

## **Armtec Infrastructure Income Fund Management's Discussion and Analysis For the Year Ended December 31, 2006**

This Management's Discussion and Analysis ("MD&A") of Armtec Infrastructure Income Fund should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2006, accompanying notes thereto and other public disclosures available. In this MD&A, the terms "the Fund", "Armtec" or "the Company" mean the Fund together with its subsidiaries: Armtec Operating Trust, Armtec Holdings Limited, Armtec Limited Partnership Corp. and Armtec Limited Partnership.

This MD&A has been prepared as at March 8, 2007.

Additional information regarding the Fund, including continuous disclosure materials such as the Annual Information Form, is available on the Fund's website at [www.armtecincomefund.com](http://www.armtecincomefund.com) or through SEDAR at [www.sedar.com](http://www.sedar.com).

The financial information contained herein has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"); however, reference is made to earnings before interest, taxes (other than capital taxes), depreciation and amortization ("EBITDA") and distributable cash, including references to sustaining and generative capital expenditures which are not a measure of financial performance under Canadian GAAP. The Fund has included this information as it is used by management as a measure of financial performance and management believes it is used by certain investors and analysts as a measure of the Fund's financial performance. These measures are not necessarily comparable to similarly titled measures used by other income funds or companies and should not be construed as an alternative to net earnings or cash flow from operating activities as determined in accordance with Canadian GAAP or as a measure of liquidity. See the section entitled "Non-GAAP Measures" for further information.

Unless indicated otherwise, all dollar amounts, except per unit amounts, are expressed in thousands of Canadian dollars. All prior period results have been reclassified to conform with the current year's presentation.

Certain supplemental unaudited financial operating results for the years ended December 31, 2004 and 2003 have also been provided, 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 and subsidiaries ("AHL") prior to the acquisition of AHL by the Fund on July 27, 2004. Results for 2003 pertain to AHL only. Readers are cautioned that these operating results are not the results of the Fund for the years ended December 31, 2004 and 2003 and have been presented only to provide the reader with additional information to enhance the comparability of the Fund's operating results.

### **OVERVIEW OF THE FUND**

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated June 15, 2004, as amended and restated on July 27, 2004. The Fund commenced active operations on July 27, 2004.

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 ("HDPE"), corrugated steel pipe ("CSP") and related engineered products. Armtec also distributes a broad line of water control and geosynthetic products, and sells internationally certain high value-added engineered products manufactured in Canada.

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

## RESULTS OF OPERATIONS

### Operating Results for the period ended December 31

(in thousands of Canadian dollars)

	Fourth Quarter		Year Ended	
	2006 (unaudited)	2005 (unaudited)	2006	2005
<b>Revenue</b>	35,825	35,765	166,166	154,904
Cost of sales	24,642	25,066	113,555	107,836
Amortization of property, plant and equipment	909	924	3,493	3,676
<b>Gross Margin</b>	10,274	9,775	49,118	43,392
As a % of revenue	28.7%	27.3%	29.6%	28.0%
Distribution and warehousing	1,913	2,031	8,555	7,932
Selling, general and administrative	5,685	5,491	21,719	20,022
Amortization of intangible assets	536	550	2,428	2,210
<b>Earnings from operations</b>	2,140	1,703	16,416	13,228
Interest and financing expenses	421	302	2,328	1,661
<b>Net earnings before taxes</b>	1,719	1,401	14,088	11,567
Interest and financing expenses	421	302	2,328	1,661
Total amortization	1,445	1,474	5,921	5,886
<b>EBITDA<sup>1</sup> (unaudited)</b>	<b>3,585</b>	<b>3,177</b>	<b>22,337</b>	<b>19,114</b>
As a % of Revenue	10.0%	8.9%	13.4%	12.3%

## Full Year Results

### REVENUES

Revenues increased by \$11.3 million or 7.3% to \$166.2 million for the year ended December 31, 2006 compared to revenues of \$154.9 million for the year ended December 31, 2005. The revenue increase was due primarily to the continued strength in public infrastructure markets across the country and the growth in demand from certain resource markets. The diversity of the end markets and geographic regions resulted in the Fund reporting growth despite declines in some markets. In 2006, the Fund recorded growth in all geographic regions with public infrastructure investment across Canada considered to be the main driver of the increase in revenues. The Fund's resource market also reported growth with increased revenues from investment in mining and energy projects, particularly in Western Canada, offsetting a softer forestry sector in 2006 as compared to 2005 levels. Building trades remained consistent with 2005 levels. However, the agricultural market in Ontario and Quebec continued to be soft in 2006 with poor installation conditions in conjunction with unfavourable farming economics negatively affecting this sector's demand for drainage tubing.

(in thousands of Canadian dollars)

	Fourth Quarter		Year Ended	
	2006 (unaudited)	2005 (unaudited)	2006	2005
Pipe Products	\$23,485	\$23,241	\$110,152	\$101,717
Engineered Products	5,601	5,072	22,124	19,156
Other	6,739	7,452	33,890	34,031
<b>Revenues</b>	<b>\$35,825</b>	<b>\$35,765</b>	<b>\$166,166</b>	<b>\$154,904</b>

<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.

## **Pipe Products**

The increase in pipe revenues of \$8.4 million or 8.3% is primarily attributed to increased sales into infrastructure markets across most regions of Canada and in particular Central and Western Canada. The overall level of activity is consistent with the continued commitment by government agencies to address infrastructure requirements through multi-year commitments at both the municipal and provincial government levels.

Residential pipe revenues were up marginally over 2005 with most of the Fund's residential drainage markets reporting increases in the year. The improvement was largely attributed to increased sales to building trade accounts.

Offsetting the increased pipe sales into the infrastructure and residential markets was a reduced level of pipe tubing volumes from agricultural markets in Quebec and Central Canada. Pipe sales to this agricultural sector continue to be negatively impacted by poor farm economics and below average installation conditions.

For the year ended December 31, 2006, the Fund's pipe sales in the natural resource sector were flat to 2005 revenues. Revenue improvements in the oil and gas, and mining sectors were offset by reduced volumes into the Canadian forestry industry. The Canadian pulp and paper industry continued to experience slowdowns related to low commodity prices, harvesting disruptions due to forest fires, above normal rainfall, the uncertainty surrounding the softwood lumber dispute, as well as government driven harvesting reductions in Eastern Canada.

## **Engineered Products**

The revenue increase of 15.5% or \$3.0 million in Engineered Products was primarily due to volume increases experienced in Western and Eastern Canada as a result of increased investment in mining and energy projects. Revenues from infrastructure applications were consistent with the prior year with increased revenues internationally, as well as in Eastern Canada offsetting softer infrastructure sales in other regions.

## **Other Products**

Revenues for Other Products in 2006 were consistent with 2005 levels. Sales of geosynthetic products increased in line with the growth in 2006 infrastructure pipe sales. A new product offered by Armtec in 2006 - CONTECH Stormwater Solutions™, also contributed to increased Other Product sales in the second half of 2006, offsetting reduced foundation wrap and gate sales. In April 2005, a supply agreement for DRlcore, a foundation damp proofing product, was terminated and the product discontinued reducing comparative sales for 2006. Water control gate sales for infrastructure applications in Central Canada increased during the year partially offsetting a reduction in custom gate sales in the west.

## **GROSS MARGIN**

Gross margin for the year ended December 31, 2006 was \$49.1 million, an improvement of \$5.7 million, or 13.2% over the \$43.4 million earned in 2005. On a percentage basis, the gross margin improved to 29.6% of revenue in 2006 from 28.0% in 2005. The improvement was primarily attributed to increased sales revenues with a favourable product mix, a result of success in the promotion of engineered solutions, and the Fund's continued efforts to respond to raw material price fluctuations. The continuing focus on lean manufacturing across all manufacturing locations has also contributed through production efficiencies which result in a more consistent manufacturing output and better utilization of raw materials.

## **EARNINGS FROM OPERATIONS**

Earnings from operations for the year ended December 31, 2006 were \$16.4 million, an improvement of \$3.2 million, or 24.2% over the \$13.2 million reported in 2005. The growth in earnings from operations was principally due to the growth in revenues with improved margins, which increased gross margin by \$5.7 million as compared to the 2005 results. This improvement was partially offset by a \$1.7 million increase in selling, general and administrative expenses, a \$0.6 million increase in distribution and warehousing costs and a \$0.2 million increase in intangible assets amortization expense.

Selling, general and administrative expenses for the year ended December 31, 2006 were \$21.7 million, an increase of \$1.7 million over the \$20.0 million incurred during 2005. Costs related to employment and

travel rose by approximately \$1.3 million, primarily due to the addition of the construction products division of Twister Pipe Limited ("Twister") in 2006 and additional sales staff added near the end of 2005 to accommodate the expanded activities in Western Canada. Furthermore, the Fund also incurred additional property and administration expenses to support the Fund's growth strategy. Property rental costs have increased with a full year of occupation in the Fund's new rented head office location which has allowed the consolidation of three locations into one with improved resource sharing. The former head office location was owned and fully depreciated.

Distribution and Warehousing expenses for the year ended December 31, 2006 were \$8.6 million, an increase of \$0.6 million as compared to 2005. These costs tend to vary with revenues and as a percentage of sales were 5.1% for both 2006 and 2005.

Amortization of intangible assets increased \$0.2 million from 2005 levels due to additional intangible assets acquired in the 2006 fiscal period. During 2006, Armtec acquired additional intangible assets through the purchase of Twister as well as the culvert manufacturing and distribution business of Prairie Steel Products Ltd. and Prairie Steel Manufacturing Ltd. (collectively "Prairie Steel") in Saskatchewan. In both acquisitions, Armtec acquired customer lists, existing customer contracts as well as non-compete agreements. The Fund also entered into a license agreement to sell BEBO Arch Structures in Central and Western Canada, the cost of which has been accounted for as an intangible asset.

## **INTEREST EXPENSE**

During the year ended December 31, 2006, interest incurred on borrowings amounted to \$2.3 million. This expense is primarily interest on borrowings net of a nominal gain on the revaluation of the Fund's interest rate swap in place on a portion of the term debt. During 2005, interest expense amounted to approximately \$1.6 million which is comprised of \$1.8 million in interest costs net of a mark-to-market revaluation gain of \$0.2 million on the interest rate swap. Interest incurred on borrowings increased by \$0.4 million, primarily due to higher borrowing levels earlier in the year associated with the Twister acquisition. In October 2006, the Fund issued additional units and used proceeds from the issuance for the purchase of Prairie Steel and to reduce the Fund's outstanding debt at the end of the year. The effective interest rate was higher in 2006 at an average of 6.1% as compared to 5.4% in 2005 which also contributed to the higher interest costs.

## **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. On October 31, 2006, the Department of Finance announced tax proposals pertaining to the taxation of income distributed by publicly listed income trusts and the tax treatment of trust distributions to their unitholders. If enacted, the proposals would apply to the Fund effective January 1, 2011 and would result in the Fund income being subject to a tax at the trust level.

As a result of temporary differences present in the subsidiaries of the Fund, a future income tax recovery of \$1.7 million was recognized in 2006 (2005 - \$0.7 million) of which \$0.5 million is due to the amortization of intangible assets and other temporary differences. The remaining \$1.2 million relates to the impact of the substantially enacted corporate tax rates announced by the Canadian government to apply between 2007 and 2011.

## **EBITDA<sup>1</sup>**

EBITDA<sup>1</sup> for the year ended December 31, 2006 was \$22.3 million compared to \$19.1 million in the year ended December 31, 2005, an increase of \$3.2 million, or 16.9%. The growth in EBITDA was principally due to a 7.3% growth in revenue with improved margins, which increased gross margin before depreciation by \$5.5 million. This improvement was partially offset by a \$1.7 million increase related to additional selling, general and administrative expenses and a \$0.6 million increase in distribution and warehousing costs as compared to 2005.

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<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.

## CASH FLOW AND LIQUIDITY

(in thousands of Canadian dollars)

### Cash provided by (used in):

	Fourth Quarter		Year Ended	
	2006 (unaudited)	2005 (unaudited)	2006	2005
Operating activities	\$ 20,534	\$ 15,269	\$ 19,832	\$ 13,962
Investing activities	(8,428)	(1,388)	(18,182)	(2,419)
Financing activities	(12,089)	(13,888)	(1,634)	(14,406)
Net increase (decrease) in cash and cash equivalents	17	(7)	16	(2,863)
Cash and cash equivalents – beginning of year	9	17	10	2,873
<b>Cash and cash equivalents – end of year</b>	<b>26</b>	<b>10</b>	<b>26</b>	<b>10</b>

As at December 31, 2006, the Fund's cash and cash equivalents amounted to \$26 as compared to \$10 in the previous year. The Fund had working capital of \$23.0 million at December 31, 2006, an increase of \$2.6 million compared with working capital of \$20.4 million at December 31, 2005. Management is of the opinion that this level of working capital is sufficient to meet short-term obligations.

### Operating Activities

During the 2006 year the Fund generated \$19.8 million in cash from operations, which was comprised of \$19.9 million in operating cash before non-cash working capital changes and a \$0.1 million use of cash from changes in non-cash working capital. In the 2005 year the Fund generated \$13.9 million in cash from operations comprised of \$17.5 million in operating cash before non-cash working capital changes and a \$3.6 million use of cash from changes in non-cash working capital.

The \$19.9 million of operating cash flow, before non-cash working capital changes, reported in 2006 represents an increase of \$2.4 million over the \$17.5 million reported in 2005. The \$2.4 million improvement was principally attributed to the year-over-year growth in earnings.

In 2006, changes in non-cash working capital utilized \$0.1 million in cash as compared to the \$3.6 million utilized in 2005, an improvement of \$3.5 million. The \$3.5 million dollar improvement can largely be attributed to improvements in accounts receivable collection as compared to the prior year.

In accordance with the seasonal trends of the business, the Fund will build working capital during the first half of 2007 to meet the increased business volumes during the summer months. The Fund's revolving credit facility is available to finance these temporary increases in working capital needs.

### Investing Activities

For 2006, the Fund used net funds of \$18.2 million in investing activities, an increase of \$15.8 million from the \$2.4 million of cash used in 2005. The net change of \$15.8 million is attributed to the \$14.6 million of additional funds required to complete two business acquisitions in the year, a \$0.9 million net increase in the level of fixed assets and a \$0.3 million increase in intangible assets expenditures compared to 2005.

During the 2006 year, the Fund completed two acquisitions, which combined utilized \$14.6 million in cash. On February 1, 2006, the Fund acquired the assets of Twister for \$7.7 million including transaction costs and on November 15, 2006, the Fund acquired the assets of Prairie Steel for total consideration of \$7.2 million including transaction costs. The total cash utilized in 2006 to complete these transactions was \$14.6 million with approximately \$0.3 million payable at the fiscal year end.

Expenditures for property, plant and equipment for the year ended December 31, 2006 totaled \$3.0 million compared to \$1.9 million in 2005. Of the expenditures in 2006, the Fund spent \$1.4 million on sustaining<sup>1</sup> capital expenditures and \$1.6 million related to the acquisition and installation of the new HPDE production line in Lethbridge, Alberta. The latter expenditure was considered a generative<sup>1</sup> capital expenditure for the purposes of determining distributable cash<sup>2</sup>. In 2005 the Fund spent \$1.4 million on sustaining<sup>3</sup> capital expenditures. Capital expenditures have been financed through operating cash flows.

<sup>1</sup> Sustaining and generative capital expenditures are not defined terms under Canadian GAAP. For further information, refer to the Non-GAAP Measures section of this MD&A.

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

The Fund also invested \$0.8 million in additional intangible assets during the year. Of the \$0.8 million of expenditures, \$0.5 million was incurred for the implementation of the Enterprise Resource Planning (“ERP”) system (2005 - \$0.4 million); a project commencing in 2005 and which is expected to continue through 2007. Armtec also spent \$0.2 million to acquire an exclusive license to sell concrete arch bridges across Central and Western Canada. These additions were considered generative capital expenditures.

### Financing Activities

Cash used in financing activities for 2006 was \$1.6 million as compared to \$14.4 million in 2005. During the 2006 year, the Fund raised net proceeds of \$23.5 million through an offering of additional units, repaid debt of \$9.2 million, spent \$0.2 million renegotiating its credit facilities and paid \$15.7 million to unitholders through distributions, for a net use of cash of \$1.6 million. In 2005 the Fund paid \$14.6 million to unitholders through distributions and borrowed an additional \$0.2 million on its credit facilities for a net use of cash of \$14.4 million.

Armtec closed its 1,289,000 unit offering on October 26, 2006 for net proceeds of \$23.5 million. The proceeds were used for the acquisition of Prairie Steel and to partially repay the Fund’s term credit facility. During the 2006 fiscal year, the Fund repaid \$9.2 million against the term and revolving credit facility.

Distributions paid to unitholders amounted to \$15.7 million during 2006 including \$3.0 million that was declared and payable in respect of 2005 but paid in January 2006. A further \$3.1 million was declared and payable at December 31, 2006 for payment in January 2007. This consisted of the regular monthly distribution for December 2006 in addition to the special distribution. Monthly distributions are currently set at \$0.13 per unit. The Fund increased distributions in February 2006 to \$0.12 per unit and again in May to \$0.13 per unit. During 2005, the Fund distributed \$14.6 million to unitholders. The distributions declared in 2006 were \$15.9 million - a 17.3% increase over distributions declared in 2005.

### DISTRIBUTABLE CASH<sup>1</sup>

#### Statement of Distributable Cash<sup>1</sup> (unaudited)

(in thousands of Canadian dollars except per unit data)

	Fourth Quarter		Year Ended	
	2006 (unaudited)	2005 (unaudited)	2006	2005
<b>Net earnings for the period</b>	<b>\$ 2,938</b>	<b>\$ 1,570</b>	<b>\$ 15,781</b>	<b>\$ 12,243</b>
Recovery of income taxes	(1,219)	(169)	(1,693)	(676)
Amortization of property, plant and equipment	909	924	3,493	3,676
Amortization of intangible assets	536	550	2,428	2,210
Interest and financing expenses	421	302	2,328	1,661
<b>EBITDA<sup>2</sup> (unaudited)</b>	<b>\$ 3,585</b>	<b>\$ 3,177</b>	<b>\$ 22,337</b>	<b>\$ 19,114</b>
Purchase of sustaining property, plant and equipment <sup>1</sup>	634	441	1,364	1,413
Interest and financing expenses	421	302	2,328	1,661
<b>Distributable cash<sup>1</sup> (unaudited)</b>	<b>\$ 2,530</b>	<b>\$ 2,434</b>	<b>\$ 18,645</b>	<b>\$ 16,040</b>
<b>Distributions declared</b>	<b>\$ 5,770</b>	<b>\$ 4,958</b>	<b>\$ 15,867</b>	<b>\$ 13,522</b>
<b>Net earnings per unit</b>	<b>\$ 0.2951</b>	<b>\$ 0.1742</b>	<b>\$ 1.7058</b>	<b>\$ 1.3581</b>
<b>Distributable cash<sup>1</sup> per unit (unaudited)</b>	<b>\$ 0.2542</b>	<b>\$ 0.2700</b>	<b>\$ 2.0153</b>	<b>\$ 1.7793</b>
<b>Weighted average number of units<sup>4</sup></b>	<b>9,653,728</b>	<b>9,015,000</b>	<b>9,251,611</b>	<b>9,015,000</b>
<b>Distributions declared per unit (unaudited)</b>	<b>\$ 0.5600</b>	<b>\$ 0.5500</b>	<b>\$ 1.5600</b>	<b>\$ 1.5000</b>

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

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

<sup>3</sup> Generative and sustaining capital expenditures are not defined terms under Canadian GAAP. For more information, refer to the Non-GAAP measures section of the MD&A

<sup>4</sup> On October 26 2006 the Fund issued 1,289,000 units increasing the total issued and outstanding units to 10,304,000 from 9,015,000 units.

The Fund generated \$18.6 million in distributable cash during 2006 and declared distributions totalling \$15.9 million including a special distribution in the fourth quarter of \$0.17 per unit. Comparatively, the Fund generated \$16.0 million in distributable cash and declared distributions totaling \$13.5 million in 2005. During 2006, the Fund declared a special distribution for the third year in a row and monthly distribution levels were increased twice during the year. Distributions in the fourth quarter of 2005 included a \$0.22 per unit special distribution.

During the fourth quarter, the Fund generated \$2.5 million in distributable cash and declared distributions totalling \$5.8 million including a \$1.8 million special distribution (\$0.17 per unit). Distributable cash for the fourth quarter of 2005 was \$2.4 million with declared distributions of \$5.0 million. Distributions are higher than the comparable quarter of 2005 as distributions per unit were higher and there were an increased number of units outstanding. An additional 1,289,000 units were issued on October 26, 2006 to which distributions were made.

Results in the fourth quarter of 2006 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, results for the first and fourth quarters, which are the late fall and winter months, are subject to greater variability due to the fact that product installations are influenced by weather conditions.

## DISTRIBUTIONS

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

Distributions for the year ended December 31, 2006 were as follows:  
(in thousands of Canadian dollars except per unit or unit data)

<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
July 2006	July 31, 2006	August 15, 2006	0.13	1,171.95
August 2006	August 31, 2006	September 15, 2006	0.13	1,171.95
September 2006	September 29, 2006	October 13, 2006	0.13	1,171.95
October 2006	October 31, 2006	November 15, 2006	0.13	1,339.52
November 2006	November 30, 2006	December 15, 2006	0.13	1,339.52
December 2006	December 29, 2006	January 15, 2007	0.13	1,339.52
Special Distribution	December 29, 2006	January 26, 2007	0.17	1,751.68
			<b>\$ 1.68</b>	<b>\$15,867.04</b>

A special distribution of \$0.17 per unit was declared in December 2006 as compared to \$0.22 declared in 2005. Of the distributions declared in 2006, 10.8% was a return of capital and the remaining 89.2% was subject to income tax in the hands of the unitholders.

## Fourth Quarter Results

Revenues for the fourth quarter of 2006 were consistent with 2005 at \$35.8 million. Pipe revenues increased marginally to \$23.5 million in the fourth quarter of 2006 as compared to \$23.2 million in 2005. Infrastructure sales, particularly in Western Canada, improved over 2005 levels. Agricultural shipments were lower than volumes in the comparable quarter of 2005 due to a combination of poor economic and installation conditions.

Engineered Product sales for the fourth quarter ended December 31, 2006 were \$5.6 million, an increase of \$0.5 million from the \$5.1 million in the fourth quarter of 2005. The increase can be attributed to shipments destined for the Eastern Canada natural resources sector.

Other Product sales in the quarter were \$6.7 million, down \$0.7 million from the \$7.4 million in the fourth quarter of 2005. This decline can be attributed to fewer custom gate sales in the west as compared to the prior year. The timing of custom product sales is dependant on customer delivery requirements. Sales of the new CONTECH Stormwater Solutions™ in both the Western and Central Canada partially offset the impact of the lower custom gate sales in the quarter.

Gross margin for the three months ended December 31, 2006 was \$10.3 million or 28.7% of sales which was a \$0.5 million improvement over the \$9.8 million or 27.3% of sales in 2005. The improvement was primarily attributed to the favourable product mix and continuing price leadership in response to raw material price fluctuations.

Earnings from operations for the three months ended December 31, 2006 were \$2.1 million as compared to \$1.7 million in the same period in 2005. Warehouse and distribution costs were lower in 2006, reflecting the reduced agricultural volumes. Selling general and administrative costs increased approximately \$0.2 million in the quarter. The increase is related to additional employment and travel costs.

For the fourth quarter of 2006 interest and borrowing costs amounted to \$0.4 million. Interest and financing costs in the fourth quarter of 2005 were \$0.3 million. The 2005 expense includes an interest cost of \$0.5 million net of an unrealized mark-to-market revaluation gain on the interest rate swap of \$0.2 million. Interest costs were reduced in 2006 as a result of reduced borrowing levels. In October 2006, proceeds from the additional issuance of units were used to reduce borrowing levels.

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 \$1.2 million due to the enacted rate changes announced by the Canadian federal government, to take place over the next four years, as applied to temporary differences present in the subsidiaries of the Fund.

EBITDA<sup>1</sup> for the fourth quarter of 2006 was \$3.6 million or 10.0% of revenues, compared to \$3.2 million or 8.9% of revenues in the comparable quarter in 2005. The improvement was the result of improved gross margins in the quarter.

During the fourth quarter of 2006, the Fund generated \$3.0 million in operating cash flow before changes in non-cash working capital of \$17.5 million for a total \$20.5 million in cash flow from operating activities (see the chart under the Cash Flow and Liquidity section of this MD&A). 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 inventories are reduced for the winter months. During the comparable period in 2005, the Fund generated \$2.9 million in operating cash flow before changes in non-cash working capital and \$12.4 million from decreases in non-cash working capital for a total of \$15.3 million in cash flow from operating activities.

Investing activities used \$8.4 million of cash in the fourth quarter of 2006 up \$7.0 million when compared to the \$1.4 million used in the fourth quarter of 2005. The increase is almost exclusively related to the acquisition of Prairie Steel.

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<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.

Financing activities used \$12.1 million in cash during the fourth quarter of 2006 as compared to \$13.9 million in 2005. During the fourth quarter of 2006 the Fund raised net proceeds of \$23.5 million through an offering of additional units, repaid debt of \$31.8 million and paid \$3.8 million to unitholders through distributions, for a net \$12.1 million use of cash. The proceeds of the issuance of additional units combined with traditional fourth quarter receivable collections provided funds for the repayment of \$31.8 million in borrowings. In the fourth quarter of 2005 the Fund paid \$3.0 million to unitholders through distributions and repaid \$10.9 million on its credit facilities for a net use of cash of \$13.9 million.

## **OUTLOOK**

The diversity of the markets served by Armtec helps insulate the Fund from significant fluctuations in any one market or geographic region. The outlook for infrastructure markets remains stable as a result of the spending increases and multi-year commitments announced in the 2006 provincial budgets. The next budgets are announced in the spring and will be an important barometer of activity in 2007. The recent acquisitions in Alberta and Saskatchewan and production expansion in Alberta will increase Armtec's manufacturing capacity in this active marketplace.

The outlook for natural resource markets is mixed. Investment activity in energy and mining projects is expected to continue, but further growth beyond levels reached in 2006 is not anticipated. The implementation of the softwood lumber agreement should be a positive factor for the forestry sector in Canada, although when and how this resolution will impact forestry demand cannot be predicted. Agricultural markets appear to be improving due to rising crop prices and farm economies as a result of increased demand for ethanol. The Fund's demand from residential markets is expected to be consistent with prior years.

The new linear corrugator, which will commence production in 2007, positions Armtec as the only manufacturer of both high density polyethylene pipe and corrugated steel pipe manufacturer in the province of Alberta. The expanded ability to offer both HDPE and steel should position Armtec as a supplier of choice in this very active region. Resources such as proven oil, uranium and potash reserves are expected to generate new investment in Saskatchewan. Armtec is well-positioned to capitalize on anticipated growth opportunities through the recent acquisition of the culvert division of Prairie Steel.

The 2006 addition of the BEBO concrete arch bridge systems and CONTECH Stormwater Solutions™ to Armtec's product offering is expected to contribute to revenues in 2007. Both new 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 management of storm water and run-off has become a significant aspect of drainage design in the United States as a result of increased environmental awareness. The new offering of a complete line of storm water quality management products in Canada establishes Armtec as a coast-to-coast supplier in a market with strong growth potential. BEBO is a concrete arched bridge system that provides Armtec access to new markets in Central and Western Canada with a product that meets longer span bridge requirements of the marketplace. In February 2007, the Fund received its first BEBO order. The 42 foot bridge system will be used for a stream crossing in the James Bay area of Quebec.

The Fund expects sustaining capital expenditures for 2007 to be consistent with historical levels. In addition to these expenditures the Fund expects to complete the installation of the new ERP system during fiscal 2007.

## SELECTED FINANCIAL INFORMATION

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

	The Fund 2006	The Fund 2005	The Fund December 31, 2004	The Fund July 27, 2004 to 2004 <sup>1</sup> (unaudited)	2003 <sup>2</sup> (unaudited)
Revenue	\$166,166	\$154,904	\$77,441	\$143,445	\$122,199
Net earnings	15,781	12,243	6,196	5,268	2,854
Basic and diluted earnings, per unit <sup>3</sup>	1.71	1.36	0.69	N/A	N/A
Distributions per unit	1.68	1.50	0.86	N/A	N/A
EBITDA <sup>4</sup> (unaudited)	22,337	19,114	9,037	12,361	12,270
Total assets	156,394	145,501	148,451	148,451	102,591
Total long-term debt	16,044	25,225	25,000	25,000	28,654

## CAPITAL RESOURCES

Armtec has credit facilities that provide a \$35.0 million term facility and a \$25.0 million revolving credit facility, both at variable interest rates. At December 31, 2006, \$15.0 million had been advanced and was outstanding on the term facility while \$1.0 million was outstanding on the revolving credit facility. Due to the seasonality of the business, the revolving credit facility is available to support temporary cash requirements for working capital and distributions.

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, this agreement was amended to provide access to a \$35 million term facility and a \$25 million revolving credit facility. On October 26, 2006, further amendments to the borrowing facilities included a reduction in the variable interest rate on both the term and revolving credit facilities and the ability to re-borrow funds on the term facility up to the original \$35.0 million limit. The entire credit facility is repayable in full on February 9, 2009. There are no mandatory principal repayments on the term or revolving facilities prior to maturity in February 2009. Armtec is in compliance with all credit facilities covenants.

The interest rate on \$11.5 million of the term facility has been fixed through a swap agreement, resulting in an effective interest rate, before bank issuance costs, of 3.8%.

Armtec is implementing a new ERP system and approximately \$0.1 million is currently committed under signed agreements relating to the installation. Approximately \$1.5 million is estimated to be spent annually on sustaining capital expenditures in order to maintain Armtec's current manufacturing capacity.

Anticipated cash distributions to unitholders are not commitments at December 31, 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. During the period from May 2005 to present the monthly distribution has been \$0.13 per unit, equivalent to \$1.56 annually, if continued for a 12 month period.

<sup>1</sup> 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.

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

<sup>3</sup> On October 26, 2006 the Fund issued 1,289,000 units increasing the total issued and outstanding units to 10,304,000 from 9,015,000 units. For twelve months ended December 31, 2006, the weighted average of number of units outstanding was 9,251,611. For the twelve months ended December 31, 2005 and the period from July 27, 2004 to December 31, 2004, the average number of units outstanding were 9,015,000.

<sup>4</sup> EBITDA is not a defined term under Canadian GAAP. For more information, refer to the Non-GAAP Measures section of this MD&A.

## CONTRACTUAL OBLIGATIONS

(in thousands of Canadian dollars)

	Payments due by period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Term bank loan	\$ 16,044	\$ -	\$ 16,044	\$ -	\$ -
Remaining acquisition expenditures	263	263	-	-	-
Long-term incentive plan	410	410	-	-	-
ERP system	130	130	-	-	-
Operating leases	8,895	1,639	2,859	2,116	2,281
Total	<u>\$ 25,742</u>	<u>\$ 2,442</u>	<u>\$ 18,903</u>	<u>\$ 2,116</u>	<u>\$ 2,281</u>

## 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, 2006, the amount of royalty payments owing was negligible (2005 - \$0.1 million). For the year ended December 31, 2006, royalty expense amounted to \$0.3 million (2005 - \$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 8, 2007, there are 10,304,000 units issued and outstanding.

## SUMMARY OF QUARTERLY RESULTS

### Three Months Ended (unaudited)

(in thousands of Canadian dollars except per unit data)

	Dec 31,	Sept 29,	June 30,	Mar 31,	Dec 31,	Sept 30,	June 24,	Mar 25,
	2006	2006	2006	2006	2005	2005	2005	2005
Revenue	\$35,825	\$60,079	\$49,822	\$20,440	\$35,765	\$58,937	\$42,236	\$17,966
Net earnings (loss)	\$ 2,938	\$ 9,751	\$ 6,711	\$(3,619)	\$ 1,570	\$ 9,165	\$ 4,692	\$(3,184)
Basic and diluted earnings (loss) per unit	\$ 0.30 <sup>1</sup>	\$ 1.08	\$ 0.74	\$ (0.40)	\$ 0.17	\$ 1.02	\$ 0.52	\$ (0.35)

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 in the second quarter. A revolving credit facility is available to allow regular distributions and working capital investments during slower quarters.

## NON-GAAP MEASURES

### Earnings before Interest, Taxes, Depreciation and Amortization "EBITDA"

References to "EBITDA" are to earnings before interest, taxes (other than capital taxes), depreciation and amortization. Management believes that in addition to net earnings, EBITDA is a useful supplemental measure of cash available for distribution prior to debt service, changes in working capital, capital expenditures and income taxes. However, EBITDA is not a recognized measure under Canadian GAAP. Investors are cautioned that EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of the Fund's performance or as an alternative to cash flows from

<sup>1</sup> On October 26, 2006, the Fund issued an additional 1,289,000 units in a public offering. The weighted average number of units outstanding for the fourth quarter was 9,953,728 with 10,304,000 outstanding at December 31, 2006.

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.

### Distributable Cash

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 expenses, including amortization and future income taxes, and reduced by expenditures required to sustain the current state of operations. 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.

### EBITDA and Distributable Cash

(in thousands of Canadian dollars)

	Fourth Quarter		Year Ended	
	2006 (unaudited)	2005 (unaudited)	2006	2005
<b>Net earnings for the period</b>	<b>\$ 2,938</b>	<b>\$ 1,570</b>	<b>\$ 15,781</b>	<b>\$12,243</b>
Provision for (recovery of) income taxes	(1,219)	(169)	(1,693)	(676)
Amortization of property, plant and equipment	909	924	3,493	3,676
Amortization of intangible assets	536	550	2,428	2,210
Interest and financing expenses	421	302	2,328	1,661
<b>EBITDA (unaudited)</b>	<b>\$ 3,585</b>	<b>\$ 3,177</b>	<b>\$ 22,337</b>	<b>\$19,114</b>
Purchase of sustaining property, plant and equipment	634	441	1,364	1,413
Interest and financing expenses	421	302	2,328	1,661
<b>Distributable cash (unaudited)</b>	<b>\$ 2,530</b>	<b>\$ 2,434</b>	<b>\$ 18,645</b>	<b>\$16,040</b>

### Distributable Cash to Cash Flow From Operations Reconciliation:

(in thousands of Canadian dollars)

	Fourth Quarter		Year Ended	
	2006 (unaudited)	2005 (unaudited)	2006	2005
<b>Cash provided by operating activities</b>	<b>\$20,534</b>	<b>\$15,269</b>	<b>\$19,832</b>	<b>\$13,962</b>
Items not affecting cash:				
Loss (gain) on interest rate swap	(7)	119	13	201
Non-cash post-employment benefits accrued	138	(61)	(72)	(251)
Loss (gain) on sale of property, plant and equipment	(17)	(34)	140	(34)
Items not affecting operating cash flow:				
Purchase of sustaining property, plant and equipment	(634)	(441)	(1,364)	(1,413)
Net decrease (increase) in non-cash working capital	(17,484)	(12,418)	96	3,575
<b>Distributable cash (unaudited)</b>	<b>\$ 2,530</b>	<b>\$ 2,434</b>	<b>\$18,645</b>	<b>\$16,040</b>

The following table reconciles the purchases of sustaining and generative capital expenditures to the purchases of property, plant and equipment, as well as intangible assets:

	Fourth Quarter		Year Ended	
	2006 (unaudited)	2005 (unaudited)	2006	2005
Capital expenditures				
Sustaining (unaudited)	\$ 634	\$ 441	\$ 1,364	\$ 1,413
Generative (unaudited)	707	959	2,437	959
Total expenditures	<u>\$ 1,341</u>	<u>\$ 1,400</u>	<u>\$ 3,801</u>	<u>\$ 2,372</u>
Purchase of intangibles	\$ 569	\$ 424	\$ 782	\$ 424
Purchase of property, plant and equipment	772	976	3,019	1,948
Total purchases	<u>\$ 1,341</u>	<u>\$ 1,400</u>	<u>\$ 3,801</u>	<u>\$ 2,372</u>

Sustaining capital expenditures excludes assets that are considered generative, which includes for the full year in 2006: \$0.5 million related to the continuing implementation of the ERP system, \$0.2 million related to the acquisition of the BEBO Arch licensing agreement, and \$1.6 million related to the purchase and installation of the HDPE production line in Lethbridge Alberta. For the fourth quarter of 2006, the growth related expenditures of \$0.7 million includes expenditures related to the HDPE production line in Lethbridge and funds expended on the ERP system implementation. For the full year of 2005 and fourth quarter of 2005, the growth related expenditures include \$0.5 million related to the new ERP implementation and \$0.4 million of furniture and fixture costs in conjunction with the national office move.

### 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 contracts, customer lists, the ERP system, development charges, non-compete agreements, 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, 2006 and 2005. 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 finished goods. Cost is determined based on standards, which approximate actual cost as determined on an average cost basis. While management has applied judgment 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 now \$35.0 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 a negligible increase in the mark-to-market value of the swap during the year ended December 31, 2006 which was classified as a reduction in interest and financing expenses. The mark-to-market value of the swap is derived from an external valuator using appropriate market assumptions.

## **ACCOUNTING POLICY CHANGES INCLUDING INITIAL ADOPTIONS**

There have been no changes in accounting policy that had a material impact on the financial results of the Fund during the year ended December 31, 2006. There are no changes currently contemplated for fiscal 2007 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 1506 entitled "Accounting Changes", Section 1530 entitled "Comprehensive Income", Section 3855 entitled "Financial Instruments – Recognition and Measurement Income", Section 3865 entitled "Hedges", Emerging Issues Committee (EIC) 46 entitled "Accounting for Leveraged Leases", and EIC 163 entitled "Variability to be Considered in applying AcG-15 on January 1, 2007. The Fund has evaluated the current changes and does not expect the implementation of these changes to have a material effect on the financial performance of the Fund.

Effective January 1, 2008 the Fund will be required to adopt further standards changes from the CICA. The Fund does not expect Section 1535 entitled "Capital Disclosures", Section 3862 and Section 3863 entitled "Financial Instruments – disclosures and presentation" to have a material effect on the financial performance of the Fund, however, management will continue to evaluate the impact of these changes.

## **CONTROLS AND PROCEDURES**

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the effectiveness of the design of the disclosure controls and procedures as of December 31, 2006. These procedures are designed to ensure that information required to be disclosed is recorded, processed, summarized and reported on a timely basis and is accumulated and communicated to the Fund's management team as appropriate to allow for timely required disclosures.

Management of the Fund does not expect that the disclosure controls will prevent or detect all misstatements due to error or fraud. Because of the inherent limitations in all control systems, an evaluation of disclosure controls can provide only reasonable, not absolute assurance that all disclosure issues, if any, within the Fund have been detected. Based on the evaluation of the controls, management has concluded that the design of the disclosure controls and procedures is effective at the end of the period in all material respects.

Management is also responsible for the design of internal controls over financial reporting within Armtec in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management has evaluated the design of the Fund's internal controls and procedures over financial reporting as of the end of the period covered by this report, and believes the design to be sufficient to provide such reasonable assurance. The Fund has previously identified the need for improvement concerning segregation of duties. These matters and their related risks are not uncommon in a company of Armtec's size. To date, Armtec has commenced the implementation of an ERP system, utilized external advisors and taken such other action as it has considered appropriate to minimize these risks. There have been no changes in internal controls over financial reporting during the fourth quarter that have had a material effect on the Fund's internal controls.

## **PROPOSED TRANSACTIONS**

The Fund has no material transactions proposed as at March 8, 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.

### **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 these markets experience a downturn, this is likely to have a negative impact on the infrastructure industry and Armtec's product sales.

### **Competition**

The Canadian market for high density polyethylene pipe and corrugated steel pipe 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 the same regional markets but currently lack the network of facilities in Canada close to Armtec's customers to compete on a broader scale. However a rising Canadian dollar exchange rate 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.

### **Acquisition and Expansion risk**

The Fund may expand its operations, depending on certain conditions, by acquiring additional businesses, products or technologies. There can be no assurance that the Fund will be able to identify, acquire, or profitably manage additional businesses, or successfully integrate any acquired business, products, or technologies into the business without substantial expenses, delays or other operational or financial difficulties. Furthermore, acquisitions may involve a number of special risks including diversion of management's attention, failure to retain key personnel, unanticipated events or circumstances, and legal liabilities, some or all of which could have material adverse effect on the Funds performance. In addition, there can be no assurance that acquired businesses, products, or technologies, if any, will achieve anticipated revenues and income. The failure of the Fund to manage its acquisition or expansion strategy successfully could have a material adverse effect on the Fund's results of operations and financial condition.

On October 31, 2006, the Minister of Finance announced restrictions to the growth of income trusts. These restrictions, if enacted, could have an adverse effect on the ability to grow or re-finance existing credit facilities.

### **Capital and Liquidity Risk**

The amount of financial resources available to invest in the Fund's growth is dependent upon the ability to utilize debt and issue additional units. As the Fund operates it will likely require access to debt and equity markets. There is no assurance that the Fund will be able to obtain additional financial resources that may be required to successfully compete in its markets on favourable commercial terms. Failure to obtain such financing could result in the delay or abandonment of certain strategic plans for product manufacturing and development. On October 31, 2006, the Canadian Federal government introduced proposals to restrict the growth of income funds. If these restrictions are enacted, Armtec's ability to execute on all potential opportunities could be impacted.

The Fund's current credit facilities require Armtec to comply with certain financial covenants. Additionally, certain of the Fund's credit facilities become due for renewal from time to time. There can be no assurance of Armtec's ability to continue to comply with the financial covenants to appropriately service its debt or obtain continued commitments from debt providers given unforeseen events.

### **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 Canadian Safety Association 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 raw 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. The Canadian steel suppliers are facing industry uncertainties and potential consolidation. There is no assurance that these suppliers (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 any customers or 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 the 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 renewals or extensions 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 (foundation wrap) 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.

### **Availability and Price Volatility of Raw Materials**

Raw materials supply factors such as allocations, economic cyclicity, seasonality, pricing, quality, timeliness of delivery, transportation and warehousing costs may affect the raw materials sourcing decisions made by Armtec. In the event of significant unanticipated increase in demand for Armtec's products and the supply of

raw materials, the Fund may in the future be unable to manufacture certain products in a quantity sufficient to meet customer demand in any particular period.

Various raw materials are used in the products manufactured by Armtec. 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 Armtec's, or the Licensor'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 until a replacement is found. The Fund may be unable to attract, assimilate, retrain or train other necessary qualified employees, which may restrict growth potential and disrupt operations.

### **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, 59 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 and adversely affect the results of operations of the Fund.

### **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 \$35.0 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 balance of the term credit 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 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.

### **Securities Laws Compliance and Corporate Governance Standards**

The securities laws in Canada may be subject to change at any time. The impact on the Fund of any changes cannot be predicted. The Fund is currently implementing the Canadian Securities Administrators Multilateral Instrument 52-109 and expects to be in compliance with these standards.

**Tax Law Risk**

The tax laws in Canada are continuously amended. Armtec is currently not subject to tax on income distributed to unitholders however, future taxes are recognized on the timing differences existing in the subsidiaries of the Fund. Recently, corporate tax rates in Canada have been decreasing. There is no assurance that rates will continue to decrease or remain unchanged.

On October 31, 2006, the Minister of Finance announced a distribution tax on income trusts and publicly-traded limited partnerships classified as Specified Investment Flow-Throughs ("SIFT"). For existing SIFTs such as the Fund, there is a four-year transition period; however the distribution tax provision will apply beginning with the 2011 taxation year. The tax will be applied to the portion of a distribution from a SIFT that is taxable. However, distributions made by a trust in amounts greater than the trust's taxable income are expected to continue to be treated as a return of capital for tax purposes, reducing the adjusted cost base of the trust unit to the unitholder. Depending on the allocation of distributions between taxable distributions and a return of capital after the four-year transitional period, the return to unit holders may be adversely affected.

**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 8, 2007.

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 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.