

# Armtec Infrastructure Income Fund



Second Quarter Report  
Period Ended June 30, 2006



# **Armtec Infrastructure Income Fund**

## **Second Quarter Report**

### **For the Period Ended June 30, 2006**

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## To Our Unitholders

We are pleased to report on Armtec's positive performance in the second quarter of 2006. The increased provincial infrastructure spending noted in the 2006 budgets has strengthened demand in most regions across Canada. In addition, our natural resource markets continue to benefit from high commodity prices and positive economic conditions, while demand for residential drainage products is being supported by a strong economy in Western Canada.

### **Highlights for the Second Quarter:**

- Revenues grew 18.0% to \$49.8 million driven by continued strong demand
- Gross margin improved to 31.2% of revenues, up from 29.8%
- EBITDA increased 31.6% to \$8.7 million with revenue growth at improved margins
- Distributable cash rose 35.6% to \$7.7 million from \$5.7 million last year

As more fully described in this report, the results for the second quarter of 2006 are not directly comparable to the results from the second quarter of 2005 due to the timing of the quarter end and more favourable performance with respect to the timing of shipments for engineered products. Nevertheless, the results demonstrate continued growth in infrastructure demand and positive momentum as a result of the implementation of our growth strategy.

The last three months were quite active, as we made a number of investments to capitalize on the increased demand for infrastructure products. We expanded our product offering by purchasing a licence to sell concrete arch bridge technology for long span bridges and by becoming a national distributor for CONTECH Stormwater Solutions™, a leading U.S. supplier of storm water quality systems. We also plan to increase our capacity to manufacture plastic pipe in Alberta with the purchase and installation of a linear corrugator in the last half of 2006.

We remain optimistic regarding the outlook for the balance of 2006. Sizable, multi-year commitments to increase infrastructure spending in the 2006 provincial budgets should be favourable for the Fund's key infrastructure markets in each region across Canada. Western Canada in particular, has been a source of increased demand for most of our products. A strong regional economy, expanding communities and other priorities have resulted in significant growth in infrastructure spending in the three-year capital plans right across the region. The Fund's acquisition of the Construction Products Division of Twister Pipe Ltd. in the first quarter of 2006 provides manufacturing capabilities in southern Alberta to capitalize on this strong demand.

We will continue to capitalize on our opportunities and improve efficiencies for the benefit of our unitholders. We look forward to updating you on our progress at the conclusion of the next quarter.

Sincerely,

Robert J. Wright  
Chairman of the Board of Trustees  
August 2, 2006

Charles M. Phillips  
President and Chief Executive Officer  
August 2, 2006

**Armtec Infrastructure Income Fund  
Management's Discussion and Analysis  
August 2, 2006**

The following Management's Discussion and Analysis ("MD&A") for the three and six months ended June 30, 2006 is a review of the financial condition and results of operations of Armtec Infrastructure Income Fund (the "Fund"). It should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes contained in this quarterly report as well as the annual MD&A, consolidated financial statements and accompanying notes for the 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.

**OVERVIEW OF THE FUND**

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated June 15, 2004, as amended and restated on July 27, 2004. The Fund commenced active operations on July 27, 2004. In this MD&A, the terms the "Fund", "Armtec" or the "Company" means the Fund together with its subsidiaries, Armtec Operating Trust, Armtec Holdings Limited, Armtec Limited Partnership Corp. and Armtec Limited Partnership.

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.

## SECOND QUARTER RESULTS

### Operating Results for the Three Months Ended (unaudited) (expressed in thousands of Canadian dollars)

	<b>June 30, 2006</b>	<b>June 24, 2005</b>
<b>Revenue</b>	<b>\$ 49,822</b>	<b>\$ 42,236</b>
Cost of sales	34,290	29,646
<b>Gross Margin</b>	<b>15,532</b>	<b>12,590</b>
As a % of revenue	31.2%	29.8%
Selling, distribution, general and administrative expenses	8,355	7,467
Interest and financing expenses	624	600
<b>Earnings before taxes</b>	<b>\$ 6,553</b>	<b>\$ 4,523</b>
Interest and financing expenses	624	600
Depreciation and amortization	1,506	1,474
<b>EBITDA<sup>1</sup></b>	<b>\$ 8,683</b>	<b>\$ 6,597</b>
As a % of Revenue	17.4%	15.6%

<sup>1</sup> EBITDA is not a defined term under Canadian GAAP. For more information, refer to the Non-GAAP Measures section of this MD&A.

### Overview

There are two factors that complicate direct comparisons between the operating results for the second quarter of 2006 and 2005 respectively. First, despite having the same number of billing weeks in the period, the relative quality of the billing weeks in each period is not comparable. The second quarter of 2006 included the period from April 1 to June 30, 2006, whereas the second quarter of 2005 extended from March 26 to June 24, 2005. Given the seasonality of the business, the business volumes experienced in June are historically higher than those in March. During the past three years, the month of June has generated additional revenues of approximately double when compared to March, accounting for a weekly difference of approximately \$2.6 million. Second, engineered product sales in the second quarter of 2006 were almost double the results from the second quarter of 2005 due in part to the timing of customer deliveries.

### Revenue

Revenues increased by \$7.6 million or 18.0% to \$49.8 million for the three months ended June 30, 2006, compared to revenues of \$42.2 million for the three months ended June 24, 2005. Strength in most of the Fund's major markets translated into positive revenue growth in the second quarter. The increased provincial infrastructure spending noted in the 2006 budgets has augmented demand in most regions in Canada. Natural resource customers continue to benefit from high commodity prices and positive economic conditions while demand for residential drainage products was supported by a strong economy in Western Canada. The effects of these positive markets were partially offset by a period of soft agricultural demand, continuing a trend experienced in 2005. The second quarter agricultural market was hampered by poor installation conditions, particularly in Quebec, coupled with lower crop prices and farm incomes.

**Revenues by Product Category**  
(unaudited)  
(expressed in thousands of Canadian Dollars)

	<b>June 30, 2006</b>	<b>June 24, 2005</b>
Pipe	\$ 34,262	\$ 29,744
Engineered Products	6,406	3,212
Other Products	9,154	9,280
<b>Total</b>	<b>\$ 49,822</b>	<b>\$ 42,236</b>

Revenues from pipe sales increased by \$4.5 million or 15.2% to \$34.3 million in the three months ended June 30, 2006. Increases in revenues from infrastructure projects account for the majority of the change with all regions in Canada and internationally contributing to this growth. Residential drainage markets also experienced positive growth, mostly in Western Canada. Revenues of \$1.4 million generated from the Twister acquisition contributed to the growth in pipe sales. These revenue gains were partially offset by the softer agricultural markets of Ontario and Quebec.

Engineered product revenues increased by \$3.2 million or 99.5% to \$6.4 million in the second quarter of 2006. Large mining and energy projects in Western Canada accounted for most of this increase as economic factors in that sector continue to create development opportunities. The timing of shipments for certain engineered products resulted in lower revenues recognized in the second quarter of 2005 which magnified the extent of the increase in 2006.

Other products accounted for revenues of \$9.2 million in the three months ended June 30, 2006, a slight decrease of \$0.1 million or 1.4%. The decrease was caused by a reduction in sales of water control gates and partially offset by the growth in sales of geosynthetic products. The increased revenues from geosynthetic products were largely due to the growth in infrastructure spending already noted.

**Gross Margin**

Gross margin for the three months ended June 30, 2006 was \$15.5 million, an improvement of \$2.9 million or 23.4% over the \$12.6 million of gross margin for the three months ended June 24, 2005. On a percentage basis, the gross margin improved to 31.2% of revenue in the second quarter of 2006, from 29.8% for the comparable period in 2005. The margin improvement demonstrates Armtec's continued ability to recover raw material price increases, improved material utilization in manufacturing processes as well as a favourable product mix including a larger proportion of high margin engineered products. Increased focus on HDPE production processes has resulted in more consistent output and savings per kilogram of pipe manufactured.

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

Selling, distribution, general and administrative expenses for the three months ended June 30, 2006 were \$8.4 million, an increase of \$0.9 million over the \$7.5 million incurred during the three months ended June 24, 2005. Excluding the variance in freight costs, which vary with sales levels, the increase was \$0.7 million, which generally reflects recent operating conditions of the Fund. Of the \$0.7 million increase, additional employment costs including travel expenses accounted for \$0.2 million and were primarily due to additional employee costs in Western Canada as a result of higher activity levels, and the new employees added from the acquisition of Twister. The amortization of the intangible assets acquired from Twister accounted for an additional \$0.1 million in expenses during the second quarter of 2006. The remaining \$0.4 million in additional expenses include investments in additional property costs, consulting for special projects, and other public company costs.

Excluding freight costs, expenses for the second quarter of 2006 are consistent with the average level of expenses incurred during the previous three quarters.

### Interest and Financing Expenses

During the three months ended June 30, 2006, interest incurred on borrowings amounted to \$0.6 million and a marginal unrealized gain was recognized on the interest rate swap. During the three months ended June 24, 2005, interest on borrowings amounted to \$0.5 million and an unrealized loss on the interest rate swap of \$0.1 million was incurred during the quarter. Interest incurred on borrowings increased by \$0.1 million, primarily due to higher average borrowing levels. Borrowings on the term facility increased by \$7.7 million to finance the acquisition of Twister in February 2006.

### Income Taxes

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

### EBITDA (See Non-GAAP Measures)

EBITDA for the three months ended June 30, 2006 was \$8.7 million, compared to \$6.6 million earned in the three months ended June 24, 2005. The change in EBITDA was due primarily to the growth in revenues at improved margins and partially offset by the increase in selling, distribution, general and administrative costs.

## YEAR TO DATE RESULTS

### Operating Results for the Six Months Ended

(unaudited)

(expressed in thousands of Canadian dollars)

	June 30, 2006	June 24, 2005
<b>Revenue</b>	<b>\$ 70,262</b>	<b>\$ 60,202</b>
Cost of sales	50,589	44,332
<b>Gross Margin</b>	<b>19,673</b>	<b>15,870</b>
As a % of revenue	28.0%	26.4%
Selling, distribution, general and administrative expenses	15,804	13,804
Interest and financing expenses	1,095	895
<b>Net earnings before taxes</b>	<b>\$ 2,774</b>	<b>\$ 1,171</b>
Interest and financing expenses	1,095	895
Depreciation and amortization	2,980	2,955
<b>EBITDA<sup>1</sup></b>	<b>\$ 6,849</b>	<b>\$ 5,021</b>
As a % of Revenue	9.7%	8.3%

<sup>1</sup> EBITDA is not a defined term under Canadian GAAP. For more information, refer to the Non-GAAP Measures section of this MD&A.

### Overview

The Fund's accounting practice is to close the monthly accounting periods at the end of the last Friday of each month. As a result of this practice, the results for the six months ended June 30, 2006 include one additional week of operations compared to the results for the six months ended June 24, 2005. The average weekly sales for the month of June 2006 were \$4.9 million. In addition, revenues for the six months ended June 24, 2005 included \$1.2 million in DRICore product sales, a product line discontinued in April 2005. Using the average weekly sales to adjust for the difference in billing weeks and adjusting for the discontinued product line sales results in an estimated increase from continued products of 10.9% for the six months ended June 30, 2006.

## Revenue

Revenues increased by \$10.1 million or 16.7% to \$70.3 million for the six months ended June 30, 2006, compared to revenues of \$60.2 million for the six months ended June 24, 2005. A portion of the increased revenues is due to the extra billing week during the six month period as noted. Consistent with the results for the second quarter, most of the Fund's major markets contributed to the increased revenues in the six months ended June 30, 2006 with revenues from public infrastructure markets being the greatest factor. Increased infrastructure spending has been noted in most regions in Canada. Natural resource customers continue to benefit from high commodity prices and economic conditions. Agricultural markets continued the softness experienced in 2005. Poor installation conditions, particularly in Quebec, coupled with lower crop prices and farm incomes contributed to a slower season for agricultural products in the first half of the year.

### Revenues by Product Category

(unaudited)

(expressed in thousands of Canadian Dollars)

	June 30, 2006	June 24, 2005
Pipe	\$ 46,513	\$ 39,349
Engineered Products	8,164	5,618
Other Products	15,585	15,235
<b>Total</b>	<b>\$ 70,262</b>	<b>\$ 60,202</b>

Revenues from pipe sales increased by \$7.2 million or 18.2% in the six months ended June 30, 2006. The extra billing week was a contributing factor to the increase in pipe sales. Revenues from infrastructure projects accounted for most of the increase with all regions including international markets registering growth in the period. Natural resource markets were largely stable during the first six months of 2006. In the forestry sector, harvesting restrictions in Quebec and a pine beetle infestation in Western Canada were two factors that limited growth during the period. Residential pipe sales improved during the six months ended June 30, 2006, primarily due to positive demand in Quebec and Western Canada. Additional revenues of \$2.1 million were generated from the Twister acquisition in February 2006. A portion of this additional revenue was generated from agricultural customers and helped to offset the softer agricultural markets in Ontario and Quebec.

Engineered product revenues increased by \$2.5 million or 45.3% to \$8.2 million during the six months ended June 30, 2006. Large mining and energy projects in Western Canada accounted for most of this increase as economic factors in that sector continue to create development opportunities. The timing of shipments for certain engineered products resulted in lower revenues recognized in the second quarter of 2005 which coupled with the extra billing week magnified the extent of the increase in 2006.

Other products accounted for revenues of \$15.6 million during the six months ended June 30, 2006, an increase of \$0.4 million or 2.3%. During the six months ended June 30, 2006, demand for geosynthetic products increased in line with the growth in infrastructure projects, primarily in Ontario and Western Canada. This was largely offset by decreases in water control gate sales following the strategic exit from the U.S. custom gate market earlier in the year and the termination of the DRICore supply agreement.

### **Gross Margin**

Gross margin for the six months ended June 30, 2006 was \$19.7 million, an improvement of \$3.8 million or 24.0% over the \$15.9 million of gross margin for the six months ended June 24, 2005, primarily due to the growth in revenues and the extra billing week. On a percentage basis, the gross margin improved to 28.0% of revenue during the six months ended June 30, 2006, from 26.4% for the comparable period in 2005. The margin improvement demonstrates Armtec's continued ability to recover raw material price increases. In addition, production volume increases as well as improved material utilization in manufacturing processes have resulted in improvements in productivity gains. Increased focus on HDPE production processes has resulted in more consistent output and savings per kilogram of pipe manufactured.

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

Selling, distribution, general and administrative expenses for the six months ended June 30, 2006 were \$15.8 million, an increase of \$2.0 million over the \$13.8 million incurred during the six months ended June 24, 2005. Excluding the variance in freight costs, which vary with sales levels, the increase was \$1.5 million, which generally reflects recent operating conditions of the Fund. Of the \$1.5 million increase, additional employment costs, including travel expenses, accounted for \$0.5 million and were primarily due to additional employee costs in Western Canada as a result of higher activity levels, and the new employees added from the acquisition of Twister. The amortization of the intangible assets acquired from Twister accounted for an additional \$0.1 million in expenses during the first six months of 2006. Additional property costs associated with the new head office building amounted to \$0.2 million while consulting on special projects accounted for additional \$0.2 million. The remaining \$0.5 million in additional expenses include employee training, foreign exchange losses and other public company costs.

Excluding freight costs, expenses for the six months ended June 30, 2006 are comparable to the average level of expenses incurred during the final two quarters of 2005.

### **Interest and Financing Expenses**

During the six months ended June 30, 2006, interest incurred on borrowings amounted to \$1.2 million and a \$0.1 million unrealized gain was recognized on the interest rate swap. During the six months ended June 24, 2005, interest on borrowings amounted to \$0.9 million, including a marginal unrealized loss on the interest rate swap during the period. Interest incurred on borrowings increased by \$0.3 million, primarily due to higher average borrowing levels. Borrowings on the term facility increased by \$7.7 million to finance the acquisition of Twister in February 2006.

### **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 \$0.3 million due to the amortization of intangible assets and other timing differences.

### **EBITDA (See Non-GAAP Measures)**

EBITDA for the six months ended June 30, 2006 was \$6.8 million, compared to \$5.0 million earned in the six months ended June 24, 2005. The change in EBITDA was due primarily to the growth in revenues at improved margins and partially offset by the increase in selling, distribution, general and administrative costs.

## **Outlook**

The 2006 provincial budgets were favourable for Armtec's key infrastructure markets as they made sizable annual and multi-year commitments to increase infrastructure spending. Most provinces also increased funding for municipal infrastructure which expands the potential for infrastructure projects. In Western Canada, expanding communities in Alberta, the upcoming Olympic Games and other needs in British Columbia resulted in double-digit growth in infrastructure spending in the three-year capital plan for both provinces. The first quarter acquisition of the Construction Products Division of Twister Pipe Ltd. provides manufacturing capabilities in southern Alberta to capitalize on this demand.

Natural resource markets are expected to be stable. Investment activity in energy and mining projects was very strong in 2005 and growth from these levels will be challenging with the tight labour markets in Western Canada. The pending settlement of the softwood lumber dispute should be a positive factor for the forestry sector in Canada, although the timing of the agreement and its effect on demand cannot be predicted. Agricultural markets are expected to be soft for the remainder of 2006 due to a combination of lower crop prices and poor installation conditions. A favourable agricultural economy or better installation conditions in the fourth quarter are necessary to improve the short-term prospects in this market. The Fund's demand from residential markets is expected to be consistent with prior periods.

The addition of BEBO concrete arch bridges and CONTECH Stormwater Solutions<sup>®</sup> is expected to have a positive effect on revenues in 2006. Both product lines are complementary to Armtec's current product offering and customers will now have access to a broader range of solutions that should generate additional revenues with minimal capital outlay.

The extra billing week contained in the first six months of 2006 will result in the final six months of 2006 containing one fewer billing week when compared to the last six months of 2005. This one week shortfall will occur in the third quarter of 2006. In addition, the recognition of revenues for engineered product sales in 2005 resulted in a significant portion of revenues deferred to the third quarter of that year and it is expected that this will affect the comparability of third quarter revenues for these products. As a result, revenues for the last six months of 2006 are not expected to sustain a consistent level of growth to the first six months of 2006.

The Fund expects ongoing maintenance capital expenditures for 2006 to be approximately \$1.5 million, which is 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 \$0.8 million was expended through June 30, 2006. It is anticipated that the remainder of this commitment will largely be expended during the latter half of 2006 as the implementation progresses. The Fund also announced the intention to increase its capacity to manufacture corrugated high-density polyethylene (HDPE) pipe with the purchase of a linear corrugator for the Lethbridge facility in Alberta as well as a license to sell concrete arch bridges in Canada. Total expenditures for the linear corrugator are anticipated to be approximately \$2.0 million incurred during the third and fourth quarters of 2006.

## DISTRIBUTIONS

The Fund makes regular monthly distributions to unitholders of record as of the last business day of each month. Distributions to unitholders are calculated and recorded when declared. Distributions declared for the six months ended June 30, 2006 are as follows:

<b>Period</b>	<b>Record date</b>	<b>Payment date</b>	<b>Per unit</b>	<b>Amount</b>
January 2006	January 31, 2006	February 15, 2006	\$ 0.11	\$ 991.65
February 2006	February 28, 2006	March 15, 2006	0.12	1,081.80
March 2006	March 31, 2006	April 13, 2006	0.12	1,081.80
April 2006	April 28, 2006	May 15, 2006	0.12	1,081.80
May 2006	May 31, 2006	June 15, 2006	0.13	1,171.95
June 2006	June 30, 2006	July 14, 2006	0.13	1,171.95
			<b>\$ 0.73</b>	<b>\$ 6,580.95</b>

On July 19, 2006, a \$0.13 per unit (for an aggregate of \$1,172) distribution in respect of July 2006 was declared. The record date of the distribution was July 31, 2006 with an ex-dividend trading date of July 27, 2006. This distribution will be paid on August 15, 2006.

### DISTRIBUTABLE CASH (See Non-GAAP Measures)

(unaudited)

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30 2006</b>	<b>June 24 2005</b>	<b>June 30 2006</b>	<b>June 24 2005</b>
<b>Net earnings for the period</b>	<b>\$ 6,711</b>	<b>\$ 4,692</b>	<b>\$ 3,092</b>	<b>\$ 1,508</b>
Amortization of property, plant and equipment	865	925	1,731	1,849
Amortization of intangible assets	641	549	1,249	1,106
Interest and financing expenses	624	600	1,095	895
Recovery of future income taxes	(158)	(169)	(318)	(337)
<b>EBITDA<sup>1</sup></b>	<b>\$ 8,683</b>	<b>\$ 6,597</b>	<b>\$ 6,849</b>	<b>\$ 5,021</b>
Interest and financing charges	(624)	(600)	(1,095)	(895)
Sustaining capital expenditures	(363)	(333)	(536)	(750)
<b>Distributable cash</b>	<b>\$ 7,696</b>	<b>\$ 5,664</b>	<b>\$ 5,218</b>	<b>\$ 3,376</b>
<b>Distributions declared</b>	<b>\$ 3,426</b>	<b>\$ 2,885</b>	<b>\$ 6,581</b>	<b>\$ 5,589</b>
<b>Net earnings per unit</b>	<b>\$ 0.7444</b>	<b>\$ 0.5205</b>	<b>\$ 0.3430</b>	<b>\$ 0.1673</b>
<b>Distributable cash per unit</b>	<b>\$ 0.8537</b>	<b>\$ 0.6283</b>	<b>\$ 0.5788</b>	<b>\$ 0.3745</b>
<b>Distributions declared per unit</b>	<b>\$ 0.3800</b>	<b>\$ 0.3200</b>	<b>\$ 0.7300</b>	<b>\$ 0.6200</b>

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

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

(expressed in thousands of Canadian dollars) (unaudited)	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30 2006</b>	<b>June 24 2005</b>	<b>June 30 2006</b>	<b>June 24 2005<sup>1</sup></b>
<b>Distributable cash</b>	<b>\$ 7,696</b>	<b>\$ 5,664</b>	<b>\$ 5,218</b>	<b>\$ 3,376</b>
Items not affecting cash:				
(Gain) loss on interest rate swap	(35)	102	(55)	42
Non-cash post-employment benefits accrued	69	62	140	128
Items not affecting operating cash flow:				
Sustaining capital expenditures	363	333	536	750
Net (increase) decrease in non-cash working capital	(8,728)	(8,711)	(9,192)	(13,019)
<b>Cash provided by operating activities</b>	<b>\$ (635)</b>	<b>\$ (2,550)</b>	<b>\$ (3,353)</b>	<b>\$ (8,723)</b>

The Fund generated \$7.7 million in distributable cash during the second quarter of 2006 and declared distributions totalling \$3.4 million. During the second quarter of 2005, the Fund generated \$5.7 million in distributable cash and declared distributions totalling \$2.9 million. Armtec's business is subject to seasonality, with sales ramping up as spring arrives and generally reaching peak levels in the summer months. The Fund has structured its distribution policy to declare regular monthly distributions evenly throughout the year, despite the seasonality of its earnings. Consequently, the results of the second quarter or the six-month period should not be considered representative of a twelve-month period of distributable cash.

During the six months ended June 30, 2006, the Fund generated \$5.2 million in distributable cash with distributions totalling \$6.6 million during the period. The Fund generated \$3.4 million in distributable cash during the six months ended June 24, 2005 with distributions totalling \$5.6 million. The distributions declared in excess of distributable cash generated in the period were funded by the revolving credit facility.

The table below reconciles sustaining capital expenditures to the cash used in investing activities.

(unaudited) (expressed in thousands of Canadian dollars)	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30 2006</b>	<b>June 24 2005</b>	<b>June 30 2006</b>	<b>June 24 2005</b>
<b>Sustaining capital expenditures</b>	<b>\$ 363</b>	<b>\$ 333</b>	<b>\$ 536</b>	<b>\$ 750</b>
Expenditures for growth initiatives	319	-	432	-
Acquisition of business	21	-	7,481	-
<b>Cash used in investing activities</b>	<b>\$ 703</b>	<b>\$ 333</b>	<b>\$ 8,449</b>	<b>\$ 750</b>

Sustaining capital expenditures for the three months ended June 30, 2006 amounted to \$0.4 million compared to \$0.3 million for the comparable period in 2005. During the six months ended June 30, 2006, sustaining capital expenditures amounted to \$0.5 million, compared to \$0.7 million during the comparable period in 2005. Annual sustaining capital expenditures required to maintain Armtec's capacity are estimated at \$1.5 million. Timing of purchases account for the lower expenditures incurred during the six months ended June 30, 2006.

Expenditures of \$0.3 million were incurred for growth initiatives during the three months ended June 30, 2006. Included in this amount are \$0.1 million for the implementation of the new ERP system and \$0.2 million for the acquisition of the distribution license from BEBO Arch of Canada. During the six months ended June 30, 2006, expenditures for growth initiatives included \$0.2 million for the implementation of the new ERP system and \$0.2 million for the acquisition of the distribution license.

## 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 August 2, 2006, there are 9,015,000 units issued and outstanding. There has been no change to Fund units during the period from January 1, 2006 to June 30, 2006.

On June 14, 2006, unitholders of the Fund approved the adoption of a Phantom Unit Plan which will provide the Trustees with the opportunity to receive Phantom Units, each of which is equivalent in value to a Unit of the Fund, in lieu of cash compensation for services provided to the Fund. At August 2, 2006, there were no Phantom Units issued and outstanding.

## SUMMARY OF QUARTERLY RESULTS

### For the Three Months Ended

(Unaudited)

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

	June 30, 2006	Mar 31, 2006	Dec 31, 2005	Sept 30, 2005	June 24, 2005	Mar 25, 2005	Dec 31, 2004	Sept 24, 2004 <sup>1</sup>
Revenue	\$ 49,822	\$ 20,440	\$ 35,765	\$ 58,937	\$ 42,236	\$ 17,966	\$ 41,569	\$ 50,290
Net earnings (loss)	\$ 6,711	\$ (3,619)	\$ 1,570	\$ 9,165	\$ 4,692	\$ (3,184)	\$ 1,885	\$ 3,498
Net earnings (loss) per unit	\$ 0.74	\$ (0.40)	\$ 0.17	\$ 1.02	\$ 0.52	\$ (0.35)	\$ 0.21	\$ N/A

1 The September 24, 2004 amounts are a pro forma consolidation of the interim financial results of the Fund for the period July 27, 2004 to September 24, 2004 and the unaudited historical Armtec Limited results for the period June 26, 2004 to July 26, 2004.

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.

## CASH FLOW AND LIQUIDITY

As at June 30, 2006, the Fund's cash and cash equivalents amounted to \$61 thousand as compared to \$11 thousand at June 24, 2005.

Declared but unpaid distributions at June 30, 2006 were \$1.2 million as compared to \$1.0 million at June 24, 2005.

The Fund had working capital of \$32.8 million at June 30, 2006, an increase of \$0.6 million compared with the working capital of \$32.2 million at June 24, 2005, which is sufficient to meet short-term obligations.

## Cash Flow from Operations

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 24, 2005	June 30, 2006	June 24, 2005
Cash provided before changes in non-cash working capital	\$ 8,093	\$ 6,161	\$ 5,839	\$ 4,296
Cash provided by (used in) non-cash working capital:				
Accounts receivable	(18,169)	(15,268)	(13,737)	(10,734)
Inventories	1,580	(2,787)	(2,314)	(7,344)
Prepaid expenses and other assets	(677)	(164)	(272)	371
Accounts payable and accrued liabilities	8,627	9,421	7,182	4,580
Other	(89)	87	(51)	108
Net increase in non-cash working capital	(8,728)	(8,711)	(9,192)	(13,019)
<b>Cash used in operating activities</b>	<b>(635)</b>	<b>(2,550)</b>	<b>(3,353)</b>	<b>(8,723)</b>

For the three months ended June 30, 2006, \$8.1 million of cash flow was generated before changes in non-cash working capital compared to \$6.2 million generated in the comparable period in 2005. The increase in cash generated during the period is due primarily to the higher earnings generated in the second quarter. Increases in non-cash working capital in the second quarter of 2006 required a use of \$8.7 million in cash from operations, which is consistent with the \$8.7 million used during the second quarter of 2005. Due to the seasonal nature of the business, the second quarter is characterized by an increase in receivables as the peak sales season begins and an increase in payables as inventory is replenished and sold. The combination of cash flow from operations and increases in non-cash working capital used \$0.6 million of cash during the three months ended June 30, 2006, and \$2.6 million in the comparable period in 2005.

For the six months ended June 30, 2006, \$5.8 million of cash flow was generated before changes in non-cash working capital compared to \$4.3 million generated in the comparable period in 2005. Increases in non-cash working capital during the first six months of 2006 required a use of \$9.2 million in cash from operations, compared to a use of \$13.0 million during the six months ending June 24, 2005. The decrease in cash used for non-cash working capital is primarily due to the improved results in inventory levels. The combination of cash flow from operations and increases in non-cash working capital used \$3.4 million of cash during the six months ended June 30, 2006, and \$8.7 million in the comparable period in 2005.

### Investing Activities

Capital expenditures for the second quarter of 2006 totalled \$0.5 million, of which \$0.1 million was related to implementation of the new ERP system. In addition, \$0.2 million was expended during the second quarter of 2006 for the acquisition of a distribution license from BEBO Arch of Canada to sell BEBO concrete bridge technology in Canada except for Atlantic Canada. During the second quarter of 2005, capital expenditures amounted to \$0.3 million, all of which were considered maintenance capital expenditures.

Capital expenditures for the six months ended June 30, 2006 totalled \$0.8 million, including \$0.2 million incurred for the implementation of the new ERP system. An additional \$0.2 was expended for the acquisition of the distribution license from BEBO. On February 1, 2006, the Fund acquired the assets of the Construction Products Division of Twister Pipe Ltd. for approximately \$7.7 million, subject to working capital adjustments and excluding transaction costs. Transaction costs amounted to \$0.2 million and the working capital adjustment resulted in a refund of \$0.4 million for a net investment of \$7.5 million. During the six months ended June 24, 2005, \$0.8 million was incurred for maintenance capital expenditures.

## **Financing Activities**

Distributions paid to unitholders amounted to \$3.3 million during the second quarter ended June 30, 2006, compared to \$2.8 million during the second quarter of 2005. The increase is as a result of the higher level of monthly distributions announced in February 2006 and May 2006. For the six months ended June 30, 2006, distributions paid to unitholders amounted to \$8.4 million as compared to \$8.7 million during the six months ended June 24, 2005. The decrease in distributions paid during the six month period is a result of the difference in the special, year-end distributions that were paid in January of each year, but largely offset by the higher monthly distributions paid during 2006. The 2006 distributions were funded with operating cash flow and supplemented through borrowings under the revolving credit facility.

During the three months ended June 30, 2006, the Fund borrowed \$4.7 on its revolving credit facility compared with borrowings of \$5.7 million during the second quarter of 2005.

In conjunction with the acquisition of the Construction Products Division of Twister Pipe Ltd., the Fund negotiated an increase to its term facility of \$10.0 million for a total of \$35.0 million. During the six months ended June 30, 2006, net borrowings on the Fund's debt facilities amounted to \$20.5 million, of which \$7.7 million was used to finance the acquisition through the term facility and \$12.8 million financed the required distributions and working capital investments through the revolving facility. Bank financing fees of \$0.2 million were paid as part of the negotiated amendments. Armtec is in compliance with all covenants. During the six months ended June 24, 2005, the Fund borrowed \$15.3 million on its revolving credit facility.

## **CAPITAL RESOURCES**

At June 30, 2006, Armtec had credit facilities that provide a \$35.0 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 June 30, 2006, \$32.7 million had been advanced on the term facility and was outstanding, while \$13.0 million was outstanding on the revolving credit facility. There are no mandatory principal repayments on the term or revolving facilities prior to maturity in February 2009. Due to the seasonality of the business, the revolving credit facility is available to support temporary cash requirements for working capital and distributions. Armtec is in compliance with all covenants.

Cash and cash equivalents at June 30, 2006 amounted to \$61 thousand.

Armtec has committed to implementing a new ERP system during 2006 and 2007. Approximately \$0.2 million remain in committed consulting fees relating to agreements signed in 2005. In April 2006, Armtec announced its commitment to purchase a linear corrugator to be installed in Lethbridge, Alberta. Costs are estimated to be approximately \$2.0 million and will be expended in the latter half of 2006. 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 June 30, 2006. 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. The Board of Trustees have set monthly distributions at \$0.13 per unit, equivalent to \$1.56 annually.

Cash flow from operations over the fiscal year together with cash and cash equivalents on hand are expected to be sufficient to meet capital maintenance expenditures and anticipated cash distributions.

## OFF-BALANCE SHEET ARRANGEMENTS

The Fund's off-balance sheet arrangements consist of operating leases and royalty licenses. Operating leases are for facilities and vehicles with market terms and do not have associated escalating rent or make-good provisions that materially impact the financial statements. The Fund's royalty licenses require payments at certain predetermined levels based on the profitability of certain products. Royalty obligations are accrued when the associated profit is recognized. At June 30, 2006, the amount of royalty payments owing was \$0.2 million. For the six months ended June 30, 2006, royalty expense amounted to \$0.2 million.

Armtec also has various operating leases, loans and purchase commitments to finance certain assets of the business. The amounts of estimated future payments are disclosed in the annual MD&A for the period ended December 31, 2005 and have not materially changed during the six months ended June 30, 2006.

## 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.

(unaudited)

(expressed in thousands of Canadian dollars)

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 24, 2005	June 30, 2006	June 24, 2005
<b>Net earnings for the period</b>	<b>\$ 6,711</b>	<b>\$ 4,692</b>	<b>\$ 3,092</b>	<b>\$ 1,508</b>
Recovery of future income taxes	(158)	(169)	(318)	(337)
Amortization of property, plant and equipment	865	925	1,731	1,849
Amortization of intangible assets	641	549	1,249	1,106
Interest and financing expenses	624	600	1,095	895
<b>EBITDA</b>	<b>\$ 8,683</b>	<b>\$ 6,597</b>	<b>\$ 6,849</b>	<b>\$ 5,021</b>

"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 interim consolidated financial statements, which have been prepared in accordance with Canadian GAAP. The preparation of these interim consolidated financial statements requires Armtec to make estimates and 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. For a detailed discussion of the more significant judgements and estimates used in the preparation of the Fund's interim consolidated financial statements, refer to the Fund's annual MD&A for the year ended December 31, 2005. There are no material updates to these estimates based on events from January 1, 2006 to August 2, 2006.

## **FINANCIAL INSTRUMENTS**

The Fund entered into an interest rate swap agreement on September 3, 2004 for \$11.5 million of its term loan facility, resulting in an effective interest rate before bank issuance costs of 3.8%. The Fund entered into the swap to mitigate its exposure to variable interest rates but is exposed to fluctuations in the market value of the swap itself. There was an increase in the mark-to-market value of the swap during the six months ended June 30, 2006, classified as a reduction of 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**

There have been no changes in accounting policy for the six months ended June 30, 2006. 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.

## **RISKS AND UNCERTAINTIES**

The Fund is subject to certain risks and uncertainties that could have a material adverse effect on Armtec's results of operations, business prospects, financial condition, cash distributions to unitholders and the trading price of the Fund's units. A comprehensive discussion of these risks can be found in our Annual Information Form, which is available through the internet on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval (SEDAR) which can be accessed at [www.sedar.com](http://www.sedar.com). There have been no material changes to Armtec's business from January 1, 2006 to August 2, 2006 that require an update to the discussion of the applicable risks.

## **FORWARD-LOOKING STATEMENTS**

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

## **ADDITIONAL INFORMATION**

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

# **Unaudited Interim Consolidated Financial Statements**

## **Armtec Infrastructure Income Fund**

**June 30, 2006**

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

# Armtec Infrastructure Income Fund

## INTERIM CONSOLIDATED BALANCE SHEET

(expressed in thousands of Canadian dollars)

	June 30, 2006 (unaudited)	June 24, 2005 (unaudited)	December 31, 2005
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 61	\$ 11	\$ 10
Accounts receivable	33,148	28,320	18,946
Inventories	21,437	23,519	18,102
Prepaid expenses and other assets	1,468	1,086	1,590
Future income tax assets	174	174	174
	<b>56,288</b>	<b>53,110</b>	<b>38,822</b>
<b>Property, plant and equipment</b>	32,281	32,974	32,723
<b>Notes receivable</b>	394	31	-
<b>Deferred swap gain (note 2)</b>	85	-	30
<b>Goodwill</b>	36,331	34,021	34,021
<b>Intangible assets</b>	42,204	40,955	39,851
	<b>\$ 167,583</b>	<b>\$ 161,091</b>	<b>\$ 145,447</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 22,280	\$ 19,948	\$ 15,098
Distributions payable (note 3)	1,172	992	2,975
	<b>23,452</b>	<b>20,940</b>	<b>18,073</b>
<b>Long-term debt (note 2)</b>	45,700	40,292	25,225
<b>Post-employment obligations</b>	6,664	6,401	6,524
<b>Deferred swap loss payable (note 2)</b>	-	213	-
<b>Future income tax liabilities</b>	15,871	16,662	16,240
	<b>91,687</b>	<b>84,508</b>	<b>66,062</b>
<b>Unitholders' equity</b>			
Capital contributions	82,248	82,248	82,248
Cumulative earnings	21,531	7,704	18,439
Cumulative distributions (note 3)	(27,883)	(13,369)	(21,302)
	<b>75,896</b>	<b>76,583</b>	<b>79,385</b>
	<b>\$ 167,583</b>	<b>\$ 161,091</b>	<b>\$ 145,447</b>

### Basis of Presentation (note 1)

Signed on behalf of the Trustees:

/s/ Robert J. Wright

Robert J. Wright  
Chairman

/s/ Brian W. Jamieson

Brian W. Jamieson  
Trustee

# Armtec Infrastructure Income Fund

## INTERIM CONSOLIDATED STATEMENT OF EARNINGS

(unaudited)

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

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 24, 2005	June 30, 2006	June 24, 2005
Revenue	\$ 49,822	\$ 42,236	\$ 70,262	\$ 60,202
Cost of sales	34,290	29,646	50,589	44,332
<b>Gross margin</b>	<b>15,532</b>	<b>12,590</b>	<b>19,673</b>	<b>15,870</b>
Selling, distribution, general, administrative and other expenses	8,355	7,467	15,804	13,804
<b>Earnings from operations</b>	<b>7,177</b>	<b>5,123</b>	<b>3,869</b>	<b>2,066</b>
Interest and financing expenses	624	600	1,095	895
<b>Earnings before taxes</b>	<b>6,553</b>	<b>4,523</b>	<b>2,774</b>	<b>1,171</b>
Recovery of future income taxes	(158)	(169)	(318)	(337)
<b>Net earnings for the period</b>	<b>\$ 6,711</b>	<b>\$ 4,692</b>	<b>\$ 3,092</b>	<b>\$ 1,508</b>
<b>Basic and diluted earnings per unit</b>	<b>\$ 0.74</b>	<b>\$ 0.52</b>	<b>\$ 0.34</b>	<b>\$ 0.17</b>
<b>Basic and diluted weighted average number of units outstanding</b>	<b>9,015,000</b>	<b>9,015,000</b>	<b>9,015,000</b>	<b>9,015,000</b>

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

# Armtec Infrastructure Income Fund

## INTERIM CONSOLIDATED STATEMENT OF UNITHOLDERS' EQUITY

For the six months ended June 30, 2006

(unaudited)

(expressed in thousands of Canadian dollars)

	<b>Unitholders' Capital</b>	<b>Cumulative Earnings</b>	<b>Cumulative Distributions</b>	<b>Total</b>
<b>Balance, December 31, 2005</b>	<b>\$ 82,248</b>	<b>\$ 18,439</b>	<b>\$ (21,302)</b>	<b>\$ 79,385</b>
Net earnings for the period	-	3,092	-	3,092
Distributions (note 3)	-	-	(6,581)	(6,581)
<b>Balance, June 30, 2006</b>	<b>\$ 82,248</b>	<b>\$ 21,531</b>	<b>\$ (27,883)</b>	<b>\$ 75,896</b>

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

# Armtec Infrastructure Income Fund

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)  
(expressed in thousands of Canadian dollars)

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 24, 2005	June 30, 2006	June 24, 2005
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net earnings for the period	\$ 6,711	\$ 4,692	\$ 3,092	\$ 1,508
Items not affecting cash:				
Amortization of property, plant and equipment	865	925	1,731	1,849
Amortization of intangible assets	641	549	1,249	1,106
Recovery of future income taxes	(158)	(169)	(318)	(337)
Loss (gain) on interest rate swap	(35)	102	(55)	42
Non-cash post-employment benefits accrued	69	62	140	128
	8,093	6,161	5,839	4,296
Net increase in non-cash working capital (note 5)	(8,728)	(8,711)	(9,192)	(13,019)
<b>Cash used in operating activities</b>	<b>(635)</b>	<b>(2,550)</b>	<b>(3,353)</b>	<b>(8,723)</b>
<b>Investing activities</b>				
Purchase of property, plant and equipment	(469)	(333)	(755)	(750)
Acquisition of business (note 8)	(21)	-	(7,481)	-
Acquisition of distribution license	(213)	-	(213)	-
<b>Cash used in investing activities</b>	<b>(703)</b>	<b>(333)</b>	<b>(8,449)</b>	<b>(750)</b>
<b>Financing activities</b>				
Net borrowings under credit facilities (note 2)	4,719	5,658	20,475	15,292
Payment of expenses related to initial public offering	-	-	-	(27)
Payment of bank financing fees	-	-	(238)	-
Distribution to unitholders	(3,336)	(2,794)	(8,384)	(8,654)
<b>Cash provided by financing activities</b>	<b>1,383</b>	<b>2,864</b>	<b>11,853</b>	<b>6,611</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>45</b>	<b>(19)</b>	<b>51</b>	<b>(2,862)</b>
<b>Cash and cash equivalents - Beginning of period</b>	<b>16</b>	<b>30</b>	<b>10</b>	<b>2,873</b>
<b>Cash and cash equivalents - End of period</b>	<b>\$ 61</b>	<b>\$ 11</b>	<b>\$ 61</b>	<b>\$ 11</b>
<b>Supplemental cash flow information</b>				
Interest paid	\$ 675	\$ 216	\$ 1,204	\$ 543
Income taxes paid	\$ -	\$ -	\$ -	\$ -

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

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

### Note 1. Basis of Presentation

Armtec Infrastructure Income Fund (the “Fund”) is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario. The Fund was established to hold indirectly, securities and assets of Armtec Limited Partnership (“Armtec”).

The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”). The unaudited interim consolidated financial statements reflect the results of operations of the Fund and its wholly owned subsidiaries for the three and six months ended June 30, 2006 and June 24, 2005. All intercompany transactions have been eliminated upon consolidation. The preparation of financial data is based on accounting policies and practices consistent with those used in the preparation of the audited annual consolidated financial statements. Prior period results have been reclassified to conform to the current presentation of financial information.

These unaudited interim financial statements do not contain all the disclosures required in annual audited financial statements by Canadian GAAP, and accordingly should be read together with the audited annual consolidated financial statements and the accompanying notes included in the Fund’s 2005 annual financial statements.

### Note 2. Long-Term Indebtedness

	June 30, 2006	December 31, 2005
Non-revolving term facility	\$ 32,700	\$ 25,000
Revolving credit facility	13,000	225
	<b>\$ 45,700</b>	<b>\$ 25,225</b>

On July 27, 2004, the Fund entered into a three-year syndicated credit agreement that provided the Fund with access to a \$25.0 million term facility and a revolving credit facility of up to \$25.0 million. On February 1, 2006, the Fund renegotiated this agreement to increase the term facility to \$35.0 million. The maturity date for both facilities was extended from July 27, 2007 to February 1, 2009. The new facilities were secured at comparable terms to the previous agreement and the financial covenants allow for similar flexibility. 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 June 30, 2006 and December 31, 2005, the Fund was in compliance with these covenants. While the revolving facility may fluctuate over the period, any repayments on the term facility cannot be re-borrowed. The average borrowings of long-term debt during the three and six months ended June 30, 2006 were \$45,267 and \$39,667 respectively (\$38,307 and \$33,318 for the three and six months ended June 24, 2005 respectively).

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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 term loan to a fixed interest rate obligation with an effective interest rate before bank issuance costs of 3.8%. The interest rate swap matures on July 27, 2007. Unrealized gains and losses arising from fluctuations in the value of the interest rate swap are recorded as interest and financing expenses. The unrealized gain recorded in the three and six months ended June 30, 2006 was \$35 thousand and \$55 thousand respectively (an unrealized loss of \$102 thousand and \$42 thousand was recorded in the three and six months ended June 24, 2005 respectively). The fair value of the interest rate swap was included with non-current assets at June 30, 2006 and December 31, 2005, and in long-term liabilities at June 24, 2005.

The average effective interest rate after related fees during the three and six months ended June 30, 2006 was 5.85% (5.21% and 5.34% for the three and six months ended June 24, 2005 respectively). 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 in the period resulting from the revaluation of the interest rate swap.

### Note 3. Distributions

The Fund makes regular monthly distributions to unitholders of record as of the last business day of each month. Distributions to unitholders are calculated and recorded when declared. Distributions for the six months ended June 30, 2006 are as follows:

<b>Period</b>	<b>Record date</b>	<b>Payment date</b>	<b>Per unit</b>	<b>Amount</b>
January 2006	January 31, 2006	February 15, 2006	\$ 0.11	\$ 991.65
February 2006	February 28, 2006	March 15, 2006	0.12	1,081.80
March 2006	March 31, 2006	April 13, 2006	0.12	1,081.80
April 2006	April 28, 2006	May 15, 2006	0.12	1,081.80
May 2006	May 31, 2006	June 15, 2006	0.13	1,171.95
June 2006	June 30, 2006	July 14, 2006	0.13	1,171.95
			<b>\$ 0.73</b>	<b>\$ 6,580.95</b>

### Note 4. Long-Term Incentive Plan

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

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 28,995 units completed in 2006. An LTIP entitlement of \$271 was approved with respect to the 2004 distributions resulting in an open market acquisition of 20,015 units in 2005 of which, 6,672 units were vested and distributed to the plan participants in December 2005.

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

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

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 24, 2005	June 30, 2006	June 24, 2005
Cash provided by (used in):				
Accounts receivable	\$ (18,169)	\$ (15,268)	\$ (13,737)	\$ (10,734)
Inventories	1,580	(2,787)	(2,314)	(7,344)
Prepaid expenses, other assets and notes receivable	(677)	(164)	(272)	371
Accounts payable and accrued liabilities	8,627	9,421	7,182	4,580
Other	(89)	87	(51)	108
	<b>\$ (8,728)</b>	<b>\$ (8,711)</b>	<b>\$ (9,192)</b>	<b>\$ (13,019)</b>

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

The Fund's results for the three and six month periods ended June 30, 2006 and June 24, 2005 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in revenue levels. Since most of the Fund's products require outdoor installation, the Fund historically experiences higher levels of revenue during the summer months in the second and third quarters, while the first and fourth quarters experience lower revenue during the late fall and winter months. Occupancy related expenses, general and administration costs, depreciation and amortization and interest expenses remain relatively steady throughout the year.

**Note 7. Segmented Information**

The Fund operates in one industry segment, manufacturing drainage products and engineered solutions for infrastructure applications. The Fund derives its revenue from a large base of customers across Canada and internationally. During the three and six months ended June 30, 2006 and June 24, 2005, 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.

Revenues by significant product line are as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 24, 2005	June 30, 2006	June 24, 2005
Pipe	\$ 34,262	\$ 29,744	\$ 46,513	\$ 39,349
ESP	6,406	3,212	8,164	5,618
Other	9,154	9,280	15,585	15,235
	<b>\$ 49,822</b>	<b>\$ 42,236</b>	<b>70,262</b>	<b>60,202</b>

Domestic and export revenues are as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 24, 2005	June 30, 2006	June 24, 2005
Canada	\$ 46,237	\$ 39,643	\$ 64,421	\$ 55,078
International	3,585	2,593	5,841	5,124
	<b>\$ 49,822</b>	<b>\$ 42,236</b>	<b>70,262</b>	<b>60,202</b>

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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### Note 8. Business Acquisition

On February 1, 2006, the Fund acquired the assets of the Construction Products Division of Twister Pipe Ltd. for approximately \$7,481, net of working capital adjustments and transaction costs. The acquisition has been accounted for using the purchase method, and the results of operations were consolidated with those of the Fund from the date of acquisition. The following information provides the estimated fair value of the net assets acquired at February 1, 2006.

#### Net Assets Acquired

Accounts receivable	\$ 465
Inventories	1,021
Property, plant and equipment	534
Intangible assets	3,151
Goodwill	2,310
	<hr/>
	\$ 7,481

#### Consideration

Consideration – Cash	\$ 7,700
Transaction costs	201
Working capital adjustment	(420)
	<hr/>
Total Consideration	\$ 7,481

The intangible assets acquired include customer lists, customer contracts and a non-compete agreement with estimated useful lives between 5 and 15 years. The purchase price allocation provided is preliminary and is expected to be finalized by December 31, 2006.

### Note 9. Subsequent Events

On July 19, 2006, a \$0.13 per unit (for an aggregate of \$1,172) distribution in respect of July 2006 was declared. The record date of the distribution was July 31, 2006 with an ex-dividend trading date of July 27, 2006. This distribution will be paid on August 15, 2006.

# Armtec Infrastructure Income Fund

## UNITHOLDER INFORMATION

### **Corporate Office**

370 Speedvale Avenue West  
Suite #3  
Guelph, Ontario N1H 7M7  
Tel: 519 822-0210  
Fax: 519 822-1160

### **Transfer Agent and Registrar**

Computershare Investor Services Inc.  
Toronto, Ontario  
Tel: 1-800-564-6253

### **Auditors**

PricewaterhouseCoopers LLP  
Mississauga, Ontario  
Tel: 905 949-7400

### **Investor Relations**

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

### **Toronto Stock Exchange Symbol**

ARF.UN

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Armtec Infrastructure Income Fund

370 Speedvale Avenue West, Suite 3

Guelph, Ontario N1H 7M7

519-822-0210

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

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