

Management's Discussion and Analysis

Armtec Infrastructure Income Fund

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 "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 this management's discussion and analysis ("MD&A") the term "Armtec" or the "Company" means the Fund together with its affiliated entities (including AHL). In accordance with the terms of the Declaration of Trust, the Fund makes monthly distributions of its distributable cash, being all cash received from its indirect ownership interest in Armtec Limited Partnership, which carries on the business of the Fund, less specified deductions.

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.

March 21, 2006

The following Management's Discussion and Analysis for the quarter and the year ended December 31, 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 consolidated financial statements and accompanying notes for the year ended December 31, 2005, 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 operating results for the year ended December 31, 2004, as management believes this will assist the reader in understanding the operating results for the underlying business. The financial operating results for the year ended December 31 2004 includes a combination of the interim financial results of the Fund for the period July 27, 2004 to December 31, 2004 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 year ended December 31, 2004 and have been presented only to provide the reader with additional information to enhance the comparability of the Fund's operating results.

Operating Results for the period ended December 31

(expressed in thousands of Canadian dollars)

	Year Ended		Fourth Quarter	
	The Fund 2005	Combined Operating Results 2004 ^{1,3} (unaudited)	The Fund 2005 (unaudited)	The Fund 2004 ³ (unaudited)
Revenue	\$ 154,904	\$ 143,445	\$ 35,765	\$ 41,569
Cost of sales	111,362	105,777	25,935	30,788
Gross Margin	43,542	37,668	9,830	10,781
As a % of revenue	28.1%	26.3%	27.5%	25.9%
Selling, distribution, general and administrative expenses	30,314	27,427	8,127	8,155
Restructuring and severance and other one-time costs	-	3,398	-	-
Interest expense	1,661	2,060	302	538
Net earnings before taxes	11,567	4,783	1,401	2,088
Interest and financing expenses	1,661	2,060	302	538
Depreciation and Amortization	5,886	5,518	1,474	1,405
EBITDA² (unaudited)	\$ 19,114	\$ 12,361	\$ 3,177	\$ 4,031
As a % of Revenue	12.3%	8.6%	8.9%	9.7%

¹ The results for the year ended December 31, 2004 are a combination of the consolidated financial results of the Fund for the period from July 27, 2004 to December 31, 2004 and the unaudited consolidated results of Armtec Holdings Limited for the period from January 1, 2004 to July 26, 2004.

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

³ Prior period results have been reclassified to conform to the current presentation of financial information.

Revenues

Revenues increased by \$11.5 million or 8.0% to \$154.9 million for the year ended December 31, 2005 compared to the combined revenues of \$143.4 million for the year ended December 31, 2004. Revenues from pipe sales increased by \$6.8 million or 7.2% to \$101.7 million in the year ended December 2005 from the \$94.9 million of combined pipe revenue reported during the equivalent period in 2004. Engineered product revenues increased 3.2% or \$0.6 million to \$19.2 million from the \$18.6 million earned in 2004. Other product revenues, which primarily consist of revenues from the sale of water control gates, foundation damp proofing products and geosynthetic membranes increased by \$4.1 million or 13.7% to \$34.0 million from the \$29.9 million of revenues earned in the combined period ended December 31, 2004.

Pipe Products

The increase in pipe revenues of \$6.8 million is primarily attributed to increased sales into the Fund's infrastructure and residential drainage markets. In 2005, the Fund experienced growth in public infrastructure markets in most regions of Canada with particular strength in Western Canada. The overall level of activity is consistent with an increased commitment by government agencies to address infrastructure requirements.

Most of the Fund's residential drainage markets increased year over year. The Fund's improved pipe sales into residential drainage markets largely reflected increased sales through building trade associations but also reflected price increases implemented by the Fund in response to higher raw material pricing.

Offsetting these increases was a reduced level of pipe volumes from agricultural markets in Ontario and Quebec, almost exclusively due to a slower fourth quarter in 2005. Pipe sales to the agricultural sector were negatively impacted by lower commodity prices and less favourable installation conditions as compared to the same period in 2004. For the year ended December 31, 2005, the Fund's pipe sales into the natural resource sector were down marginally compared to 2004 revenues. Revenue improvements into oil and gas and mining sectors in 2005 were offset by reduced sales into the Canadian forestry industry. In 2005 the Canadian pulp and paper industry experienced slowdowns related to low commodity prices, harvesting disruptions due to forest fires and above normal rainfall, as well as government required reductions in permitted harvesting in the province of Quebec.

Engineered Products

The revenue increase of \$0.6 million in Engineered Products was largely due to improved pricing, as well as volume improvements in the infrastructure markets of Eastern Canada and Ontario. In 2005, the Fund's consolidated production and shipping volumes of Engineered Products were down slightly from 2004 levels, largely attributed to the timing of customer needs.

Other Products

The growth in revenues for Other Products was primarily due to improved sales of the Fund's water control gates and geosynthetic products. Water control gates experienced positive demand across Canada and the United States in 2005, particularly in agricultural applications, and natural resource markets in Western Canada. Sales of the Fund's geosynthetic product line increased during the year, largely in proportion with the improvements in the Fund's infrastructure pipe sales in 2005. Offsetting these improvements were reduced revenues from the sale of foundation damp proofing products, due to a reduced product offering after the termination of the DRICore supply agreement in April 2005.

Gross Margin

Gross margin for the year ended December 31, 2005, was \$43.5 million, an improvement of \$5.8 million or 15.6% over the \$37.7 million earned in the combined year ended December 31, 2004. On a percentage basis, the gross margin improved to 28.1% of revenue in 2005 from 26.3% in 2004.

The \$5.8 million dollar improvement was primarily attributed to revenue improvements and favourable product mix but also reflects a \$1.5 million charge to cost of goods sold during the combined period in 2004, which negatively affected margins. Following a detailed review of the Fund's asset values after becoming publicly traded, 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. The combined 2004 gross margin on a percentage basis after removing the effect of this non-recurring adjustment was 27.3%.

Selling, Distribution, General and Administrative Expenses

Selling, distribution, general and administrative expenses for the year ended December 31, 2005 were \$30.3 million, an increase of \$2.9 million over the \$27.4 million incurred during 2004.

During 2005, the Fund incurred an additional \$0.9 million in administration and \$0.8 million in amortization costs related to the Fund operating as a public income trust over those incurred in 2004. As compared to the 2004 combined results selling costs rose by \$1.1 million, primarily due to expanded activities in Atlantic and Western Canada, increased employee incentives due to positive operating results, and additional expenditures for sales training and advertising. In 2005, delivery and distribution expenses increased by \$0.3 million as a result of costs associated with distribution facilities added in the latter half of 2004, partially offset by lower transportation costs from lower agricultural pipe volumes in the fourth quarter of 2005. Consulting and professional services increased by \$0.6 million in 2005 largely due to due to several ongoing projects.

Partially offsetting the increase in selling, distribution, general and administrative expenses was the elimination of \$0.7 million of expenses for 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 in 2005 compared to the \$3.4 million incurred in the combined year ended December 31, 2004. Immediately prior to the Fund's completion of the initial public offering ("IPO"), Armtec incurred a number of one-time costs associated with the preparation and issuance of the IPO and the rationalization of its operations.

Interest Expense

During the year ended December 31, 2005, interest incurred on borrowings amounted to \$1.9 million and an unrealized gain of \$0.2 million on the interest rate swap was recognized. During 2004, interest expense amounted to \$2.2 million and an unrealized gain of \$0.1 million on the interest rate swap was recognized. Interest incurred on borrowings decreased by \$0.2 million, primarily due to lower average borrowing levels.

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 \$0.7 million, mainly due to the amortization of intangible assets and other temporary differences.

EBITDA (refer to Non-GAAP Measures)

EBITDA for the year ended December 31, 2005 was \$19.1 million compared to \$12.4 million in the combined year ended December 31, 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 twelve-month period of 2004.

Excluding the \$4.8 million of unusual and non-recurring items, EBITDA increased by \$1.9 million, or 11.1%, when compared to the combined twelve months ended December 31, 2004. The growth in EBITDA was principally due to a growth in revenue, which increased gross margin before depreciation by approximately \$4.0 million. This improvement was partially offset by a \$2.1 million increase, (excluding depreciation) related to selling, distribution, general and administrative expenses as compared to the combined 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 current level of infrastructure spending is expected to be sustained in 2006. Agricultural markets were softer in 2005, due to a combination of lower crop prices, poor installation conditions and a rapid rise in resin costs. Resin supply has begun to stabilize and if weather patterns during installation seasons are favourable, the agricultural market should return to historical levels of demand in 2006. The Fund's demand from residential markets is expected to be stable.

Resource markets are expected to be consistent with 2005 levels. Strong investment activity in the mining and oil and gas sectors is expected to maintain last year's volumes through 2006. The Fund's sales to the forestry sector are expected to stabilize with softer demand in the Quebec region due to lower harvesting levels offset by increased activity in the rest of the country.

Ongoing maintenance capital expenditures for 2006 are expected to be approximately \$1.5 million, consistent with historical levels. In addition to these expenditures, the Fund will continue to implement a new Enterprise Resource Planning system which began in October 2005. Estimated expenditures for this project amount to \$1.3 million, of which approximately \$0.5 million was expended in 2005. It is anticipated that the remainder of this commitment will largely be expended throughout 2006 as the implementation progresses.

It is expected that the acquisition of the Construction Products Division of Twister Pipe in February 2006 will provide an additional \$0.06 to \$0.09 of distributable cash on an annual basis. Armtec is focused on continuing to execute its growth strategy in 2006.

Fourth Quarter Results

Revenues decreased by \$5.8 million or 14.0% to \$35.8 million for the three months ended December 31, 2005 compared to revenues of \$41.6 million for the three months ended December 31, 2004. The decreased fourth quarter revenue can primarily be attributed to the combined effect of one additional billing week in the fourth quarter of 2004 as compared to 2005, reduced agricultural demand, and lower engineered product sales due to the timing of deliveries.

The Fund's accounting practice is to close the monthly accounting periods on the last Friday of each month. As a result of this practice, the fourth quarter of 2005 included one less week of operations compared to the fourth quarter of 2004. As a consequence, comparisons of operating results between the periods are difficult. In October 2005 (where the one week shortfall was experienced), the average weekly sales were \$3.6 million. After adjusting for the shorter billing period in the fourth quarter of 2005, the decline in fourth quarter revenues is estimated at 5.3%.

Pipe revenues decreased \$3.2 million to \$23.2 million in the fourth quarter of 2005 from \$26.4 million in the comparable period of 2004. The effect of lower agricultural sales and the lower number of billing weeks largely accounted for the decline in pipe revenues. In the fourth quarter of 2005, drainage tubing sales into agricultural markets were less active as compared to 2004 levels, especially in the Quebec marketplace. Agricultural sales make up approximately 13% of Armtec's annual revenue but generally represent a larger portion of fourth quarter sales. As a consequence, variances in demand from agricultural markets had a more pronounced effect on fourth quarter revenues than generally experienced over the full twelve month period. The stronger agricultural market activity in 2004 was partially a result of ideal installation conditions during the fall season. With a return to historical weather patterns in 2005, drainage tubing volumes were expected to be lower. However, drainage tubing volumes in the fourth quarter of 2005 were also adversely impacted by a combination of lower crop prices, thereby reducing farm incomes, and a rapid and late rise in resin costs associated with hurricane damage sustained by North American resin suppliers.

Engineered Product sales for the fourth quarter ended December 31, 2005 were \$5.1 million, a decrease of \$1.8 million from the \$6.9 million in the comparable period of 2004. The decrease can partially be attributed to the number of billing weeks but is primarily a result of lower shipments due to customer timing requirements. Other product sales in the quarter were \$7.5 million, down \$0.8 million from the \$8.3 million in the fourth quarter of 2004. The decline is largely attributed to the extra billing week in the 2004 period.

Gross margin for the three months ended December 31, 2005 was \$9.8 million, a decrease of \$1.0 million or 8.8% from the \$10.8 million of gross margin reported for the three months ended December 31, 2004. On a percentage basis, the gross margin improved to 27.5% of revenue in the fourth quarter of 2005 from 25.9% for the comparable period in 2004. The \$1.0 million reduction compared to the fourth quarter of 2004 is primarily attributed to lower quarterly revenue, partially offset by improved pricing and a more favourable mix of products sold.

Selling, distribution, general and administrative expenses for the three months ended December 31, 2005 were \$8.1 million, essentially flat to the \$8.2 million incurred during the fourth quarter of 2004. During the fourth quarter of 2005, the Fund incurred an additional \$0.3 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 fourth quarter of 2004. This increase was offset by reduced delivery and distribution expenses of \$0.3 million, primarily due to lower agricultural volumes in the period.

For the fourth quarter of 2005 interest on borrowings before swap revaluation gains, amounted to \$0.4 million, largely unchanged when compared to the interest costs incurred in the fourth quarter of 2004. The revaluation of the Fund's interest rate swap resulted in an unrealized gain of \$0.1 in the fourth quarter of 2005 compared to an unrealized loss of \$0.1 million in 2004.

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 (Refer to "Non-GAAP Measures") for the fourth quarter of 2005 was \$3.2 million or 8.9% of revenues, compared to 4.0 million or 9.7% of revenues in the comparable quarter in 2004. The reduction was principally due to the shorter billing period in 2005, as well as lower agricultural sales.

During the fourth quarter of 2005, the Fund generated \$2.9 million in operating cash flow before changes in non-cash working capital in addition to a \$12.4 million decrease in non-cash working capital for a total \$15.3 million in cash flow from operating activities. The large decrease in non-cash working capital in the fourth quarter followed the seasonal cash flow pattern of the business as receivables from the peak summer months are collected and partially offset as inventory purchases are paid. During the comparable period in 2004, the Fund generated \$2.1 million in operating cash flow before changes in non-cash working capital and \$19.2 million from decreases in non-cash working capital for a total of \$21.3 million in cash flow from operating activities. Investing activities used \$1.4 million of cash in the fourth quarter of 2005, compared to \$1.0 million in the investing activities, primarily in the purchase of capital assets. Financing activities used \$13.9 million in cash flow during the fourth quarter of 2005 including \$10.9 million in repayments of borrowings and \$3.0 million in cash distributions to unitholders. In the fourth quarter of 2004, \$17.5 million was used in financing activities.

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 year ended December 31, 2005 are as follows:

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

Period	Record date	Payment date	Per unit	Amount
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
October 2005	October 31, 2005	November 15, 2005	0.11	991.65
November 2005	November 30, 2005	December 15, 2005	0.11	991.65
December 2005	December 30, 2005	January 16, 2006	0.11	991.65
Special Distribution	December 30, 2005	January 27, 2006	0.22	1,983.30
			\$ 1.50	\$ 13,522.50

The special distribution of \$0.22 per unit declared in December 2005 was necessary in order to distribute the taxable income of the Fund. As a result, the Fund did not report taxable income in 2005. Of the distributions declared in 2005, 4.7% was a return of capital and the remaining 95.3% was subject to income tax in the hands of the unitholders.

Distributable Cash (See Non-GAAP Measures)

Statement of Distributable Cash (unaudited)

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

	Fourth Quarter		Year Ended	
	2005	2004	2005	2004 ¹
Net earnings for the period	\$ 1,570	\$ 1,885	\$ 12,243	\$ 6,196
Amortization of property, plant and equipment	924	947	3,676	1,547
Amortization of intangible assets	550	458	2,210	771
Interest and financing expenses	302	538	1,661	914
Future income taxes (recovery)	(169)	203	(676)	(391)
EBITDA	\$ 3,177	\$ 4,031	\$ 19,114	\$ 9,037
Interest and financing charges	(302)	(538)	(1,661)	(914)
Non-cash inventory adjustment	-	-	-	1,500
Purchase of property, plant and equipment	(1,400)	(676)	(2,372)	(709)
Distributable cash	\$ 1,475	\$ 2,817	\$ 15,081	\$ 8,914
Distributions declared	\$ 4,958	\$ 5,860	\$ 13,522	\$ 7,780
Net earnings per unit	\$ 0.1742	\$ 0.2091	\$ 1.3581	\$ 0.6873
Distributable cash per unit	\$ 0.1636	\$ 0.3125	\$ 1.6729	\$ 0.9888
Distributions declared per unit	\$ 0.5500	\$ 0.6500	\$ 1.5000	\$ 0.8630

¹ The comparative year-to-date results represent the period from July 27, 2004 to December 31, 2004, after the Fund's initial public offering.

The Fund generated \$15.1 million in distributable cash during 2005 and declared distributions totaling \$13.5 million. During the fourth quarter, the Fund generated \$1.5 million in distributable cash and declared distributions totaling \$5.0 million including a \$2.0 million special distribution (\$0.22 per unit). During the period from July 27, 2004 to December 31, 2004 and the fourth quarter of 2004, the Fund generated \$8.9 million and \$2.8 million in distributable cash respectively, and declared distributions totaling \$7.8 million and \$5.9 million respectively. Distributions in the fourth quarter of 2004 included the \$0.35 per unit special distribution for a total of \$3.2 million.

Included in the capital expenditures for both the full year and fourth quarter of 2005 was approximately \$0.5 million incurred for the implementation of a new Enterprise Resource Planning ("ERP") system, as well as approximately \$0.4 million related to the consolidation of three offices into a single facility. Excluding these costs, maintenance capital expenditures in 2005 were \$1.5 million, which is consistent with historical levels.

Distributable cash for the fourth quarter of 2005 was \$1.5 million or \$0.16 per unit, compared to \$2.8 million or \$0.31 per unit in 2004. Approximately half of the \$1.3 million decrease was due to capital expenditures of \$0.9 million (\$0.10 per unit) incurred in respect of the office move and the commencement of the implementation of the ERP system. The remaining change in fourth quarter distributable cash is largely due to the effect on earnings of the shorter billing period and the lower level of agricultural sales in the quarter.

Results in the fourth quarter of 2005 are not indicative of a full year of results. 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 first and fourth quarters, which are the late fall and winter months, are subject to greater variability due to the fact that installation of our products is subject to weather conditions.

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

(expressed in thousands of Canadian dollars) (unaudited)	Fourth Quarter		Year Ended	
	2005	2004	2005	2004 ¹
Distributable cash	\$ 1,475	\$ 2,817	\$ 15,081	\$ 8,914
Items not affecting cash:				
(Gain) loss on interest rate swap	(119)	121	(201)	171
Non-cash post-employment benefits accrued	61	24	251	108
Loss (gain) on sale of property, plant and equipment	34	(12)	34	(12)
Items not affecting operating cash flow:				
Purchase of capital assets	1,400	676	2,372	709
Non-cash inventory adjustment	-	-	-	(1,500)
Net (increase) decrease in non-cash working capital	12,418	17,718	(3,634)	14,260
Cash provided by operating activities	\$ 15,269	\$ 21,344	\$ 13,903	\$ 22,650

¹ The comparative year-to-date results represent the period from July 27, 2004 to December 31, 2004, after the Fund's initial public offering.

Cash Flow and Liquidity

As at December 31, 2005, the Fund's cash and cash equivalents amounted to \$10 thousand as compared to \$2.9 million in the previous year. The decrease in the cash and cash equivalents balance is primarily due to a combination of higher receivables resulting from increased billings in December 2005 as compared to 2004, as well as, an active program to increase resin inventory levels in the fourth quarter of 2005 in recognition of resin supply chain disruptions in the aftermath of the two hurricanes in the Gulf region in latter half of 2005.

Declared but unpaid distributions were \$3.0 million as compared to the \$4.1 million of unpaid distributions as at December 31 2004.

The Fund had working capital of \$20.7 million at December 31, 2005, an increase of \$2.2 million compared with the working capital of \$18.5 million at December 31, 2004, which is sufficient to meet short-term obligations.

Cash Flow from Operations

For the year ended December 31, 2005, \$17.5 million of cash flow was generated before changes in non-cash working capital. The non-cash component of working capital increased using \$3.6 million in cash flow from operations. The increase in the non-cash component of working capital was partly due to an increase in accounts receivables and inventories coupled with a decrease in accounts payable. Inventories increased due to strategic raw material purchases and production in HDPE products in the latter half of the year in response to supply concerns resulting from weather events in the Gulf Coast region coupled with slower fourth quarter volumes, particularly in agricultural products. The combination of cash flow from operations and decreases in non-cash working capital generated \$13.9 million of cash in the year ended December 31, 2005.

During the period from July 27, 2004 to December 31, 2004, the Fund generated \$8.4 million of cash flow before changes in non-cash working capital and an additional \$14.3 million from decreases in non-cash working capital for a total cash flow from operations of \$22.7 million. Due to the seasonality of the Fund's underlying business, the Fund acquired AHL during its peak period where accounts receivable and inventory balances are typically higher, resulting in cash flow from non-cash working capital for the period that was non-representative of a full year for 2004.

In accordance with the seasonal trends of the business, the Fund will increase working capital during the first half of 2006 to meet the increased business volumes during the summer months. The Fund's revolving credit facility is available to finance these temporary working capital needs.

Investing Activities

Capital expenditures for the year ended December 31, 2005 totaled \$2.4 million compared to \$0.7 million in the period from July 27, 2004 to December 31, 2004. Of the capital expenditures in 2005, \$0.5 million related to the implementation of the new ERP system and \$0.4 million related to the consolidation of three offices into one facility.

Upon completion of the IPO on July 27, 2004, the Fund used \$78.4 million to indirectly acquire all of the outstanding shares of AHL.

In December 2004, Armtec acquired certain assets and liabilities of the Construction Products Division of Maritime Steel and Foundries Limited for \$2.3 million, including transaction costs, subject to working capital adjustments. At December 31, 2004, \$0.1 million remained unpaid in the form of a holdback for working capital adjustments. This holdback was paid in January 2005.

Financing Activities

Distributions paid to unitholders amounted to \$14.6 million during 2005 including \$4.1 million that was declared and payable in respect of 2004, and paid in January 2005. A further \$3.0 million was declared and payable at December 31, 2005 and paid in January 2006. This consisted of the regular monthly distribution for December 2005 in addition to the special distribution declared in order to ensure that the Fund fully distributed all of its remaining taxable income. Effective February 1, 2006, the monthly distributions were set at \$0.12 per unit. During the period from July 27, 2004 to December 31, 2004, the Fund distributed \$3.7 million to unitholders. Distributions are largely financed through operating cash flow.

On July 27, 2004, the Fund completed the IPO and issued 9,015,000 units, receiving net proceeds of \$82.3 million after deducting underwriter fees and other unit issuance costs.

Upon completion of the offering, the Fund entered into a new credit agreement that provides for a \$25.0 million term facility and a \$25.0 million revolving credit facility.

During 2005, the Fund made new borrowings on its revolving credit facility according to its seasonal working capital requirements. All but \$0.2 million was repaid by December 31, 2005. During the period from July 27, 2004 to December 31, 2004, the Fund used \$41.4 million of cash to retire the previously existing bank loan and made net borrowings under the Fund's new credit agreement in the amount of \$25.0 million. Armtec is in compliance with all covenants.

Capital Resources

At December 31, 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%. At December 31, 2005, all \$25.0 million has been advanced on the term facility and is outstanding while \$0.2 million is outstanding on the revolving credit facility. There are no mandatory principal repayments on the term or revolving facilities prior to maturity in July 2007. Due to the seasonality of the business, the revolving credit facility is available to support temporary cash requirements for working capital and distributions.

Cash and cash equivalents at December 31, 2005 amounted to \$10 thousand.

Armtec has committed to implementing a new ERP system during 2006 and 2007. Approximately \$0.3 million remain in committed consulting fees relating to agreements signed in 2005. In addition, approximately \$1.5 million is estimated to be spent annually on maintenance capital expenditures in order to maintain Armtec's capacity.

Anticipated cash distributions to unitholders are not commitments at December 31, 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. Current monthly distributions are set by the Board of Trustees at \$0.12 per unit or \$1.44 annually.

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.

Subsequent Event

On February 1, 2006, Armtec completed the acquisition of the Construction Products Division of Twister Pipe Ltd. of Calgary, Alberta for \$7.7 million, subject to working capital adjustments, and excluding transaction costs. In conjunction with the acquisition, Armtec increased borrowing capacity on its term debt facility by \$10.0 million to finance the acquisition. As part of the amendment to the debt facilities, the maturity date for both the term and the revolving debt facilities was changed to February 2009. The Fund is in the process of finalizing the estimated fair values of the assets acquired at the date of the acquisition including goodwill and other intangible assets.

Contractual Obligations

(expressed in thousands of Canadian dollars)

	Total	Payments due by period			
		Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Term bank loan	\$ 25,225	\$ -	\$ 25,225	\$ -	\$ -
Purchase obligations	120	120	-	-	-
Long-term incentive plan	541	541	-	-	-
ERP System	332	282	50	-	-
Operating leases	8,444	1,498	2,558	1,835	2,553
Total	\$ 34,662	\$ 2,441	\$ 27,833	\$ 1,835	\$ 2,553

Off-Balance Sheet Arrangements

The Fund's off-balance sheet arrangements consist of operating leases and 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 licenses require royalty payments at certain predetermined levels based on the profitability of certain products. Royalty obligations are accrued when the associated profit is recognized.

At December 31, 2005, the amount of royalty payments owing was \$0.1 million. For the year ended December 31, 2005, royalty expense amounted to \$0.4 million.

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 March 21, 2006, there are 9,015,000 units issued and outstanding.

Summary of Quarterly Results

Three Months Ended (Unaudited)

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

	Dec 31, 2005	Sept 30, 2005	June 24, 2005	Mar 25, 2005	Dec 31, 2004	Sept 24, 2004	June 25, 2004	Mar 26, 2004
Revenue	\$ 35,765	\$ 58,937	\$ 42,236	\$ 17,966	\$ 41,569	\$ 50,290	\$ 37,968	\$ 13,618
Net earnings (loss)	\$ 1,570	\$ 9,165	\$ 4,692	\$ (3,184)	\$ 1,885	\$ 3,498	\$ 2,182	\$ (2,297)
Net earnings (loss) per unit	\$ 0.17	\$ 1.02	\$ 0.52	\$ (0.35)	\$ 0.21	\$ N/A	\$ N/A	\$ N/A

Armtec's business is seasonal, with sales ramping up as spring arrives and generally reaching peak levels in the summer months. As such, losses in the first quarter are expected with the Company historically generating positive net earnings as the second quarter unfolds. A revolving credit facility is available to allow regular distributions and working capital investments during slower quarters.

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 the results of the Fund.

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

Selected Financial Information

For the year ended December 31

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

	The Fund 2005	The Fund July 27, 2004 to December 31, 2004	2004 ¹ (unaudited)	2003 ² (unaudited)	2002 ² (unaudited)
Revenue	\$ 154,904	\$ 77,441	\$ 143,445	\$ 122,199	\$ 125,530
Net earnings	12,243	6,196	5,268	2,854	1,458
Net earnings, per unit	1.36	0.69	N/A	N/A	N/A
EBITDA ³ (unaudited)	19,114	9,037	12,361	12,270	10,139
Total assets	145,447	148,451	148,451	102,591	108,152
Total long-term debt	25,225	25,000	25,000	28,654	35,000

¹ The operating results for the full year ended December 31, 2004 consist of the operating results of Armtec Holdings Limited for the period between January 1, 2004 and July 26, 2004 prior to the acquisition by the Fund on July 27, 2004 in addition to the results of the Fund for the period between July 27, 2004 and December 31, 2004. These operating results may not be indicative of the operating results of the Fund for a full year.

² Operating results for the year ended December 31, 2003 and December 31, 2002 pertain to Armtec Holdings Limited. The operating results for these periods are shown for comparative purposes only.

³ EBITDA is not a defined term under Canadian GAAP. For more information, refer to the Non-GAAP Measures section of this MD&A.

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.

(expressed in thousands of Canadian dollars)

	Fourth Quarter		Year Ended		
	2005 (unaudited)	2004 ² (unaudited)	The Fund 2005	The Fund July 27, 2004 to December 31, 2004 ²	2004 ^{1,2} (unaudited)
Net earnings for the period	\$ 1,570	\$ 1,885	\$ 12,243	\$ 6,196	\$ 5,268
Provision for (recovery of) income taxes	(169)	203	(676)	(391)	(485)
Amortization of property, plant and equipment	924	947	3,676	1,547	4,064
Amortization of intangible assets	550	458	2,210	771	1,454
Interest and financing expenses	302	538	1,661	914	2,060
EBITDA (unaudited)	\$ 3,177	\$ 4,031	\$ 19,114	\$ 9,037	\$ 12,361

¹ The operating results for the full year ended December 31, 2004 consist of the operating results of Armtec Holdings Limited for the period between January 1, 2004 and July 26, 2004 prior to the acquisition by the Fund on July 27, 2004 in addition to the results of the Fund for the period between July 27, 2004 and December 31, 2004.

² Prior period 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 consolidated financial statements, which have been prepared in accordance with Canadian GAAP. The preparation of these consolidated financial statements requires Armtec to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates and judgments, particularly those related to the determination of the estimated recoverable amount of accounts receivable, inventory, goodwill and intangible assets, 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 judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Armtec believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Goodwill and Intangible Assets

Goodwill is recorded at cost and is not amortized. Intangible assets consist primarily of trademarks, tradenames, customer lists, customer contracts, deferred financing costs and licenses. These assets are amortized over their estimated useful lives. Management has determined, using appropriate valuation methodologies, that there was no impairment in goodwill balances at December 31, 2005 and 2004. If future operating results for Armtec are less favourable than those projected by management, a write-down of goodwill or intangible assets may be required.

Post-Employment Benefits

Post-employment benefits are accounted for on an accrual basis. The expected costs of employees' post-employment benefits are expensed during the years that employees render services and an accumulated post-employment benefit obligation is recognized. Armtec's obligation under such plans is determined annually by independent actuaries using management's assumptions and the attribution method. Actual post-employment benefit costs may differ materially from management's estimates.

Inventory

Inventory is valued 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. While management has applied judgement based upon assumptions believed to be reasonable in the circumstances, actual results can vary from these assumptions.

Derivative 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 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. There was an increase in the mark-to-market value of the swap during the year ended December 31, 2005 of \$0.2 million, classified as a reduction in interest and financing expenses. The mark-to-market value of the swap is derived from an independent valuator using appropriate market assumptions.

Accounting Policy Changes and Recent Accounting Standards

There have been no changes in accounting policy for the year ended December 31, 2005. There are no changes currently contemplated for fiscal 2006 that management expects will have a material impact on the financial results of the Fund.

The Fund is required to adopt new Canadian Institute of Chartered Accountants (the "CICA") Handbook standards contained in Section 1530 entitled "Comprehensive Income", Section 3855 entitled "Financial Instruments – Recognition and Measurement Income" and Section 3865 entitled "Hedges" on January 1, 2007. The Fund is currently evaluating the impact on its consolidated financial statements of adopting these recommendations on January 1, 2007.

Disclosure Controls and Procedures

The President and Chief Executive Officer and Chief Financial Officer of the Fund have designed a system of disclosure controls and procedures to provide reasonable assurance that material information relating to the Fund is made known to them with respect to financial and operational conditions impacting disclosure for the fiscal year ended December 31, 2005.

The certifying officers have evaluated the effectiveness of the disclosure controls and procedures as of December 31, 2005 and are satisfied that these controls and procedures are effective and that all factors that impact the operating results and financial condition of the Fund have been brought to their attention.

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. For a complete listing of risks and uncertainties, refer to the Fund's Annual Information Form.

Industry Cyclicity

The demand for pipe and related infrastructure products is cyclical and is driven by the public infrastructure, natural resources, residential drainage and agricultural drainage markets. The diverse factors driving infrastructure investment activity in these end-markets result in stability of overall demand for suppliers such as Armtec. To the extent that these investments decline or experience a downturn, this is likely to have a negative impact on the infrastructure industry.

Competition

The Canadian market for high-density polyethylene (HDPE) pipe and corrugated steel pipe (CSP) is fragmented. Armtec's competitors are comprised primarily of regionally based, private companies, all of which are smaller and less diversified than Armtec. Armtec believes that it is the market leader in the corrugated HDPE pipe, CSP and related engineered products markets in Canada. There are several large companies based in the United States that offer similar products in comparable markets in the United States. Certain of these companies currently compete in Canada in some of our regional markets but currently lack the network of facilities in Canada close to our customers to compete on a broader scale. However with a rising Canadian dollar exchange rate this may make the Canadian market more attractive for these companies in the future.

Management believes that the success of Armtec's business depends on its ability to continue to anticipate and respond to changing customer demands and market conditions by offering a constantly evolving array of engineered solutions with an emphasis on quality and value-added services. With its leading market position, brand recognition, breadth of product lines, established supplier and customer relationships and experienced management, management believes that Armtec can continue to compete successfully in Canada.

Reduction in Demand for Products

Armtec derives revenue from customers in a diverse cross-section of industries, including the public infrastructure markets and private sector markets such as natural resources, residential drainage and agricultural drainage in Canada. Its sales to the public infrastructure markets could be adversely affected by changes in government, reductions in government spending or changes in governmental policies, regulations or standards (including the CSA standards). With respect to the private sector markets, there is a risk that Armtec will not continue to receive the level of order volumes from customers in such markets in the future due to a general economic downturn, increased competition or other factors. In addition, demand for Armtec's products in a particular period may be adversely affected if the weather conditions experienced in the period are not conducive to the installation of such products.

Collections from Customers

Armtec is dependent in part on the viability of its customers for collections of trade accounts receivable and notes receivable. Armtec cannot assure that its customers will not experience financial difficulties in the future and Armtec may not collect all of its trade accounts receivable or notes receivable.

Relationships with Suppliers

Armtec currently relies on a limited number of suppliers for its key materials. Armtec has maintained long-term relationships with key suppliers of raw materials, which have resulted in a competitive advantage in procurement and reliability of supply. Armtec's principal steel supplier is currently experiencing financial difficulties. Therefore, there is no assurance that it (or any other supplier of raw materials) will be able to continue supplying Armtec with the same quantity of materials, or on the same terms, that it does under existing arrangements. There can be no assurance that, in the event Armtec is required to change from current suppliers (whether as a result of a significant deterioration in the suppliers' financial position or otherwise), alternative sources of supply will be available on terms comparable to existing arrangements.

Lack of Long-Term Agreements

Historically, Armtec has typically not entered into written long-term agreements with its customers or its suppliers. As a result, customers or suppliers may, with little or no notice or penalty, terminate their relationship with Armtec at any time. In addition, even if customers or suppliers should decide to continue their relationship with Armtec, there can be no guarantee that customers will purchase or suppliers will supply the same amount of product as in the past, or that purchase or supply, as the case may be, will be on similar terms.

Expiration of Rights under License and Distribution Arrangements

A portion of Armtec's revenue is generated from the sale of products, which are subject to license arrangements or are distributed by Armtec pursuant to distribution arrangements. Armtec will need to take steps to either negotiate the renewal or extension of its current license and distribution arrangements when they expire or to otherwise compensate for the lost revenue from the sale of such products. There can be no assurance that the Fund will be able to successfully negotiate extensions or renewals of the relevant license or distribution arrangements or develop alternate sources of revenue under any license or distribution arrangements, which may be terminated or not renewed. Furthermore, Armtec's license arrangement with Isola AS concerning its Platon product contains a non-competition covenant applicable to Armtec pursuant to which Armtec has agreed to not manufacture or sell any products which are competitive with Platon for a period of two years following termination of such arrangement. Assuming that the non-competition covenant is enforced against Armtec, Armtec will be prohibited from being involved in a market in which it currently competes for a two-year period if the license arrangement with Isola AS is terminated.

Raw Material Price Volatility

Various raw materials are used in the products manufactured by Armtec, and such raw materials may be subject to economic cyclicalities and seasonality and wide price variations. In particular, the primary raw materials used in Armtec's plastic and steel products are various types and grades of resins and steel, respectively. These raw materials are sourced and traded throughout the world and are subject to pricing volatility. Consistent with past and current practices within the industry, Armtec manages its exposure to raw material price volatility by passing this volatility through to customers wherever possible. However, there can be no assurance that the industry dynamics will allow Armtec to continue to reduce its exposure by passing through raw material price increases to its customers.

Product Liability

Difficulties in product design, performance and reliability could result in lost revenue, delays in customer acceptance of Armtec's products or lawsuits and would be detrimental to Armtec's market reputation. Armtec's products and the products incorporated from third parties may not be defect free. Undetected defects or performance problems may be discovered in the future. Armtec may not be able to successfully complete the development of planned or future products in a timely manner or to adequately address product defects, which could harm Armtec's business and prospects. In addition, product defects may expose Armtec to product liability claims, for which it may not have sufficient product liability insurance.

Intellectual Property

Armtec uses various manufacturing processes to produce drainage products and engineered solutions for infrastructure applications. There can be no assurances that such processes and products do not violate any third-party intellectual property rights. If they do, Armtec may be liable for potentially substantial damages relating to a patent or other intellectual property infringement action against it or may be prohibited from using the affected processes and producing the affected products unless it obtains an appropriate license from the relevant party. Armtec cannot be assured of obtaining any such license on commercially favourable terms, or at all.

Armtec relies on a combination of patent and trademark laws, trade secrets, confidentiality procedures, licenses and agreements to protect its proprietary rights and certain proprietary rights licensed to Armtec under various distribution arrangements (collectively, the "Proprietary Technologies"). Despite efforts to protect the Proprietary Technologies by Armtec or the licensor of any of the Proprietary Technologies (the "Licensor"), unauthorized parties may attempt to copy aspects of Armtec's products or obtain information that Armtec regards as proprietary. Policing unauthorized use of the Proprietary Technologies, if required, may be difficult, time-consuming and costly. There can be no assurance that the Licensor's or Armtec's means of protecting the Proprietary Technologies will be adequate. Furthermore, the patents on the Proprietary Technologies may be challenged, invalidated or circumvented and may not provide proprietary protection or a competitive advantage to Armtec.

Reliance on Key Personnel

Armtec's operations are dependent on the abilities, experience and efforts of its senior management and key sales and support personnel. While Armtec has entered into employment agreements and/or confidentiality and non-compete agreements with some of its key employees, should any of its key employees be unable or unwilling to continue his or her employment with Armtec, the financial performance of Armtec could be significantly adversely impacted.

Environmental

Armtec is subject to a wide range of federal, provincial and municipal environmental laws and regulations that govern the discharge of materials into the environment and the investigation and clean-up of environmental contamination. Armtec believes that the conduct of its operations is currently in material compliance with existing environmental laws and regulations. In conjunction with independent engineering firms, Armtec has examined its manufacturing facilities to identify potential clean-up obligations and other environmental issues. To date, the costs incurred in complying with environmental laws and regulations, including the cost of clean-up and remediation, have not had an adverse effect on Armtec's financial condition.

Management believes that Armtec has appropriately provided for expected environmental obligations that it may incur. However, estimating environmental liabilities at any site is complex and is dependent on the nature and extent of the information that is available about the site, the complexity and nature of any contamination and other matters. Armtec cannot predict with certainty the amount of future costs that may be incurred to satisfy its environmental obligations. Changes in laws and regulations are ongoing and may make environmental compliance, such as emission control and clean-up obligations, increasingly expensive.

Collective Bargaining

On average during the year, 62 employees at six manufacturing plants are subject to collective bargaining agreements. While management believes that Armtec's relations with its employees are excellent, there are no assurances that a strike or other disruption by its unionized employees will not occur.

Interest Rates

Armtec's credit facilities are subject to floating interest rates and, therefore, are subject to fluctuations in interest rates. Interest rate fluctuations are beyond Armtec's control and there can be no assurance that interest rate fluctuations will not have a significant adverse effect on Armtec's financial performance. Armtec entered into an interest rate swap to mitigate its interest rate risk on \$11.5 million of the \$25.0 million term facility. The swap fixes the interest rate on the hedged portion of the term facility at an effective rate of 3.8%. Management believes this to be an effective hedge. However, Armtec is still subject to interest rate risk on the remaining \$13.5 million of the term loan facility, market value fluctuations on the hedge itself, as well as fluctuations on interest incurred on the revolving credit facility.

Uninsured and Underinsured Losses

Armtec maintains insurance policies with insurers in amounts and with coverages and deductibles that management of Armtec believes are reasonable and prudent. Armtec maintains comprehensive property, casualty and liability insurance with coverages and amounts that it believes are sufficient to repair or replace any assets physically damaged or destroyed, resultant business interruption losses or extra expenses sustained, and to cover claims with respect to bodily injury or property damage arising out of assets or operations. However, not all risks are covered by insurance, and no assurance can be given that insurance will be consistently available or will be consistently available on an economically feasible basis or that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving the assets or operations of Armtec.

Operating Hazards

Armtec's revenue is dependent on the continued operation of its facilities. The operation of facilities involves some risks, including the failure or substandard performance of equipment, natural disasters, suspension of operations and new governmental statutes, regulations, guidelines and policies. The operations of Armtec are also subject to various hazards incidental to the production, use, handling, processing, storage and transportation of certain hazardous materials, including industrial chemicals. These hazards can cause fatal personal injury, severe damage to and destruction of property and equipment and environmental damage. There can be no assurance that as a result of past or future operations, there will not be claims of injury by employees or members of the public due to exposure, or alleged exposure, to these materials. There can be no assurance as to the actual amount of these liabilities or the timing of them.

Risk of Future Legal Proceedings

Armtec may be threatened from time to time with, or may be named as a defendant in, various legal proceedings, including lawsuits based upon product liability, personal injury, breach of contract and lost profits or other consequential damages claims, in the ordinary course of conducting its business. A significant judgment against Armtec, or the imposition of a significant fine or penalty, as a result of a finding that Armtec has failed to comply with laws or regulations could have a material adverse effect on Armtec.

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 March 21, 2006. 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 "Risk Factors". Although the forward-looking statements contained in this report are based upon what management of Armtec believes are reasonable assumptions, the Fund cannot 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 Fund's website at www.armtecincomefund.com and on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval (SEDAR), which can be accessed at www.sedar.com.

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 year ended December 31, 2005 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 sheets of Armtec Infrastructure Income Fund as at December 31, 2005 and 2004 and the consolidated statements of earnings, unitholders' equity and cash flows for the year ended December 31, 2005 and 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 audits.

We conducted our audits 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, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005 and the period from July 27, 2004 to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

/s/ PricewaterhouseCoopers LLP

Chartered Accountants
Mississauga, Canada
February 17, 2006

Armtec Infrastructure Income Fund

CONSOLIDATED BALANCE SHEET

(expressed in thousands of Canadian dollars)

As at December 31	2005	2004
Assets		
Current assets		
Cash and cash equivalents	\$ 10	\$ 2,873
Accounts receivable	18,946	17,586
Inventories (note 4)	18,102	16,175
Prepaid expenses and other assets	1,590	1,144
Future income tax assets (note 9)	174	174
	38,822	37,952
Property, plant and equipment (note 5)	32,723	34,073
Notes receivable	-	344
Deferred swap gain (note 7)	30	-
Goodwill	34,021	34,021
Intangible assets (note 6)	39,851	42,061
	\$ 145,447	\$ 148,451
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 15,098	\$ 15,368
Distributions payable (note 11)	2,975	4,057
	18,073	19,425
Long-term debt (notes 7 and 18)	25,225	25,000
Post-employment obligations (note 8)	6,524	6,273
Deferred swap loss (note 7)	-	171
Future income tax liabilities (note 9)	16,240	16,891
	66,062	67,760
Unitholders' equity		
Capital contributions (notes 2 and 10)	82,248	82,275
Cumulative earnings	18,439	6,196
Cumulative distributions (note 11)	(21,302)	(7,780)
	79,385	80,691
	\$ 145,447	\$ 148,451
Contingencies and commitments (note 14)		

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 year ended December 31, 2005	For the period from July 27, 2004 to December 31, 2004
Revenue	\$ 154,904	\$ 77,441
Cost of sales	111,362	57,233
Gross margin	43,542	20,208
Selling, distribution, general, administrative and other expenses	30,314	13,489
Earnings from operations	13,228	6,719
Interest and financing expenses	1,661	914
Earnings before taxes	11,567	5,805
Recovery of future income taxes (note 9)	676	391
Net earnings for the period	\$ 12,243	\$ 6,196
Basic and diluted earnings per unit	\$ 1.36	\$ 0.69
Basic and diluted weighted average number of units outstanding	9,015,000	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)

	Unitholders' Capital	Cumulative Earnings	Cumulative 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, December 31, 2004	\$ 82,275	\$ 6,196	\$ (7,780)	\$ 80,691
Issuance costs related to the initial public offering (note 2)	(27)	-	-	(27)
Net earnings for the period	-	12,243	-	12,243
Distributions	-	-	(13,522)	(13,522)
Balance, December 31, 2005	\$ 82,248	\$ 18,439	\$ (21,302)	\$ 79,385

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 year ended December 31, 2005	For the period from July 27, 2004 to December 31, 2004
Cash provided by (used in)		
Operating activities		
Net earnings for the period	\$ 12,243	\$ 6,196
Items not affecting cash		
Amortization of property, plant and equipment	3,676	1,547
Amortization of intangible assets	2,210	771
Future income taxes recovery	(676)	(391)
(Gain) loss on interest rate swap	(201)	171
Non-cash post-employment benefits expense	251	108
(Gain) loss on sale of property, plant and equipment	34	(12)
	17,537	8,390
Net (increase) decrease in non-cash working capital (note 13)	(3,634)	14,260
Cash provided by operating activities	13,903	22,650
Investing activities		
Acquisition of Armtec Holdings, net of cash acquired (note 2)	-	(78,424)
Purchase of property, plant and equipment	(2,372)	(709)
Proceeds from sale of property, plant and equipment	12	39
Acquisition of a business (note 17)	-	(2,164)
Cash used in investing activities	(2,360)	(81,258)
Financing activities		
Initial public offering of fund units, net of expenses (note 2)	(27)	82,275
Repayment of acquired Armtec debt	-	(41,423)
Net borrowings under credit facility	225	25,000
Payment of bank financing fees	-	(648)
Distributions to unitholders	(14,604)	(3,723)
Cash (used in) provided by financing activities	(14,406)	61,481
Net (decrease) increase in cash and cash equivalents	(2,863)	2,873
Cash and cash equivalents - Beginning of period	2,873	-
Cash and cash equivalents - End of period	\$ 10	\$ 2,873
Supplemental cash flow information		
Interest paid	\$ 1,844	\$ 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 \$7,902 resulting in net proceeds of \$82,248.

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 (GAAP). The consolidated financial statements reflect the results of operations for the year ended December 31, 2005 and for the period from July 27, 2004 to December 31, 2004.

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 GAAP 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.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and cash balances with major financial institutions.

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 5 to 10 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. Goodwill is not amortized but is subject to an annual impairment review, or more frequently if circumstances indicate goodwill may be impaired.

Armtec operates as one reporting unit for purposes of evaluating goodwill. An impairment is recognized when the fair value of a reporting unit is less than the carrying value of the reporting unit's net assets. The Fund determines any impairment in value primarily on the ability to recover the balance from expected future operating cash flows on an undiscounted basis. Any impairment in the value of goodwill is written off against income. The Fund performed the goodwill impairment tests on the carrying values as at December 31, 2005 and December 31, 2004. As a result of performing these tests, there were no impairments and therefore, it was not necessary to write down any of the Fund's goodwill.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Management reviews the carrying value of its intangible assets 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.

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. Unamortized actuarial gains and losses in excess of 10% of the benefit obligation are amortized over the expected average remaining service period of active employees expected to receive benefits under the plan (12 years).

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 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 translation are included in net earnings for the period.

Fair value of financial instruments

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The carrying value of cash and cash equivalents, 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 gain of \$201 for the year ended December 31, 2005 (an unrealized loss of \$171 was recorded in the period from July 27, 2004 to December 31, 2004). The fair value of the interest rate swap was included with non-current assets at December 31, 2005 and in long-term liabilities at December 31, 2004.

note 4. Inventories

	2005	2004
Raw materials	\$ 3,880	\$ 4,118
Finished goods	14,222	12,057
	<u>\$ 18,102</u>	<u>\$ 16,175</u>

note 5. Property, Plant and Equipment

	2005		
	Cost	Accumulated Amortization	Net
Land	\$ 3,196	\$ -	\$ 3,196
Buildings	8,313	642	7,671
Machinery and equipment	24,364	4,260	20,104
Leasehold improvements	277	98	179
Furniture and fixtures	901	201	700
Construction-in-progress	873	-	873
	<u>\$ 37,924</u>	<u>\$ 5,201</u>	<u>\$ 32,723</u>
	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

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note 6. Intangible Assets

	2005		
	Cost	Accumulated Amortization	Net
Trademarks and tradenames	\$ 22,500	\$ 950	\$ 21,550
Licenses	18,688	1,570	17,118
Customer contracts	600	107	493
Deferred financing costs	649	304	345
Customer lists	395	50	345
	<u>\$ 42,832</u>	<u>\$ 2,981</u>	<u>\$ 39,851</u>
	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>

During 2005, the preliminary purchase price allocation relating to the 2004 acquisition of Armtec Holdings Limited was adjusted to reflect additional information related to the assets acquired. As a result, the purchase price allocated between trademarks, tradenames and licenses was adjusted by \$3,500. The net book value of the intangible assets was not affected by this reallocation.

note 7. Long-Term Indebtedness

	2005	2004
Revolving facility	\$ 225	\$ -
Term facility	25,000	25,000
	<u>\$ 25,225</u>	<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 \$25.0 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 December 31, 2005 and 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 average borrowings of long-term debt during the year ended December 31, 2005 were \$34,304 (\$33,323 for the period July 27, 2004 to December 31, 2004).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 year ended December 31, 2005 was \$201 (an unrealized loss of \$171 was recorded in the period July 27, 2004 to December 31, 2004). The fair value of the interest rate swap was included with non-current assets at December 31, 2005 and in long-term liabilities at December 31, 2004.

The average effective interest rate after related fees during the year ended December 31, 2005 was 5.43% (5.50% for the period July 27, 2004 to December 31, 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 8. Post Employment Obligations

The Fund provides post-employment benefits to qualifying retirees. The most recent actuarial valuation of the post-employment benefit plan was as of January 1, 2003, and the next required valuation will be as of January 1, 2006. Information about the Fund's unfunded post-employment benefit plan is as follows:

Change in post-employment benefit obligation:	2005	2004
Post-employment benefit obligation at the beginning of the period	\$ 6,677	\$ -
Acquired liability	-	6,165
Service cost – benefits earned	54	18
Interest cost	380	160
Actuarial losses	666	404
Benefits paid	(183)	(70)
Post-employment benefit obligation at the end of the period	7,594	6,677
Unamortized net actuarial loss	(1,070)	(404)
Accrued post-employment benefit obligation	<u>\$ 6,524</u>	<u>\$ 6,273</u>
The Fund expense		
Service cost – benefits earned	\$ 54	\$ 18
Interest cost	380	160
Net post-employment plan expense	<u>\$ 434</u>	<u>\$ 178</u>
Actuarial assumptions		
Discount rate	5.00%	5.75%
Medical inflation ¹	9.00%	9.50%
Dental inflation	5.00%	5.00%
¹ Medical inflation is assumed to be 8.50% in 2006, declining 0.5% per year to 5.0% for 2013 and thereafter.		
Effect of change in health care cost trend rate	2005	2004
<i>1% Increase</i>		
Service cost and interest cost	\$ 70	\$ 27
Accrued post-employment benefit	\$ 1,094	\$ 932
<i>1% Decrease</i>		
Service cost and interest cost	\$ (56)	\$ (22)
Accrued post-employment benefit	\$ (903)	\$ (772)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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note 9. Income Taxes

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

	2005	2004
Future income tax assets - current		
Accruals, reserves and other	\$ 174	\$ 174
Future income tax liabilities - long-term		
Intangibles	13,386	14,177
Property, plant and equipment	4,604	4,792
Post-employment obligation	(2,232)	(2,164)
Other	482	86
	16,240	16,891
Net future income tax liabilities	<u>\$ 16,066</u>	<u>\$ 16,717</u>

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

	2005	2004
Expected income tax at a combined rate of 34.21%	\$ 3,957	\$ 2,002
Net earnings of the Fund not taxable	(4,966)	(2,348)
Other	333	(45)
Recovery of future income taxes	<u>\$ (676)</u>	<u>\$ (391)</u>

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	\$ (7,785)	\$ 82,275
Issuance costs in 2005 related to the IPO	-	-	(27)	-
Balance, December 31, 2005	9,015,000	\$ 90,150	\$ (7,902)	\$ 82,248

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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, 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 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
October 2005	October 31, 2005	November 15, 2005	0.11	991.65
November 2005	November 30, 2005	December 15, 2005	0.11	991.65
December 2005	December 30, 2005	January 16, 2006	0.11	991.65
Special Distribution	December 30, 2005	January 27, 2006	0.22	1,983.30
			<u>\$ 1.50</u>	<u>\$ 13,522.50</u>

For the period from July 27, 2004 to December 31, 2004, total distributions of \$7,780 were declared.

The special distribution of \$0.22 per unit declared in December 2005 was necessary in order to distribute the taxable income of the Fund. As a result, the Fund did not report taxable income in 2005. A special distribution of \$0.35 per unit was declared in December 2004 to reduce the 2004 taxable income to nil.

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 cash distributions declared per unit exceeds threshold amounts, a percentage of the excess cash distributions declared (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 2005 distributions exceeding threshold amounts, an LTIP entitlement of \$541 was approved with the acquisition of units to be completed in early 2006. An LTIP entitlement of \$271 was approved in 2004 with respect to the 2004 distributions.

The associated expense is recognized over a term consisting of the current and three vesting periods. Once the LTIP is funded, the amount to be recognized as expense in future periods is classified as a prepaid expense on the balance sheet. The expense, prepaid expense and associated liability recognized in the year ended December 31, 2005 with respect to each LTIP award is as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Expense	Prepaid Expense	Accounts Payable and Accrued Liabilities
2004 LTIP	\$ 98	\$ 75	\$ -
2005 LTIP	195	-	195
Balance, December 31, 2005	<u>\$ 293</u>	<u>\$ 75</u>	<u>\$ 195</u>
Balance, December 31, 2004	<u>\$ 98</u>	<u>\$ -</u>	<u>\$ 98</u>

note 13. Changes in Non-Cash Working Capital

	2005	2004
Cash provided by (used in)		
Accounts receivable	\$ (1,360)	\$ 9,336
Inventories	(1,927)	8,280
Notes receivable	139	(561)
Prepaid expenses and other assets	(241)	249
Accounts payable and accrued liabilities	(270)	(3,195)
Other	25	151
	<u>\$ (3,634)</u>	<u>\$ 14,260</u>

note 14. Contingencies and Commitments

- a) The annual commitments under operating leases as of December 31, 2005 are as follows:

2006	\$ 1,498
2007	1,341
2008	1,217
2009	1,011
2010	824
Thereafter	2,553
	<u>\$ 8,444</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) Enterprise Resource Planning ("ERP") System

The Fund purchased an ERP System in fiscal 2005 and will be implementing the system throughout fiscal 2006 and 2007. Outstanding commitments for consulting services related to the implementation amounted to \$332 at December 31, 2005.

- d) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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note 15. Seasonal Nature of the Business

The Fund's comparative results for the period 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. 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 16. Segmented Information

The Fund operates in one industry segment, manufacturing drainage products and engineered solutions for infrastructure applications. The Fund derives its revenue from a large base of customers across Canada and internationally. During the year ended December 31, 2005 and the period ended December 31, 2004, no single customer accounted for greater than 10% of the total revenues.

The Fund's significant product lines include corrugated steel and high-density polyethylene pipe ("Pipe"), engineered steel products ("ESP"), and other products.

For the Year ended December 31, 2005

Revenues by significant product line are as follows:

	Pipe	ESP	Other	Total
Revenue	\$ 101,717	\$ 19,156	\$ 34,031	\$ 154,904

Domestic and export revenues are as follows:

	Canada	International	Total
Revenue	\$ 144,265	\$ 10,639	\$ 154,904

For the Period July 27, 2004 to December 31, 2004

Revenues by significant product line are as follows:

	Pipe	ESP	Other	Total
Revenue	\$ 51,423	\$ 11,740	\$ 14,278	\$ 77,441

Domestic and export revenues are as follows:

	Canada	International	Total
Revenue	\$ 72,067	\$ 5,374	\$ 77,441

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note 17. 2004 Business Acquisition

On December 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 was accounted for using the purchase method and the results of operations were consolidated with those of the Fund from the date of acquisition. The 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>

note 18. Subsequent Events

a) Declaration of Distributions

On January 16, 2006, a \$0.11 per unit (for an aggregate of \$991.65) distribution in respect of January 2006 was declared. The record date of the distribution was January 31, 2006 with an ex-dividend trading date of January 27, 2006. This distribution was paid on February 15, 2006.

On February 1, 2006, a \$0.12 per unit (for an aggregate of \$1,081.8) distribution in respect of February 2006 was declared. The record date of the distribution was February 28, 2006 with an ex-dividend trading date of February 24, 2006. This distribution was paid on March 15, 2006.

On March 21, 2006, a \$0.12 per unit (for an aggregate of \$1,081.8) distribution in respect of March 2006 was declared. The record date of the distribution was March 31, 2006 with an ex-dividend trading date of March 29, 2006. This distribution will be paid on April 14, 2006.

b) Acquisition

On February 1, 2006, the Fund completed the acquisition of the Construction Products Division of Twister Pipe Ltd. for approximately \$7,700, subject to working capital adjustments and excluding transaction costs. In conjunction with the acquisition, the Fund increased borrowing capacity on its term debt facility by \$10,000 to finance the acquisition. As part of the amendment to the debt facilities, the maturity date for both the term and the revolving debt facilities was changed to February 2009. The Fund is in the process of finalizing the estimated fair values of the assets acquired at the date of the acquisition including goodwill and other intangible assets.