to \$4.2 million in the combined three months ended September 24, 2004, an increase of \$6.7 million. However, \$4.8 million of the increase was a result of unusual and non-recurring charges associated with the IPO incurred in the combined third quarter of 2004.

Excluding the \$4.8 million of unusual and non-recurring items, EBITDA increased by \$1.9 million, or 20.5% when compared to the combined third quarter of 2004. The \$1.9 million of increased EBITDA was principally due to growth in revenue, which increased gross margin before depreciation by approximately \$2.5 million. This improvement was partially offset by an increase in selling, distribution, general and administrative expense compared to the combined third quarter of 2004.

The unusual and non-recurring items noted above included \$3.3 million of costs associated with the preparation for the IPO and the rationalization of its operations, as well as, a \$1.5 million charge to cost of goods sold related to the value of the Fund's opening inventory values.

## Operating Results for the Nine Months Ended

	<b>The Fund</b>	<b>Combined</b>
	<b>September 30, 2005</b>	<b>Operating</b>
	<b>(unaudited)</b>	<b>Results<sup>1,3</sup></b>
	<b>September 24, 2004</b>	<b>(unaudited)</b>
<b>Revenue</b>	<b>\$ 119,139</b>	<b>\$ 101,876</b>
Cost of sales	85,427	74,989
<b>Gross Margin</b>	<b>33,712</b>	<b>26,887</b>
As a % of revenue	28.3%	26.4%
Selling, distribution, general and administrative expenses	22,187	19,272
Restructuring, severance and other one-time costs	-	3,398
Interest and financing expenses	1,359	1,522
<b>Net earnings before taxes</b>	<b>\$ 10,166</b>	<b>\$ 2,695</b>
Interest and financing expenses	1,359	1,522
Depreciation and Amortization	4,412	4,113
<b>EBITDA<sup>2</sup></b>	<b>\$ 15,937</b>	<b>\$ 8,330</b>
As a % of Revenue	13.4%	8.2%

<sup>1</sup> The September 24, 2004 results are a combination of the interim financial results of the Fund for the period July 27, 2004 to September 24, 2004 and the unaudited historical Armtec Holdings Limited results for the period June 26, 2004 to July 26, 2004.

<sup>2</sup> EBITDA is not a defined term under Canadian GAAP. For more information, refer to the Non-GAAP Measures section of this MD&A.

<sup>3</sup> Prior period combined results have been reclassified to conform to the current presentation of financial information.

## **Overview**

The Fund's accounting practice is to close the monthly accounting periods at the end of the last Friday of each month. As a result of this practice, the results for the nine months ended September 30, 2005 include one additional week of operations compared to the combined results for the nine months ended September 24, 2004. The average weekly sales for the month of September 2004 were \$3.9 million.

## **Year-to-Date Revenue**

Revenues increased by \$17.2 million or 16.9% to \$119.1 million for the nine months ended September 30, 2005 compared to the combined revenues of \$101.9 million for the nine months ended September 24, 2004. Revenue was increased in the Fund's infrastructure, agricultural and residential drainage markets with more modest increases in natural resources. For the nine months ended September 30, 2005, the Fund reported strong revenue growth in the infrastructure markets in all regions with particular strength in the Western Canadian markets. The overall level of activity is consistent with government agencies commitment to addressing infrastructure requirements.

For the nine months ended September 30, 2005, the Fund's natural resource sales were largely consistent with 2004, with improvements in Western Canada offsetting reduced revenues from the Fund's forestry customers in Ontario and Quebec. The year-to-date reduction in this sector reflects a general slowdown in the pulp and paper industry indicative of low commodity prices and harvesting disruptions due to forest fires and above normal rainfall. On a year-to-date basis, the Fund's revenues from residential drainage markets compare favourably to the sales from this sector during the combined period in 2004. Most of the Fund's residential drainage markets increased year over year with the more significant increases occurring in the Quebec and Western provinces. The Fund's year-to-date agriculture sales have also improved as compared to the combined nine-month period in 2004 largely due to improvements in the sale of water control gates to this sector. Improvements in pricing, as well as the increase in gate sales, have offset a reduction in agricultural tubing sales volumes. Agricultural volumes were lower year-over-year reflecting lower commodity prices and less favourable weather installation conditions in 2005 as compared to the same period in 2004.

For the first nine months of 2005, pipe sales were \$78.5 million, an increase of \$10.0 million or 14.6% from the \$68.5 million recorded in the combined nine-month period in 2004. Positive results in the public infrastructure markets across the country are responsible for most of the increase. Robust residential drainage markets across the country also contributed with pipe sales to the Fund's agricultural and natural resources markets consistent with the levels reported in the combined nine-month period of 2004.

For the nine months ended September 30, 2005, the Fund reported engineered product sales of \$14.0 million, representing an increase of \$2.3 million or 20.3% from the combined \$11.7 million recorded in 2004. The increase was largely attributed to higher sales from the Fund's Bridge-Plate™ and Multi-Plate® product lines due to projects in the infrastructure markets of Ontario and Atlantic Canada. Engineered product revenues from the Fund's other regions remained consistent with the combined nine-month period of 2004.

Other products accounted for revenues of \$26.6 million, an increase of \$4.9 million or 22.6% from the \$21.7 million recorded in 2004. This increase was due to improved sales of the Fund's water control gates and geosynthetic products. Water control gates have experienced positive demand across Canada and the United States in 2005, particularly in agricultural applications, and from the growing natural resource market in Western Canada. Sales of the Fund's geosynthetic product line increased during the nine-month period, largely in proportion with the improvements in the Fund's infrastructure pipe sales.

### **Year-to-Date Gross Margin**

Gross margin for the nine months ended September 30, 2005 was \$33.7 million, an improvement of \$6.8 million or 25.4% over the \$26.9 million of gross margin for the nine months ended September 24, 2004. On a percentage basis, the gross margin improved to 28.3% of revenue in the nine months ended September 30, 2005 from 26.4% for the comparable period in 2004. The \$6.8 million dollar improvement was primarily attributed to revenue improvements during the year but also reflects a \$1.5 million charge to cost of goods sold during the combined period in 2004, which negatively affected margins in 2004. After accounting for the effect of this non-recurring adjustment, the 2005 gross margin on a percentage basis was relatively consistent with the combined 2004 results. After becoming publicly traded and following a detailed review of the Fund's asset values, the opening value of the Fund's inventory was increased by \$1.5 million. The subsequent sale of this inventory was recorded at reduced margins as this additional value was expensed through cost of sales.

### **Year-to-Date Selling, Distribution, General and Administrative Expenses**

Selling, distribution, general and administrative expenses for the nine months ended September 30, 2005 were \$22.2 million, an increase of \$2.9 million over the \$19.3 million incurred during 2004.

During the nine months ended September 30, 2005, the Fund incurred an additional \$1.6 million in administration and amortization costs related to the Fund operating as a public income trust since July 2004. Increases in selling costs resulted in an additional \$0.7 million in expenses, primarily due to expanded activities in Atlantic Canada and the Western provinces. Delivery and distribution expenses increased by \$0.6 million in the first nine months of 2005 as a result of the related revenue growth in the period and distribution facilities added in the latter half of 2004. Consulting and professional services increased \$0.5 million during the first nine months of 2005 due to several ongoing projects. Partially offsetting the increase in selling, distribution, general and administrative expenses was the elimination of Armtec management fees and other charges related to the predecessor company incurred in the prior year.

### **Restructuring, Severance and Other One-Time Costs**

There were no restructuring, severance and other one-time costs for the nine months ended September 30, 2005 compared to the \$3.4 million incurred in the nine months ended September 24, 2004. Immediately prior to the Fund's completion of the IPO, Armtec incurred a number of one-time costs associated with the preparation for the IPO and the rationalization of its operations.

### **Year-to-Date Interest and Financing Expenses**

During the nine months ended September 30, 2005, interest incurred on borrowings amounted to \$1.5 million and an unrealized gain of \$0.1 million on the interest rate swap was recognized. During the same period in 2004, interest expense amounted to \$1.7 million and an unrealized gain of \$0.2 million on the interest rate swap was recognized. Interest incurred on borrowings decreased by \$0.2 million due to lower average borrowing levels.

### **Year-to-Date Income Taxes**

As the Fund is a mutual fund trust for Canadian income tax purposes, income allocated to unitholders effectively reduced the Fund's current income tax to nil. The Fund generated a future income tax recovery of \$0.5 million due to the amortization of intangible assets and other timing differences.

### **Year-to-Date EBITDA (See Non-GAAP Measures)**

EBITDA for the nine months ended September 30, 2005 was \$15.9 million compared to \$8.3 million in the combined nine months ended September 24, 2004, an increase of \$7.6 million. However, \$4.8 million of the increase was a result of unusual and non-recurring charges associated with the IPO incurred in the combined nine-month period of 2004.

Excluding the \$4.8 million of unusual and non-recurring items, EBITDA increased by \$2.8 million, or 20.5% when compared to the combined nine months ended September 24, 2005. The \$2.8 million of increased EBITDA was principally due to a growth in revenue, which increased gross margin before depreciation by approximately \$5.0 million. This improvement was partially offset by an increase in selling, distribution, general and administrative expense compared to the combined nine-month period in 2004.

The unusual and non-recurring items noted above included \$3.3 million of costs associated with the preparation for the IPO and the rationalization of its operations, as well as, a \$1.5 million charge to cost of goods sold related to the value of the Funds opening inventory values.

### **Outlook**

The provincial budgets that were announced earlier this year have increased infrastructure spending in most of the Company's major markets. Some of the known projects are long-term in nature and should provide increased demand into 2006. The outlook for natural resources remains positive. The strength in this market is as a result of continued investment activity in the mining, oil and gas markets despite a softer forestry market. The Fund is working on several large water control gate projects, which will be delivered in the fourth quarter of 2005 and in early 2006. This is expected to increase revenues from the other products category.

Price increases implemented in 2004 and early 2005 have been accepted in the marketplace. Steel prices have softened in 2005 but resin prices remain volatile after recent weather events in the Gulf Coast region disrupted supply. However, through prudent purchasing decisions, the Company has secured appropriate resin supply for the duration of 2005 and it is anticipated that these events should not have a significant impact on the Fund's operations. Lower margins are expected on international sales due to the strength of the Canadian dollar and increased foreign competition. International revenues represented 6.3% of total revenues in the nine months ended September 30, 2005.

### **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 declared for the nine months ended September 30, 2005 are as follows:

<b>Period</b>	<b>Record date</b>	<b>Payment date</b>	<b>Per unit</b>	<b>Amount</b>
January 2005	January 31, 2005	February 15, 2005	\$ 0.10	\$ 901.50
February 2005	February 28, 2005	March 15, 2005	0.10	901.50
March 2005	March 31, 2005	April 15, 2005	0.10	901.50
April 2005	April 29, 2005	May 16, 2005	0.10	901.50
May 2005	May 31, 2005	June 15, 2005	0.11	991.65
June 2005	June 30, 2005	July 15, 2005	0.11	991.65
July 2005	July 29, 2005	August 15, 2005	0.11	991.65
August 2005	August 31, 2005	September 15, 2005	0.11	991.65
September 2005	September 30, 2005	October 14, 2005	0.11	991.65
			<b>\$ 0.95</b>	<b>\$ 8,564.25</b>

On October 20, 2005, a \$0.11 per unit (for an aggregate of \$992) distribution in respect of October 2005 was declared. The record date of the distribution was October 31, 2005 with an ex-dividend trading date of October 27, 2005. This distribution will be paid on November 15, 2005.

## DISTRIBUTABLE CASH (See Non-GAAP Measures)

### Statement of Distributable Cash

(unaudited)

(expressed in thousands of Canadian Dollars)

	Three months ended September 30, 2005	July 27, 2004 - September 24, 2004	Nine months ended September 30, 2005
<b>Net earnings for the period</b>	<b>\$ 9,165</b>	<b>\$ 4,310</b>	<b>\$ 10,673</b>
Amortization of property, plant and equipment	903	600	2,752
Amortization of intangible assets	554	312	1,660
Non-cash inventory adjustment	-	1,500	-
Interest and financing expenses	464	378	1,359
Future income taxes (recovery)	(170)	(595)	(507)
<b>EBITDA<sup>1</sup></b>	<b>10,916</b>	<b>6,505</b>	<b>15,937</b>
Interest and financing expenses	(464)	(378)	(1,359)
Purchase of capital assets	(222)	(33)	(972)
<b>Distributable cash</b>	<b>\$ 10,230</b>	<b>\$ 6,094</b>	<b>\$ 13,606</b>
<b>Distributions declared</b>	<b>\$ 2,975</b>	<b>\$ 1,920</b>	<b>\$ 8,564</b>
<b>Net earnings per unit</b>	<b>\$ 1.0166</b>	<b>\$ 0.4781</b>	<b>\$ 1.1839</b>
<b>Distributable cash per unit</b>	<b>\$ 1.1348</b>	<b>\$ 0.6760</b>	<b>\$ 1.5093</b>
<b>Distributions declared per unit</b>	<b>\$ 0.3300</b>	<b>\$ 0.2130</b>	<b>\$ 0.9500</b>

<sup>1</sup> See Non-GAAP Measures

The Fund generated \$10.2 million in distributable cash during the third quarter of 2005 and declared distributions totalling \$3.0 million. During the nine months ended September 30, 2005, the Fund generated \$13.6 million in distributable cash with distributions totalling \$8.6 million during the period. During the comparative stub period in 2004, the Fund generated \$6.1 million in distributable cash with distributions totalling \$1.9 million during the period. The distributions were financed from the Fund's operating cash flow during the third quarter and supplemented by net borrowings under its revolving credit facility during the nine-month period.

The Fund must distribute all of its taxable income during each fiscal period. As a result of the strong performance in the third quarter of 2005 and the expectation for the fourth quarter, the Fund anticipates declaring a special distribution in December 2005 to ensure that the Fund does not pay income tax on a portion of the current year's earnings. The special distribution, which would be in addition to the regular December distribution, is not expected to be less than \$0.20 per unit and would be payable in January 2006 to unitholders of record on December 30, 2005. The Fund declared a special distribution of \$0.35 per unit for the same purpose in the fourth quarter of 2004.

Armtec's business is subject to seasonality, with sales ramping up as spring arrives and generally reaching peak levels in the summer months. Consequently, the results of the third quarter or the nine-month period should not be considered representative of a twelve-month period of distributable cash.

The table below reconciles distributable cash to cash flow from operations:

<b>(unaudited)</b>	<b>Three months ended September 30, 2005</b>	<b>July 27, 2004 - September 24, 2004</b>	<b>Nine months ended September 30, 2005</b>
<b>Distributable cash</b>	<b>\$ 10,230</b>	<b>\$ 6,094</b>	<b>\$ 13,606</b>
Items not affecting cash:			
Loss (gain) on interest rate swap	(124)	50	(82)
Non-cash post-retirement benefits accrued	62	84	190
Items not affecting operating cash flow:			
Purchase of capital assets	222	33	972
	10,390	6,261	14,686
Net increase in non-cash working capital	(3,033)	(4,955)	(16,052)
<b>Cash provided by (used in) operating activities</b>	<b>\$ 7,357</b>	<b>\$ 1,306</b>	<b>\$ (1,366)</b>

## CASH FLOW AND LIQUIDITY

As at September 30, 2005, the Fund's cash and cash equivalents amounted to \$17 thousand. Declared but unpaid distributions were \$1.0 million. The Fund had working capital of \$35.2 million, an increase of \$16.7 million from December 31, 2004, as a result of an increase in accounts receivable and inventories and partially offset by an increase in accounts payable. The increase in working capital is consistent with seasonal trends and the balance at September 30, 2005 is relatively consistent with working capital at September 24, 2004.

The Fund's revolving credit facility is available to fund expected working capital investments during the Company's peak season. At September 30, 2005, \$11.1 million was outstanding on the \$25.0 million revolving credit facility.

### Cash Flow from Operations

For the three months ended September 30, 2005, \$10.4 million of cash flow was generated before changes in non-cash working capital. The non-cash component of working capital increased due to increased activity levels. The combination of cash generated from operations and increases in non-cash working capital generated \$7.4 million of cash in the third quarter.

For the nine months ended September 30, 2005, \$14.7 million of cash flow was generated before changes in non-cash working capital. The cash flow from operations was offset by a seasonal increase of \$16.0 million in non-cash working capital associated with the activity levels at this time of year.

During the stub period in 2004, the Fund exhibited a similar seasonal trend, generating \$6.3 million of cash flow before changes in non-cash working capital while increases in non-cash working capital used \$5.0 million.

### Investing Activities

Capital expenditures for the three months ended September 30, 2005 totalled \$0.2 million, all of which were related to maintenance capital expenditures. Maintenance capital expenditures during the nine months ended September 30, 2005 amounted to \$1.0 million.

During the comparative stub period in 2004, maintenance capital expenditures amounted to less than \$0.1 million with the difference between periods largely due to the timing of expenditures. Annual maintenance capital expenditures are anticipated to be approximately \$1.5 million.

## **Financing Activities**

During the three months ended September 30, 2005, the Fund made repayments on its revolving credit facility totalling \$4.2 million. During the nine months ended September 30, 2005, the Fund made net borrowings under its revolving credit facility of \$11.1 million. Borrowings under the revolving credit facility are necessary due to the seasonal nature of the business, the ongoing operating cash requirements and regular monthly distributions during slower quarters. The Fund expects to repay any seasonal borrowings by the end of the 2005 fiscal year. During the 2004 stub period, the Fund terminated the debt facilities of the predecessor company by making repayments totalling \$41.4 million while making net borrowings under its new credit facilities totalling \$39.7 million and the payment of bank fees of \$0.6 million.

Distributions paid to unitholders amounted to \$3.0 million during the third quarter ended September 30, 2005. A further \$1.0 million was declared and payable at September 30, 2005. For the nine months ended September 30, 2005, distributions paid to unitholders amounted to \$11.6 million. The distributions paid during the nine-month period included \$4.1 million declared and unpaid distributions at December 31, 2004. The 2005 distributions were funded with operating cash flow in the third quarter and supplemented through borrowings under the revolving credit facility in the nine-month period. The Fund intends to continue making equal monthly cash distributions of its net cash receipts. Currently, the monthly distributions are set at \$0.11 per unit.

## **CAPITAL RESOURCES**

At September 30, 2005, Armtec had credit facilities that provide a \$25.0 million term facility and a \$25.0 million revolving credit facility, both at variable interest rates. The interest rate on \$11.5 million of the term facility has been fixed through a swap agreement, resulting in an effective interest rate, before bank issuance costs, of 3.8%. Armtec is in compliance with all covenants. At September 30, 2005, all \$25.0 million has been advanced on the term facility and is outstanding while \$11.1 million is outstanding on the revolving credit facility. There are no mandatory principal repayments on the term facility prior to maturity in July 2007. Due to the seasonality of the business, the revolving credit facility is available to support seasonal cash requirements for working capital and distributions.

Cash and cash equivalents at September 30, 2005 amounted to \$17 thousand.

At September 30, 2005, Armtec had no outstanding commitments for capital expenditures; however, past experience has shown that approximately \$1.5 million is required on an annual basis for maintenance capital expenditures in order to maintain its productive capacity.

On October 12, 2005, the Fund committed to implementing an Enterprise Resource Planning (“ERP”) system. Commitments for this project amount to approximately \$1.3 million. It is anticipated that the implementation period will last for the remainder of fiscal 2005 and for fiscal 2006. Expected benefits from the implementation of the new system include additional operational efficiencies, better management information and strengthened internal controls. The expenditures for the ERP system will be in addition to the expected annual maintenance capital expenditures.

Anticipated cash distributions to unitholders are not commitments at September 30, 2005, however the Fund is required to distribute an amount equal to or above its taxable income in order to eliminate the Fund’s income tax liability.

Annual cash flow from operations together with cash and cash equivalents on hand are expected to be sufficient to meet capital maintenance expenditures and anticipated cash distributions.

## OFF-BALANCE SHEET ARRANGEMENTS

The Fund's off-balance sheet arrangements consist of operating leases and royalty licenses. Operating leases are for facilities and vehicles with market terms and do not have associated escalating rent or make-good provisions that materially impact the financial statements. The Fund's royalty licenses require payments at certain predetermined levels based on the profitability of certain products. Royalty obligations are accrued when the associated profit is recognized. At September 30, 2005, the amount of royalty payments owing was \$0.1 million. For the nine months ended September 30, 2005, royalty expense amounted to \$0.3 million.

Armtec also has various operating leases, loans and purchase commitments to finance certain assets of the business. The amounts of estimated future payments are disclosed in the annual MD&A for the period ended December 31, 2004 and have not materially changed during the nine months ended September 30, 2005.

## OUTSTANDING UNIT DATA

An unlimited number of units may be issued pursuant to the Fund's Declaration of Trust. Each unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund in the event of termination or winding-up of the Fund. Each unit entitles the unitholder thereof to one vote at all meetings of unitholders. As at November 2, 2005, there are 9,015,000 units issued and outstanding. There has been no change to Fund units during the period from January 1, 2005 to September 30, 2005.

## SUMMARY OF QUARTERLY RESULTS

### For the Three Months Ended (Unaudited)

(expressed in thousands of Canadian Dollars)

	Sept 30, 2005	June 24, 2005	Mar 25, 2005	Dec 31, 2004	Sept 24, 2004	June 25, 2004	Mar 26, 2004	Dec 31, 2003
Revenue	\$ 58,937	\$ 42,236	\$ 17,966	\$ 41,569	\$ 50,290	\$ 37,968	\$ 13,618	\$ 29,645
Net earnings (loss)	\$ 9,165	\$ 4,692	\$ (3,184)	\$ 1,885	\$ 3,498	\$ 2,182	\$ (2,297)	\$ 423
Net earnings (loss) per unit	\$ 1.02	\$ 0.52	\$ (0.35)	\$ 0.21	\$ N/A	\$ N/A	\$ N/A	\$ N/A

The Company's business is seasonal, with sales ramping up as spring arrives and generally reaching peak levels in the summer months.

The September 24, 2004 amounts are a combination of the interim financial results of the Fund for the period July 27, 2004 to September 24, 2004 and the unaudited historical predecessor Armtec Limited results for the period June 26, 2004 to July 26, 2004. All results prior to the quarter ended September 24, 2004 are the unaudited historical AHL results and are not results of the Fund.

Prior period figures have been reclassified and restated to conform to the current presentation of financial information.

## NON-GAAP MEASURES

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 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 earnings determined in accordance with GAAP as an indicator of the Fund's performance or as an alternative to cash flows from operating, investing and financing activities as a measure of the Fund's liquidity and cash flows. The Fund's method of calculating EBITDA may differ from the methods used by other issuers and, accordingly, the Fund's EBITDA may not be comparable to similarly titled measures used by other issuers.

### EBITDA

	Three Months Ended		Nine Months Ended	
	The Fund September 30, 2005 (unaudited)	Combined Operating Results September 24, 2004 <sup>1,2</sup> (unaudited)	The Fund September 30, 2005 (unaudited)	Combined Operating Results September 24, 2004 <sup>1,2</sup> (unaudited)
Net earnings before taxes	\$ 8,995	\$ 2,332	\$ 10,166	\$ 2,695
Depreciation and amortization	1,457	1,298	4,412	4,113
Interest and financing expenses	464	592	1,359	1,522
<b>EBITDA</b>	<b>\$ 10,916</b>	<b>\$ 4,222</b>	<b>\$ 15,937</b>	<b>8,330</b>

<sup>1</sup> The September 24, 2004 results are a combination of the interim financial results of the Fund for the period July 27, 2004 to September 24, 2004 and the unaudited historical Armtec Holdings Limited results for the period June 26, 2004 to July 26, 2004.

<sup>2</sup> Prior period combined results have been reclassified to conform to the current presentation of financial information.

"Distributable cash" is not a defined term under Canadian GAAP but is determined by the Fund as net earnings for the period adjusted to remove non-cash items, including amortization and future income taxes, and reduced by capital expenditures (other than business acquisitions). Management believes that distributable cash is a useful measure of performance as it provides investors with an indication of the amount of cash available for distribution to unitholders. Investors are cautioned, however, that distributable cash should not be construed as an alternative to using net earnings 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.

### 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 unaudited interim consolidated financial statements, which have been prepared in accordance with Canadian GAAP. The preparation of these interim consolidated financial statements requires Armtec to make estimates and judgements 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 judgements, particularly those related to the determination of the estimated recoverable amount of inventory, goodwill and intangible assets, and post-employment benefit liabilities. Armtec bases its estimates on historical experience and on various other assumptions, which are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. For a detailed discussion of the more significant judgements and estimates used in the preparation of the Fund's interim consolidated financial statements, refer to the Fund's annual MD&A. There are no material updates to these estimates based on events from January 1, 2005 to November 2, 2005.

## **FINANCIAL INSTRUMENTS**

The Fund entered into an interest rate swap agreement on September 3, 2004 for \$11.5 million of its \$25.0 million term loan facility, resulting in an effective interest rate before bank issuance costs of 3.8%. The Fund entered into the swap to mitigate its exposure to variable interest rates but is exposed to fluctuations in the market value of the swap itself. During the period between January 1, 2005 to September 30, 2005, the mark-to-market value of the swap improved by \$0.1 million. This improvement has resulted in a reduction of the interest and financing expenses of \$0.1 million during the nine-month period. The mark-to-market value of the swap is derived from an independent valuator using appropriate market assumptions.

## **ACCOUNTING POLICY CHANGES**

There have been no changes in accounting policy for the period from January 1, 2005 to September 30, 2005, nor are there changes pending or proposed.

## **RISKS AND UNCERTAINTIES**

The Fund is subject to certain risks and uncertainties that could have a material adverse effect on Armtec's results of operations, business prospects, financial condition, cash distributions to unitholders and the trading price of the Fund's units. A comprehensive discussion of these risks can be found in our Annual Information Form, which is available through the internet on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR"), which can be accessed at [www.sedar.com](http://www.sedar.com). There have been no material changes to Armtec's business from January 1, 2005 to November 2, 2005 that require an update to the discussion of the applicable risks.

## **FORWARD-LOOKING STATEMENTS**

This MD&A may contain "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Fund or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements contain such words as "may", "will", "expect", "believe", "plan" and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of November 2, 2005. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Risks and Uncertainties". Although the forward-looking statements contained in this report are based upon what management of Armtec believes are reasonable assumptions, the Fund can not assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A and the Fund assumes no obligation to update or revise them to reflect new events or circumstances.

## **ADDITIONAL INFORMATION**

Copies of financial data and other publicly filed documents including the Annual Information Form of the Fund, are available through the internet on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval (SEDAR) which can be accessed at [www.sedar.com](http://www.sedar.com).

# **Unaudited Interim Consolidated Financial Statements**

## **Armtec Infrastructure Income Fund**

**September 30, 2005**

**These interim financial statements have not been subjected to a review by Armtec Infrastructure Income Fund's external auditor.**

# Armtec Infrastructure Income Fund

## INTERIM CONSOLIDATED BALANCE SHEET

(expressed in thousands of Canadian dollars)

	September 30, 2005 (unaudited)	September 24, 2004 (unaudited)	December 31, 2004
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 17	\$ 17	\$ 2,873
Accounts receivable	34,650	31,828	17,586
Inventories	17,428	21,065	16,175
Prepaid expenses and other assets	1,798	836	1,144
Future income tax assets	174	174	174
	<b>54,067</b>	<b>53,920</b>	<b>37,952</b>
<b>Property, plant and equipment</b>	32,293	34,368	34,073
<b>Notes receivable</b>	-	-	344
<b>Goodwill</b>	34,021	35,755	34,021
<b>Other intangible assets</b>	40,401	40,396	42,061
	<b>\$ 160,782</b>	<b>\$ 164,439</b>	<b>\$ 148,451</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 17,919	\$ 16,702	\$ 15,368
Distributions payable (note 3)	992	-	4,057
	<b>18,911</b>	<b>16,702</b>	<b>19,425</b>
<b>Long-term debt (note 2)</b>	36,138	39,666	25,000
<b>Post-employment obligations</b>	6,463	6,247	6,273
<b>Deferred swap loss payable</b>	89	50	171
<b>Future income tax liabilities</b>	16,408	16,114	16,891
	<b>78,009</b>	<b>78,779</b>	<b>67,760</b>
<b>Unitholders' equity</b>			
Capital contributions	82,248	82,369	82,275
Cumulative earnings	16,869	4,310	6,196
Cumulative distributions (note 3)	(16,344)	(1,019)	(7,780)
	<b>82,773</b>	<b>85,660</b>	<b>80,691</b>
	<b>\$ 160,782</b>	<b>\$ 164,439</b>	<b>\$ 148,451</b>

**Basis of presentation (note 1)**

**Subsequent events (note 8)**

Signed on behalf of the Trustees:

/s/ Robert J. Wright

Robert J. Wright  
Chairman

/s/ Brian W. Jamieson

Brian W. Jamieson  
Trustee

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

# Armtec Infrastructure Income Fund

## INTERIM CONSOLIDATED STATEMENT OF EARNINGS

(unaudited)

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

	<u>Three Months Ended September 30, 2005</u>	<u>July 27, 2004 - September 24, 2004</u>	<u>Nine Months Ended September 30, 2005</u>
Revenue	\$ 58,937	\$ 35,872	\$ 119,139
Cost of sales	41,095	26,445	85,427
<b>Gross margin</b>	<b>17,842</b>	<b>9,427</b>	<b>33,712</b>
Selling, distribution, general, administrative and other expenses	8,383	5,334	22,187
<b>Earnings from operations</b>	<b>9,459</b>	<b>4,093</b>	<b>11,525</b>
Interest and financing expenses	464	378	1,359
<b>Earnings before taxes</b>	<b>8,995</b>	<b>3,715</b>	<b>10,166</b>
Future income taxes (recovery)	(170)	(595)	(507)
<b>Net Earnings for the period</b>	<b>\$ 9,165</b>	<b>\$ 4,310</b>	<b>\$ 10,673</b>
<b>Basic and diluted earnings per unit</b>	<b>\$ 1.02</b>	<b>\$ 0.48</b>	<b>\$ 1.18</b>
<b>Basic and diluted weighted average number of units outstanding</b>	<b>9,015,000</b>	<b>9,015,000</b>	<b>9,015,000</b>

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

# Armtec Infrastructure Income Fund

## INTERIM CONSOLIDATED STATEMENT OF UNITHOLDERS' EQUITY

For the nine months ended September 30, 2005

(unaudited)

(expressed in thousands of Canadian dollars)

	<b>Unitholders' Capital</b>	<b>Cumulative Earnings</b>	<b>Cumulative Distributions</b>	<b>Total</b>
<b>Balance, December 31, 2004</b>	\$ 82,275	\$ 6,196	\$ (7,780)	\$ 80,691
Issuance costs	(27)			(27)
Net earnings for the period		10,673		10,673
Distributions (Note 3)			(8,564)	(8,564)
<b>Balance, September 30, 2005</b>	<b>\$ 82,248</b>	<b>\$ 16,869</b>	<b>\$ (16,344)</b>	<b>\$ 82,773</b>

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

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

	<b>Three Months Ended September 30, 2005</b>	<b>July 27, 2004 - September 24, 2004</b>	<b>Nine Months Ended September 30, 2005</b>
<b>Cash provided by (used in)</b>			
<b>Operating activities</b>			
Net earnings for the period	\$ 9,165	\$ 4,310	\$ 10,673
Items not affecting cash:			
Amortization of property, plant and equipment	903	600	2,752
Amortization of intangible assets	554	312	1,660
Non-cash inventory adjustment	-	1,500	-
Future income taxes (recovery)	(170)	(595)	(507)
Loss (gain) on interest rate swap	(124)	50	(82)
Non-cash post-retirement benefits accrued	62	84	190
	<u>10,390</u>	<u>6,261</u>	<u>14,686</u>
Net increase in non-cash working capital (note 5)	(3,033)	(4,955)	(16,052)
<b>Cash provided by (used in) operating activities</b>	<u>7,357</u>	<u>1,306</u>	<u>(1,366)</u>
<b>Investing activities</b>			
Purchase of property, plant and equipment	(222)	(33)	(972)
Acquisition of Armtec Holdings, net of cash acquired	-	(78,424)	-
Acquisition of business	-	(1,800)	-
<b>Cash used in investing activities</b>	<u>(222)</u>	<u>(80,257)</u>	<u>(972)</u>
<b>Financing activities</b>			
Net borrowings from (repayment of) long-term debt	(4,154)	39,666	11,138
Initial public offering of fund units, net of expenses	-	82,369	-
Payment of expenses related to initial public offering	-	-	(27)
Repayment of acquired Armtec debt	-	(41,423)	-
Payment of bank financing fees	-	(625)	-
Distribution to unitholders	(2,975)	(1,019)	(11,629)
<b>Cash provided by (used in) financing activities</b>	<u>(7,129)</u>	<u>78,968</u>	<u>(518)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>6</u>	<u>17</u>	<u>(2,856)</u>
<b>Cash and cash equivalents - Beginning of period</b>	<u>11</u>	<u>-</u>	<u>2,873</u>
<b>Cash and cash equivalents - End of period</b>	<u>\$ 17</u>	<u>\$ 17</u>	<u>\$ 17</u>
<b>Supplemental cash flow information</b>			
Interest paid	\$ 868	\$ 405	\$ 1,411
Income taxes paid	\$ -	\$ -	\$ -

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

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

### Note 1. Basis of Presentation

Armtec Infrastructure Income Fund (the “Fund”) is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario. The Fund was established to hold directly and indirectly, securities and assets of Armtec Limited Partnership (“Armtec”). As the Fund commenced active operations on July 27, 2004, comparative information for the consolidated statements of earnings and cash flows for the three and nine months ended September 30, 2005 is provided for the period July 27, 2004 to September 24, 2004.

The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”). The consolidated financial statements include the accounts of the Fund and its wholly owned subsidiaries. All intercompany transactions have been eliminated upon consolidation. The preparation of financial data is based on accounting policies and practices consistent with those used in the preparation of the audited annual consolidated financial statements.

These unaudited interim financial statements do not contain all the disclosures required in annual audited financial statements prepared in accordance with Canadian GAAP, and accordingly should be read together with the audited annual consolidated financial statements and the accompanying notes included in the Fund’s 2004 financial statements.

### Note 2. Long-Term Indebtedness

	September 30, 2005	December 31, 2004
Non-revolving term facility	\$ 25,000	\$ 25,000
Revolving credit facility	11,138	-
	<b>\$ 36,138</b>	<b>\$ 25,000</b>

On July 27, 2004, the Fund entered into a three-year syndicated credit agreement that provided the Fund with access to a \$25.0 million term facility and a revolving credit facility of up to \$25.0 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 September 30, 2005, 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 average borrowings of long-term debt during the three and nine months ended September 30, 2005 were \$40,151 and 35,596, respectively (\$37,110 for the period July 27, 2004 to September 24, 2004).

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. Unrealized gains and losses arising from fluctuations in the value of the interest rate swap are recorded as interest and financing expenses. The unrealized gain recorded in the three and nine months ended September 30, 2005 was \$124 and \$82, respectively (an unrealized loss of \$50 was recorded in the period July 27, 2004 to September 24, 2005).

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

The average effective interest rate after related fees during the three and nine months ended September 30, 2005 was 5.43% and 5.40%, respectively (5.37% for the period July 27, 2004 to September 24, 2004). This accounts for the effects of the interest rates on the term and revolving facilities, borrowing fees in addition to the interest rate swap but does not include any unrealized gains or losses in the period resulting from the revaluation of the interest rate swap.

### Note 3. 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 nine months ended September 30, 2005 are as follows:

<u>Period</u>	<u>Record date</u>	<u>Payment date</u>	<u>Per unit</u>	<u>Amount</u>
January 2005	January 31, 2005	February 15, 2005	\$ 0.10	\$ 901.50
February 2005	February 28, 2005	March 15, 2005	0.10	901.50
March 2005	March 31, 2005	April 15, 2005	0.10	901.50
April 2005	April 30, 2005	May 16, 2005	0.10	901.50
May 2005	May 31, 2005	June 15, 2005	0.11	991.65
June 2005	June 30, 2005	July 15, 2005	0.11	991.65
July 2005	July 29, 2005	August 15, 2005	0.11	991.65
August 2005	August 31, 2005	September 15, 2005	0.11	991.65
September 2005	September 30, 2005	October 14, 2005	0.11	991.65
			<u>\$0.95</u>	<u>\$ 8,564.25</u>

### Note 4. 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.

An LTIP entitlement of \$271 was approved in 2004 and during 2005, these funds were transferred to an employee trust managed by an independent plan administrator. Following receipt of the funds, the plan administrator purchased 20,015 units, which are being held in trust until they vest to the eligible employees. The associated expense will be recognized over a term consisting of the period of grant and the three-year vesting period using the graded amortization method. The expense and associated liability recognized in the three and nine months ended September 30, 2005 was \$25 and \$75 respectively. No liability or expense was recognized in the period July 27, 2004 to September 24, 2004.

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

**Note 5. Changes in Non-Cash Working Capital**

	<b>Three Months Ended September 30, 2005</b>	<b>July 27, 2004 - September 24, 2004</b>	<b>Nine Months Ended September 30, 2005</b>
Cash provided by (used in):			
Accounts receivable	\$ (6,992)	\$ (4,781)	\$ (17,064)
Inventories	6,091	1,939	(1,253)
Prepaid expenses and other assets	(681)	(210)	(310)
Accounts payable and accrued liabilities	(1,367)	(2,035)	2,551
Other	(84)	132	24
	<b>\$ (3,033)</b>	<b>\$ (4,955)</b>	<b>\$ (16,052)</b>

**Note 6. Seasonal Nature of the Business**

The Fund's results for the three and nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in revenue levels. Since almost all of the Fund's products require outdoor installation that are subject to weather conditions, 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.

**Note 7. Segmented Information**

The Fund operates in one industry segment, manufacturing drainage products and engineered solutions for infrastructure applications. 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's significant product lines include corrugated steel and high-density polyethylene pipe ("Pipe"), engineered steel products ("ESP"), and other products.

The Fund derives its revenue from a large base of customers across Canada and internationally. During the nine-month period ended September 30, 2005, no single customer accounted for greater than 10% of the total revenues for the period.

**For the Three Months ended September 30, 2005**

Revenues by significant product line are as follows:

	<b>Pipe</b>	<b>ESP</b>	<b>Other</b>	<b>Total</b>
Revenue	\$ 39,126	\$ 8,466	\$ 11,345	\$ 58,937

Domestic and export revenues are as follows:

	<b>Canada</b>	<b>International</b>	<b>Total</b>
Revenue	\$ 56,606	\$ 2,331	\$ 58,937

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

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**For the Period July 27, 2004 to September 24, 2004**

Revenues by significant product line are as follows:

	<b>Pipe</b>	<b>ESP</b>	<b>Other</b>	<b>Total</b>
Revenue	\$ 25,043	\$ 4,828	\$ 6,001	\$ 35,872

Domestic and export revenues are as follows:

	<b>Canada</b>	<b>International</b>	<b>Total</b>
Revenue	\$ 34,313	\$ 1,559	\$ 35,872

**For the Nine Months ended September 30, 2005**

Revenues by significant product line are as follows:

	<b>Pipe</b>	<b>ESP</b>	<b>Other</b>	<b>Total</b>
Revenue	\$ 78,475	\$ 14,084	\$ 26,580	\$ 119,139

Domestic and export revenues are as follows:

	<b>Canada</b>	<b>International</b>	<b>Total</b>
Revenue	\$ 111,684	\$ 7,455	\$ 119,139

**Note 8. Subsequent Events**

On October 12, 2005, the Fund committed to implementing an Enterprise Resource Planning (“ERP”) system. Commitments for this project amount to approximately \$1.3 million and are expected to be incurred through the remainder of current fiscal year and the following fiscal year.

On October 20, 2005, a \$0.11 per unit (for an aggregate of \$992) distribution in respect of October 2005 was declared. The record date of the distribution was October 31, 2005 with an ex-dividend trading date of October 27, 2005. This distribution will be paid on November 15, 2005.

# Armtec Infrastructure Income Fund

## UNITHOLDER INFORMATION

### **Corporate Office**

15 Campbell Road  
P.O. Box 3000  
Guelph, Ontario  
Tel: (519) 822-0210  
Fax: (519) 822-1160

### **Transfer Agent and Registrar**

Computershare Investor Services Inc.  
Toronto, Ontario  
Tel: (800) 564-6253

### **Auditors**

PricewaterhouseCoopers LLP  
Mississauga, Ontario  
Tel: (905) 949-7400

### **Investor Relations**

Charles M. Phillips  
President & Chief Executive Officer  
Tel: (519) 822-0210

### **Toronto Stock Exchange Symbol**

ARF.UN

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**Armtec Infrastructure Income Fund**

15 Campbell Road, P.O. Box 3000

Guelph, Ontario N1H 6P2

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[www.armtecincomefund.com](http://www.armtecincomefund.com)

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