

Armtec Infrastructure Income Fund Management's Report to Unitholders

The accompanying consolidated financial statements of Armtec Infrastructure Income Fund (the "Fund" or "Armtec") and Management's Discussion and Analysis for the year ended December 31, 2008 have been prepared by management and approved by the Board of Trustees of the Fund. The consolidated financial statements were prepared in accordance with accounting principles generally accepted in Canada and, where necessary, reflect management's estimates and judgments.

The management of the Fund and of its subsidiaries, in furtherance of the integrity and objectivity of the data in the consolidated financial statements, has developed and maintains internal control systems. Management believes that these internal accounting control systems provide reasonable assurance that financial records are reliable and form a proper basis for the preparation of the consolidated financial statements and that assets are properly accounted for and safeguarded, and that the preparation of other financial information are consistent with the consolidated financial statements.

The Board of Trustees carries out its responsibility for the financial statements primarily through its Audit Committee consisting of independent trustees who are neither employees nor officers of the Fund. The Audit Committee meets with management and with external auditors to satisfy themselves that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the auditors' report. The Audit Committee formulates the appropriate recommendations to the trustees regarding all financial matters. The external auditors have direct access to the Audit Committee, with and without management present.

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

/s/ Charles M. Phillips
Charles M. Phillips, CA
President and Chief Executive Officer
Armtec Infrastructure Income Fund

/s/ James R. Newell
James R. Newell, CA
Chief Financial Officer
Armtec Infrastructure Income Fund

Auditors' Report

To the Unitholders of
Armtec Infrastructure Income Fund

We have audited the consolidated balance sheets of Armtec Infrastructure Income Fund (the "Fund") as at December 31, 2008 and 2007 and the consolidated statements of earnings, comprehensive income, changes in unitholders' equity and cash flows for the years ended December 31, 2008 and 2007. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years ended December 31, 2008 and 2007 in accordance with Canadian generally accepted accounting principles.

/s/ PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Waterloo, Canada
March 26, 2009

Armtec Infrastructure Income Fund

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)

As at December 31	2008	2007
Assets		
Current assets		
Cash	\$ 8,883	\$ 12,628
Accounts receivable (Note 4)	94,400	49,313
Inventories (Note 5)	43,132	22,111
Prepaid expenses and other assets	2,293	1,783
Future income tax assets (Note 11)	305	126
	149,013	85,961
Property, plant and equipment (Note 6)	143,636	77,216
Intangible assets (Note 7)	130,239	92,422
Goodwill (Note 8)	113,709	71,028
	\$ 536,597	\$ 326,627
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 46,790	\$ 32,702
Distributions payable	3,942	4,674
Deferred contract revenue	4,581	1,495
Current portion of long-term debt (Note 9 and 25)	51,538	341
Future income tax liabilities (Note 11)	2,601	4,594
	109,452	43,806
Deferred contract revenue	3,500	-
Long-term debt (Note 9)	146,700	65,549
Post-employment obligations (Note 10)	6,833	6,701
Future income tax liabilities (Note 11)	46,654	31,466
	313,139	147,522
Unitholders' equity	223,458	179,105
	\$ 536,597	\$ 326,627

Signed on behalf of the Trustees:

/s/ Robert J. Wright
Robert J. Wright
Chairman

/s/ Brian W. Jamieson
Brian W. Jamieson
Trustee

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

Armtec Infrastructure Income Fund

CONSOLIDATED STATEMENTS OF EARNINGS

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

For the years ended December 31	2008	2007
Revenue	\$ 392,063	\$ 206,226
Cost of sales	269,980	140,831
Amortization of property, plant and equipment	8,345	4,069
Gross margin	113,738	61,326
Distribution and warehousing	18,667	9,089
Selling, general and administrative	42,243	25,496
Amortization of intangible assets	12,206	5,578
Earnings from operations	40,622	21,163
Interest	8,692	2,368
Interest related to debt transaction costs	505	449
Interest and financing expenses	9,197	2,817
Earnings before taxes	31,425	18,346
Recovery of future income taxes (Note 11)	1,879	4,543
Net earnings for the year	\$ 33,304	\$ 22,889
Basic and diluted earnings per unit (Note 16)	\$ 2.07	\$ 1.99
Basic and diluted weighted average number of units outstanding (Note 16)	16,093,543	11,506,824

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

Armtec Infrastructure Income Fund
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of Canadian dollars)

For the years ended December 31	2008	2007
Net earnings for the year	\$ 33,304	\$ 22,889
Other comprehensive income, net of taxes:		
Change in unrealized loss of derivative financial instruments designated as cash flow hedges (net of income taxes of \$Nil) (Note 14 and 19)	(3,760)	-
Other	(3)	(23)
	(3,763)	(23)
Comprehensive income for the year	\$ 29,541	\$ 22,866

Armtec Infrastructure Income Fund
CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY
(in thousands of Canadian dollars)

	Unitholders' Capital	Accumulated Other Comprehensive Income	Cumulative Earnings	Cumulative Distributions	Total
Balance – December 31, 2006	\$ 105,773	\$ -	\$ 34,220	\$ (37,169)	\$ 102,824
Units issued for cash consideration (Note 12)	60,762	-	-	-	60,762
Exchangeable partnership units issued for consideration (Note 12)	17,500	-	-	-	17,500
Issuance costs related to unit offering (Note 12)	(3,896)	-	-	-	(3,896)
Earnings for the year	-	-	22,889	-	22,889
Other comprehensive loss for the year (Note 14)	-	(23)	-	-	(23)
Distributions for the year (Note 13)	-	-	-	(20,951)	(20,951)
Balance – December 31, 2007	\$ 180,139	\$ (23)	\$ 57,109	\$ (58,120)	\$ 179,105
Units issued for cash consideration (Note 12)	37,500	-	-	-	37,500
Exchangeable partnership units issued for consideration (Note 12)	12,500	-	-	-	12,500
Issuance costs related to unit offering (Note 12)	(1,744)	-	-	-	(1,744)
Earnings for the year	-	-	33,304	-	33,304
Other comprehensive income for the year (Note 14)	-	(3,763)	-	-	(3,763)
Distributions for the year (Note 13)	-	-	-	(33,444)	(33,444)
Balance – December 31, 2008	\$ 228,395	\$ (3,786)	\$ 90,413	\$ (91,564)	\$ 223,458

Total cumulative earnings, cumulative distributions, and accumulated other comprehensive income as at December 31, 2008 is \$(4,937) and December 31, 2007 is \$(1,034).

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

Armtec Infrastructure Income Fund

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

For the years ended December 31	2008	2007
Cash provided by (used in):		
Operating activities		
Net earnings for the year	\$ 33,304	\$ 22,889
Items not affecting cash:		
Amortization of property, plant and equipment	8,345	4,069
Amortization of intangible assets	12,206	5,578
Interest related to debt transaction costs	505	187
Write-down of debt transaction costs (Note 9)	-	262
Recovery of future income taxes	(1,879)	(4,543)
Non-cash post-employment benefits expense	132	105
Loss (gain) on sale of property, plant and equipment	(312)	389
	52,301	28,936
Net (increase) decrease in non-cash working capital (Note 17)	(1,235)	3,039
Cash provided by operating activities	51,066	31,975
Investing activities		
Purchase of property, plant and equipment	(9,999)	(4,440)
Purchase of intangible assets	(1,268)	(400)
Proceeds from sale of property, plant and equipment	660	238
Business acquisitions (Note 21)	(168,096)	(98,436)
Cash used in investing activities	(178,703)	(103,038)
Financing activities		
Net proceeds from offering of fund units (Note 12)	35,756	56,866
Payment of debt transaction costs	(1,929)	(837)
Net borrowings under credit facilities	124,241	47,004
Distributions to unitholders	(34,176)	(19,368)
Cash provided by financing activities	123,892	83,665
Net (decrease) increase in cash	(3,745)	12,602
Cash – Beginning of year	12,628	26
Cash – End of year	\$ 8,883	\$ 12,628
Supplemental cash flow information:		
Interest paid	\$ 7,790	\$ 2,416
Non-cash transactions:		
Acquisition – Issuance of note payable (Note 9)	\$ 5,000	\$ -
Acquisition – Issuance of exchangeable partnership units (Note 12)	\$ 12,500	\$ 17,500
Acquisition – Receivable over the next year (Note 21)	\$ 707	\$ -
Acquisition – Payable over the next year (Note 21)	\$ 3,282	\$ 5,887

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

Armtec Infrastructure Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1. Organization and Nature of Business

Armtec Infrastructure Income Fund 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. In these consolidated financial statements, the term "the Fund" means Armtec Infrastructure Income Fund, together with the Fund's portion of its joint venture, Fixon-Armtec Ltd., and its subsidiaries: Armtec Operating Trust, Armtec Exchangeable Partnership, Armtec AEP GP Limited, Armtec Holdings Limited, Armtec Limited Partnership Corp., Armtec Limited Partnership and Durisol Consulting Services Inc.

The Fund is a leading manufacturer and marketer of a comprehensive range of infrastructure products and engineered construction solutions for customers in a diverse cross-section of industries that are located in every region of Canada, as well as in selected markets in North America and worldwide. These markets include Canada's national and regional public infrastructure markets and private sector markets in agricultural drainage, commercial building, residential construction and natural resources. Operating through its three divisions and with a network of offices and production facilities across the country, the Fund is Canada's only national multi-material manufacturer. The Armtec division specializes in high density polyethylene and corrugated steel pipe products for drainage and bridge applications, and water management systems. The Con-Force division offers a wide variety of precast and pre-stressed concrete products, as well as advanced construction components and high-value engineered solutions to large project customers. The Durisol division provides a full suite of highway noise barriers and related infrastructure products to the transportation sector.

Note 2. Summary of Significant Accounting Policies

Basis of consolidation

The Fund prepares its consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The consolidated financial statements reflect the results of operations of the Fund, its wholly owned subsidiaries and the Fund's portion of its joint venture for the years ended December 31, 2008 and December 31, 2007. All significant intercompany transactions and balances have been eliminated upon consolidation.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In particular, significant estimates include those related to revenue recognition, the valuation of inventory, the valuation of goodwill and other intangible assets, post employment benefits, and the realization of future income taxes. Actual results could differ from those estimates.

Revenue recognition

Revenue from construction contracts is recognized using the percentage-of-completion method. The percentage of completion is determined by relating the actual units of work performed to the estimated total units of the respective contract. If the current estimated costs to complete indicate a loss on a contract, the loss is recognized immediately. Revisions in costs, and earnings or loss estimates during the course of the contract are reflected during the accounting period in which the facts that cause the revision become known. Income from claims is recorded in the year in which such claims are resolved. Unbilled revenue represents the excess of revenue recognized under the percentage-of-completion method over billings rendered. Deferred contract revenue represents billings in excess of revenue earned.

Revenue for all other products is recognized upon shipment when title transfers, all significant obligations have been satisfied and collection is reasonably assured.

Cash and cash equivalents

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

Inventories

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

Armtec Infrastructure Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated amortization. An impairment loss is recognized when the carrying amount of an asset is no longer recoverable and exceeds fair value. Amortization is charged to earnings using the straight-line method based on estimated useful lives as follows:

Buildings	30 years
Machinery and equipment	12 years
Machinery and equipment under capital lease	12 years
Leasehold improvements	Lesser of useful life or the term of the lease
Furniture and fixtures	5 – 10 years

Goodwill

Goodwill is the excess of the purchase price of business acquisitions over the fair value of net tangible and identifiable intangible assets acquired. Goodwill is not amortized, but is assessed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is recognized when the fair value of the reporting unit is less than the carrying value of the reporting unit's net assets. Any impairment in the value of goodwill is recorded as a separate charge against earnings and a reduction in the carrying value of goodwill.

Intangible assets

Intangible assets are assets acquired that lack physical substance and meet the specified criteria for recognition apart from goodwill. These assets are amortized over the estimated remaining useful lives on a straight-line basis. Amortization is charged to earnings based on the estimated useful lives of the underlying assets as follows:

Trademarks and tradenames	25 years
Customer lists	10 - 15 years
Enterprise resource planning ("ERP") systems	7 - 8 years
Development costs	2 years
Customer contracts	As the contract is completed to a maximum of 7 years
Non-compete agreements	The term of the agreement
Licences	The lesser of the term of the agreement or 20 years

Intangible assets subject to amortization are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any impairment is recorded as a separate charge against earnings and a reduction of the carrying value of the intangible asset to fair value.

Employee future benefits

Certain employees are entitled to post-employment benefits such as medical, dental, life insurance and pension benefits. The Fund's obligation under certain plans is determined annually by independent actuaries using management's assumptions and the attribution method. Unamortized actuarial gains and losses under certain plans in excess of 10% of the benefit obligation are amortized over the expected average remaining service period of active employees expected to receive benefits under the plan.

Income taxes

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

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

Armtec Infrastructure Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Tax legislation pertaining to the taxation of income distributed by specified investment flow-through trusts ("SIFTs") and the tax treatment of trust distributions by SIFTs to their unitholders received royal assent on June 22, 2007. On July 14, 2008, the Canadian Department of Finance published draft legislative proposals and explanatory notes which are intended to facilitate the conversion of a SIFT into corporate form without undue tax effects. The Fund is considering the proposed options. To date, management has not made a final determination of the effect of conversion to corporate form. Management anticipates that the Fund will not be subject to income tax until January 1, 2011.

Translation of foreign currencies

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

For foreign operations that are considered self-sustaining, the current rate method of translating foreign currencies has been used. Under this method, assets and liabilities are translated into Canadian dollars at period-end exchange rates. Revenues and expenses are translated at average rates during the period. The resulting unrealized exchange gains and losses arising from the translation of the financial statements of these foreign operations are deferred and recorded as a component of accumulated other comprehensive income within unitholders' equity.

Financial instruments and hedging relationships

The Fund has classified its cash and cash equivalents as held-for-trading; accounts receivable has been classified as loans and receivables; and accounts payable, distributions payable and long-term debt have been classified as other financial liabilities.

The Fund may from time to time enter into forward contracts to reduce its exposure to fluctuations in foreign exchange rates. The Fund may also enter into interest rate swaps to reduce its exposure to fluctuations in interest rates. The Fund may elect to apply hedge accounting for foreign exchange forward contracts and interest rate swaps if certain criteria are met, including documenting all relationships between hedging instruments and hedged items, as well as the Fund's risk management objective and strategy for undertaking various hedge transactions. The Fund may, at its discretion, decide to discontinue hedge accounting for a specific hedging relationship by terminating the designation of that relationship. If the Fund does not account for forward contracts and interest rate swaps using hedge accounting, these instruments are measured at fair value with changes recognized in earnings. The fair value of the forward contracts and interest rate swap would be included in current assets or current liabilities.

The Fund does not use any derivative financial instrument for speculative purposes.

Recently issued accounting pronouncements

a) International financial reporting standards

The Canadian Accounting Standards Board confirmed in February 2008 plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to be effective for interim and annual periods commencing January 1, 2011. The transition date of January 1, 2011 will require reconciliations between Canadian GAAP and IFRS for the interim and annual periods during the year ended December 31, 2011, with a comparable period during the year ended December 31, 2010. Under IFRS, there is significantly more disclosure required and while IFRS uses a conceptual framework similar to Canadian GAAP, there appears to be significant differences in accounting policies that must be addressed.

The Canadian Institute of Chartered Accountants ("CICA") issued Sections 1582, "Business combinations", 1601, "Consolidated financial statements" and 1602, "Non-controlling interests". These standards provide the Canadian equivalent to IFRS 3, "Business Combinations (January 2008)" and International Accounting Standard ("IAS") 27, "Consolidated and Separate Financial Statements (January 2008)". The standards are effective and the Fund will adopt them for interim and annual periods commencing in the Fund's 2011 fiscal year.

The Fund is continuing to monitor and review CICA plans to make the transition to IFRS. The Fund has not yet determined the impact of the conversion to IFRS on its consolidated financial condition.

Armtec Infrastructure Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

b) Goodwill and intangible assets

The CICA issued Section 3064, "Goodwill and Intangible Assets", which establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This standard provides the Canadian equivalent to IAS 38, "Intangible Assets". The standard is effective and the Fund will adopt it for interim and annual periods commencing in the Fund's 2009 fiscal year. The Fund's adoption of the standard is not expected to have a material effect on its consolidated financial condition.

Note 3. Changes in Accounting Policies

Effective January 1, 2008, the Fund adopted CICA Section 1535, "Capital disclosures", Section 3862, "Financial Instruments – Disclosures", Section 3863, "Financial Instruments – Presentation"; and Section 3031, "Inventories". The principal changes due to the adoption of these accounting standards are described below.

a) Capital disclosures

This section requires the disclosure of both qualitative and quantitative information regarding the entity's objectives, policies and processes for managing capital, and what the entity regards as capital. Other than disclosure, the adoption of CICA Section 1535 had no effect on the Fund's consolidated financial condition on the date of adoption.

b) Financial instruments – disclosures and presentation

These sections revise and enhance certain disclosure requirements including the significance of financial instruments on the entity's financial condition, the nature and extent of risks arising from financial instruments and how these risks are managed. Other than disclosure, the adoption of CICA Sections 3862 and 3863 had no effect on the Fund's consolidated financial condition on the date of adoption.

c) Inventories

This section requires inventory to be measured at the lower of cost and net realizable value. The standard provides guidance on the types of costs that can be included and requires the reversal of previous inventory write-downs if economic circumstances change. This standard provides the Canadian equivalent to IAS 2, "Inventories". Other than disclosure, the adoption of CICA Section 3031 had no effect on the Fund's consolidated financial condition on the date of adoption.

Note 4. Accounts Receivable

As at December 31	2008	2007
Trade receivables	\$ 79,359	\$ 37,893
Unbilled revenue	12,596	6,612
Holdback receivables	2,445	4,808
	\$ 94,400	\$ 49,313

Armtec Infrastructure Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 5. Inventories

As at December 31	2008	2007
Raw materials	\$ 11,964	\$ 6,791
Finished goods	31,168	15,320
	\$ 43,132	\$ 22,111

The amount of inventory recognized as an expense through cost of sales during the year ended December 31, 2008 was \$182,342 (2007 – \$126,526).

Note 6. Property, Plant and Equipment

As at December 31, 2008	Cost	Accumulated Amortization	Net
Land	\$ 31,378	\$ -	\$ 31,378
Buildings	23,164	2,334	20,830
Machinery and equipment	94,237	16,350	77,887
Machinery and equipment under capital lease	2,229	314	1,915
Leasehold improvements	3,601	647	2,954
Furniture and fixtures	3,109	996	2,113
Construction-in-progress	6,559	-	6,559
	\$ 164,277	\$ 20,641	\$ 143,636

As at December 31, 2007	Cost	Accumulated Amortization	Net
Land	\$ 25,208	\$ -	\$ 25,208
Buildings	14,085	1,622	12,463
Machinery and equipment	44,844	9,934	34,910
Machinery and equipment under capital lease	2,007	59	1,948
Leasehold improvements	977	312	665
Furniture and fixtures	2,109	479	1,630
Construction-in-progress	392	-	392
	\$ 89,622	\$ 12,406	\$ 77,216

Note 7. Intangible Assets

As at December 31	2008	2007
Balance – Beginning of year, as previously reported	\$ 92,422	\$ 44,453
Debt transaction costs	-	(403)
Balance – Beginning of year, as restated	92,422	44,050
Intangibles acquired (Note 21)	48,755	53,550
ERP system and other intangible costs	1,268	400
Amortization	(12,206)	(5,578)
Balance – End of year	\$ 130,239	\$ 92,422

Armtec Infrastructure Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

As a result of changes in the Fund's accounting policies in 2007, all debt transaction costs were considered in the fair value of the related debt.

As at December 31, 2008	Cost	Accumulated Amortization	Net
Trademarks and tradenames	\$ 47,840	\$ 4,760	\$ 43,080
Customer contracts	7,865	7,178	687
Customer lists	61,582	3,856	57,726
ERP systems	3,836	489	3,347
Non-compete agreements	8,820	1,788	7,032
Licences	22,901	4,534	18,367
Development costs	115	115	-
	\$ 152,959	\$ 22,720	\$ 130,239

As at December 31, 2007	Cost	Accumulated Amortization	Net
Trademarks and tradenames	\$ 42,100	\$ 2,958	\$ 39,142
Customer contracts	6,600	2,444	4,156
Customer lists	27,972	932	27,040
ERP systems	1,267	140	1,127
Non-compete agreements	4,920	532	4,388
Licences	18,901	3,462	15,439
Development costs	115	46	69
ERP system in process	1,061	-	1,061
	\$ 102,936	\$ 10,514	\$ 92,422

Note 8. Goodwill

As at December 31	2008	2007
Balance – Beginning of year	\$ 71,028	\$ 39,548
Goodwill acquired (Note 21)	42,681	32,016
Goodwill adjustment (Note 21)	-	(536)
Balance – End of year	\$ 113,709	\$ 71,028

Armtec Infrastructure Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 9. Long-Term Debt

As at December 31	2008	2007
Revolving facility (b)	\$ -	\$ -
Term facility (b)	140,000	65,000
Bridge term facility (b)	50,000	-
Promissory note (c)	4,667	-
Capital leases payable at rates varying from 2.7% to 7.2% payable in blended monthly instalments of \$56 (a)	2,026	1,681
	196,693	66,681
Interest rate swap (Note 19)	3,760	-
Debt transaction costs	(2,215)	(791)
Current portion of long-term debt (Note 25)	(51,538)	(341)
	\$ 146,700	\$ 65,549

For the year ended December 31, 2008 interest expense on long-term obligations initially incurred for a term of more than one year totalled \$6,637 (2007 – \$2,343). Principal payments required to meet long-term obligations in the next five years are as follows:

For the years ended December 31	
2009	\$ 51,538
2010	1,633
2011	1,661
2012	141,194
2013	667
	\$ 196,693

a) Capital leases

Specific machinery is pledged as security for the capital leases. The leases mature over various dates from 2010 to 2012.

Payments under capital lease including interest are as follows:

For the years ended December 31	
2009	\$ 645
2010	705
2011	688
2012	198
Total minimum payments	2,236
Less: amount representing interest	210
Obligations under capital lease	\$ 2,026

b) Revolving, term and bridge credit facilities (Note 24)

On October 1, 2007, the Fund completed amendments to its term and revolving credit facilities. The principal amendments to the credit facilities include increased term financing from \$35,000 to \$65,000 and available revolving facilities increased from \$25,000 to \$40,000. Both credit facilities now mature in October 2012. For accounting purposes, the October 1, 2007 amendment was considered a substantial modification of the terms of the financial liability and is treated as an extinguishment of the previous agreement. As a result, debt transaction costs of \$262 related to the original facility were written down during the fourth quarter of 2007.

Armtec Infrastructure Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

On June 5, 2008, further amendments were made to the term and revolving credit facilities. The principal amendments to the credit facilities included increased term financing from \$65,000 to \$110,000 and the available revolving facility increased from \$40,000 to \$50,000. Both the term and revolving credit facilities maturity dates remained unchanged in October 2012. Proceeds, net of transaction costs, were used to finance the acquisitions of Bruce Tile, Durisol Inc. and its related companies ("Durisol") and A.E. Concrete Precast Products Ltd. ("AE Concrete") (Note 16).

On July 31, 2008, the Fund completed a third amendment to its term and revolving credit facilities. The principal amendments included increased term financing from \$110,000 to \$140,000, to assist in a transaction with Clearford Industries Inc. ("Clearford"), to acquire Clearford's assets of its Brooklin Concrete division ("Brooklin") and the shares of Boucher Precast Concrete Ltd. ("Boucher") (Note 16). The increased term financing also assisted in the Fund's acquisition of the shares in 1219316 Alberta Ltd. (Con-Force Concrete Products – "CFCP"), a subsidiary of Burnco Rock Products Limited (Note 16). A new non-revolving bridge term facility of \$50,000 was utilized to assist in the acquisition of CFCP. Available revolving credit facilities remain unchanged at \$50,000. Maturity dates for both the term and revolving credit facilities remained in October 2012 whereas the bridge term credit facility matures in June 2009.

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. There are no mandatory principal repayments on the term or revolving facilities prior to maturity.

The average effective interest rate after related fees during the year ended December 31, 2008, was 5.9% (2007 – 6.2%). This accounts for the effects on the term, bridge and revolving facilities drawn, debt transaction costs and the interest rate swap but does not include any unrealized gains or losses in the period resulting from the revaluation of the interest rate swap, if applicable.

c) Promissory note

In conjunction with the acquisition of Boucher, the Fund has issued a \$5,000 promissory note to the vendor, payable over a five-year period, bearing interest at 8.0%.

Armtec Infrastructure Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 10. Post-Employment Obligations

The Fund provides post-employment benefits to qualifying retirees. The Fund's post-retirement benefit health plan was grandfathered for retirees with combined years of age and service of 75 who were employed as at January 1, 2003. The most recent actuarial valuation of the post-employment benefit health plan was as of January 1, 2006, and the next required valuation will be as of January 1, 2009. Information about the Fund's unfunded post-employment benefit health plan is as follows:

For the years ended December 31	2008	2007
Change in post-employment benefit obligation:		
Post-employment benefit obligation at the beginning of the year	\$ 6,025	\$ 5,908
Service cost – benefits earned	20	21
Interest cost	297	291
Benefits paid	(176)	(195)
Actuarial gain	(1,554)	-
Post-employment benefit obligation at the end of the year	4,612	6,025
Unamortized net actuarial gain	2,221	676
Accrued post-employment benefit obligation	\$ 6,833	\$ 6,701
The Fund expense:		
Service cost – benefits earned	\$ 20	\$ 21
Interest cost	297	291
Amortization of net actuarial gain	(9)	(12)
Net post-employment plan expense	\$ 308	\$ 300
Actuarial assumptions:		
Discount rate	7.00%	5.00%
Medical inflation ¹	7.50%	8.00%
Dental inflation	5.00%	5.00%

¹Medical inflation is assumed to be 7.0% in 2009, declining 0.5% per year to 5.0% for 2013 and thereafter.

For the years ended December 31	2008	2007
Effect of change in health care cost trend rate:		
1% Increase		
Service cost and interest cost	\$ 45	\$ 44
Accrued post-employment benefit	596	778
1% Decrease		
Service cost and interest cost	\$ (32)	\$ (31)
Accrued post-employment benefit	(502)	(656)

Post-retirement pension plans were obtained through the acquisition of various businesses during 2008 and 2007 (Note 21). For the year ended December 31, 2008, the Fund expensed \$1,486 (2007 – \$375) for these defined contribution pension plans.

Armtec Infrastructure Income Fund

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Note 11. Income Taxes

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

As at December 31	2008	2007
Future income tax assets – current:		
Accruals, reserves and other	\$ 305	\$ 126
Future income tax liabilities – current:		
Deferred contract revenue	2,601	4,594
Future income tax liabilities – long-term:		
Intangible assets	31,477	23,262
Property, plant and equipment	14,121	7,950
Post-employment obligations	(2,040)	(1,771)
Other	3,096	2,025
	46,654	31,466
Net future income tax liabilities	\$ 48,950	\$ 35,934

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

For the years ended December 31	2008	2007
Expected income tax at a combined rate of 30.8% (2007 – 33.5%)	\$ 9,688	\$ 6,153
Net earnings of the Fund not taxable	(11,261)	(7,357)
Impact of enacted rate changes	(455)	(3,417)
Other	149	78
Recovery of future income taxes	\$ (1,879)	\$ (4,543)

Note 12. Unitholders' Capital

Authorized units of the Fund

An unlimited number of trust units may be issued by the Fund pursuant to the Fund's Declaration of Trust. Each unit is transferable and represents an equal, undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund. All units are of the same class with equal rights and privileges and are not subject to future calls or assessments. Each unit entitles the holder to one vote at all meetings of unitholders. Units are redeemable at any time at the option of the holder at amounts related to market prices at the time, subject to certain factors including a maximum of \$50 in cash redemptions by the Fund in any particular month. This limitation may be waived at the discretion of the trustees of the Fund. Redemptions in excess of this amount, assuming no waiving of the limitation, shall be paid by way of a distribution in specie of a pro rata amount of assets of the Fund.

Authorized exchangeable partnership units of the Fund

An unlimited number of exchangeable partnership units may be issued by Armtec Exchangeable Partnership. Holders of each exchangeable partnership unit are entitled to distributions from Armtec Exchangeable Partnership at the same time and in the same amount, on a unit-for-unit basis, as distributions made by the Fund to holders of Fund units. Each exchangeable partnership unit is non-transferable without approval from the general partner, Armtec AEP GP Limited. All exchangeable partnership units are of the same class with equal rights and privileges. Exchangeable partnership units are non-voting. Exchangeable partnership units are exchangeable into units of the Fund on a unit-for-unit basis provided that the holder of the exchangeable partnership units exchange at least 1/6 of the original number of exchangeable partnership units issued to such holder at one time. The exchangeable partnership units or, in the event that such units are exchanged for Fund units; Fund units are generally held for a period of time subject to the terms of an escrow arrangement entered into in connection with the related acquisition.

Armtec Infrastructure Income Fund

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

Units issued and outstanding	Number of exchangeable partnership units	Number of units	Total number of units as issued	Amount
Balance – December 31, 2006	-	10,304,000	10,304,000	\$ 105,773
Unit issuance	-	3,705,000	3,705,000	60,762
Exchangeable partnership unit issuance	1,067,073	-	1,067,073	17,500
Issuance costs	-	-	-	(3,896)
Balance – December 31, 2007	1,067,073	14,009,000	15,076,073	180,139
Unit issuance	-	1,552,800	1,552,800	37,500
Exchangeable partnership unit issuance	511,260	-	511,260	12,500
Issuance costs	-	-	-	(1,744)
Balance – December 31, 2008	1,578,333	15,561,800	17,140,133	\$ 228,395

During the first quarter of 2008, the Fund completed an issuance of 87,834 exchangeable partnership units of the Fund at a unit price of \$22.77 representing gross non-cash consideration of \$2,000. Proceeds from this issuance were used to fund the acquisition of certain tangible and intangible assets and liabilities of Bruce Tile on March 20, 2008 (Note 21).

During the second quarter of 2008, the Fund completed an issuance of 208,855 exchangeable partnership units of the Fund at a unit price of \$23.94 representing gross non-cash consideration of \$5,000. These units, issued to the vendor, were used to fund the acquisition of the outstanding shares of Durisol on June 5, 2008 (Note 21).

During the third quarter, the Fund completed an issuance of 1,552,800 additional units of the Fund at a unit price of \$24.15 representing gross proceeds of \$37,500. Proceeds from this issuance were used to assist in the acquisitions of Brooklin, Boucher, and CFCP. The Fund also completed an issuance of 117,371 exchangeable partnership units of the Fund at a unit price of \$24.51 representing gross non-cash consideration of \$3,000. These units, issued to the vendor, were used to assist in a transaction with Clearford to fund the purchase of Clearford's assets of its Brooklin division on July 31, 2008 (Note 21). Also during the third quarter, the Fund completed an issuance of 97,200 exchangeable partnership units of the Fund at a unit price of \$25.72 representing gross non-cash consideration of \$2,500. These units, issued to the vendor, were used to purchase property at the Fund's Bruce Tile facility (Note 21).

During the third quarter of 2007, the Fund completed an issuance of 3,705,000 additional units of the Fund at a unit price of \$16.40 representing gross proceeds of \$60,762. The Fund also completed an issuance of 1,067,073 exchangeable partnership units of the Fund at a unit price of \$16.40 representing gross non-cash consideration of \$17,500. These units, issued to the vendor, were used to fund the acquisition of Con-Force on October 1, 2007.

Armtec Infrastructure Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 13. Distributions

During the year, 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 declared for the year ended December 31, 2008 were as follows:

Period	Record date	Payment date	Per unit	Amount (Whole Dollars)
January 2008	January 31, 2008	February 15, 2008	\$ 0.15	\$ 2,261,411
February 2008	February 29, 2008	March 14, 2008	0.15	2,261,411
March 2008	March 31, 2008	April 15, 2008	0.15	2,274,586
April 2008	April 30, 2008	May 15, 2008	0.15	2,274,586
May 2008	May 31, 2008	June 15, 2008	0.17	2,577,864
June 2008	June 30, 2008	July 15, 2008	0.17	2,613,370
July 2008	July 31, 2008	August 15, 2008	0.17	2,897,299
August 2008	August 29, 2008	September 15, 2008	0.18	3,085,224
September 2008	September 30, 2008	October 15, 2008	0.18	3,085,224
October 2008	October 31, 2008	November 14, 2008	0.18	3,085,224
November 2008	November 28, 2008	December 15, 2008	0.18	3,085,224
December 2008	December 31, 2008	January 15, 2009	0.18	3,085,224
Special Distribution	December 31, 2008	January 30, 2009	0.05	857,007
			\$ 2.06	\$ 33,443,654

For the year ended December 31, 2007, total distributions of \$20,951 were declared.

Note 14. Accumulated Other Comprehensive Income

During 2008, the change in unrealized loss of derivative financial instruments designated as cash flow hedges was \$3,760 (2007 – \$Nil) and resulted in an ending balance of \$3,760 (2007 – \$Nil). The change relates to the Fund's interest rate swaps used to mitigate its exposure to floating interest rates (Note 19).

Note 15. Incentive Plans

Long-term incentive plan ("LTIP")

The Fund maintains an LTIP to enhance the ability of the Fund to attract, retain and motivate key personnel and reward senior management for superior performance. Bonuses, in the form of units of the Fund, may be provided to eligible employees annually where certain conditions are met.

When the conditions of the LTIP are met, the Fund will set aside a pool of funds with Computershare Trust Company of Canada acting as plan administrator of the LTIP. The funds in this pool are used to purchase units of the Fund in the open market which are to be provided to eligible employees as bonus compensation. The units vest evenly over a three-year period and once vested are transferred to the eligible employee. An LTIP entitlement of \$673 was approved in respect of the 2008 year with the acquisition of units to be completed in the spring of 2009.

Purchased units available in the LTIP vest as follows:

Year awarded	Award amount	Year units purchased	Number of units	Vesting year – December 31,			
				Pre 2008	2008	2009	2010
2005	541	2006	28,995	19,330	9,665	-	-
2006	410	2007	21,999	7,348	7,646	7,005	-
2007	366	2008	15,786		5,262	5,262	5,262
Total	\$ 1,317		66,780	26,678	22,573	12,267	5,262

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The associated expense is recognized over a term consisting of the current and three vesting periods. Once the LTIP is funded, the amount to be recognized as an expense in future periods is classified as a prepaid expense on the consolidated balance sheet. Included in selling, general and administrative expenses for the year ended December 31, 2008 are compensation costs of \$499 (2007 – \$408).

Prepaid expense and associated liability recognized as at December 31, 2008 and December 31, 2007 are as follows:

As at December 31	2008	2007
Prepaid expenses and other assets	\$ 136	\$ 159
Accounts payable and accrued liabilities	(243)	(133)
	\$ (107)	\$ 26

Trustees' phantom unit plan

The phantom unit plan, established in June 2006, provides the trustees of the Fund with the opportunity to receive authorized but unissued phantom units in lieu of cash consideration for their quarterly retainer and meeting attendance fees. Each phantom unit awarded is equivalent in value to an actual unit of the Fund. The phantom units vest immediately and are reflected as a liability in the consolidated balance sheet and compensation expense in the consolidated income statement. During 2008, 13,466 phantom units (2007 - 13,464) were issued and 3,270 phantom units (2007 – nil) were redeemed under the plan for total units outstanding of 31,047 (2007 – 20,851). The Fund recorded a compensation expense of \$121 (2007 – \$373) in selling, general and administrative with regard to the phantom units issued and outstanding for the year ended December 31, 2008.

Note 16. Earnings per Unit

For the years ended December 31 (in thousands of Canadian dollars except unit and per unit amounts)	2008	2007
Net earnings for the year	\$ 33,304	\$ 22,889
Weighted average number of units outstanding	16,093,543	11,506,824
Earnings per unit from net earnings		
Basic	\$ 2.07	\$ 1.99
Diluted	\$ 2.07	\$ 1.99

For the purposes of weighted average number of units outstanding, the exchangeable partnership units that are issued during the year are treated as if the units were converted to equivalent units of the Fund at the time of issuance. Earnings per unit were calculated using the weighted daily average number of units outstanding during the year.

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Note 17. Changes in Non-Cash Working Capital

For the years ended December 31	2008	2007
Cash provided by (used in):		
Accounts receivable	\$ (3,448)	\$ 5,821
Inventories	(2,906)	1,526
Prepaid expenses and other assets	337	366
Accounts payable and accrued liabilities	(667)	(5,192)
Deferred contract revenue – short-term	1,949	518
Deferred contract revenue – long-term	3,500	-
	\$ (1,235)	\$ 3,039

Note 18. Capital Management

In the context of managing its capital, the objective of the Fund is to maintain a capital structure that allows multiple options to finance its development and growth along with providing unitholders' with an acceptable return on their investment. The Fund's total capitalization is defined as (i) net debt, which is long-term debt less cash and cash equivalents, and (ii) unitholders' equity.

As at December 31	2008	2007
Long-term debt	\$ 146,700	\$ 65,549
Less: Cash and cash equivalents	(8,883)	(12,628)
Net debt	137,817	52,921
Unitholders' equity	223,458	179,105
Total capitalization	\$ 361,275	\$ 232,026
Net debt as a percentage of total capitalization	38.1%	22.8%

Net debt to total capitalization increased between the year ended December 31, 2008 and December 31, 2007 due to the final payments related to the acquisition of Con-Force in October 2007, the purchase of certain tangible and intangible assets and liabilities of Bruce Tile in March 2008, the purchase of outstanding shares of Durisol in June 2008, the purchase of outstanding shares of AE Concrete in June 2008, the purchase of Clearford's assets of its Brooklyn division, the shares of Boucher in July 2008 and the purchase of outstanding shares of CFCP in July 2008.

The Fund's objective for managing capital is to maximize long-term unitholder value by:

- Ensuring that capital is available for the continuing management of regional productive capacity by investing in capital expenditures that maintain the Fund's manufacturing ability.
- Ensuring that capital is available to expand productive capacity by making investments in capital expenditures and business acquisitions that add to manufacturing capacity and further diversify the Fund's product offerings.
- Maximizing distributions to unitholders of any cash that is not required for financing operations or capital investment growth opportunities that may offer unitholders better value.

The Fund, upon approval by its Board of Trustees, will balance its overall capital structure through unit issuances, the payment of distributions, the issuance of debt, or by undertaking other activities as deemed appropriate under the specific circumstances. The Fund continually monitors its capital structure. The Fund's objectives, policies and processes with respect to capital management remains unchanged during the year ended December 31, 2008.

The Fund regularly monitors current and forecasted debt levels to ensure debt covenants are not violated. Generally, the most significant financing restrictions relate to permitted investments and distributions, as well as the maintenance of certain financial ratios. These financial ratios are primarily linked to trailing operating earnings before

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interest, taxes, depreciation and amortization adjusted for certain inclusions and exclusions. At December 31, 2008, the Fund must maintain, on a rolling four quarters basis, a ratio of below 3.25:1 of debt over adjusted earnings as referred above from January 1 through September 30 and 2.75:1 from October 1 to December 31. The Fund must also maintain a ratio above 4:1 of adjusted earnings as referred to above over interest paid. The Fund was in compliance with all covenants for the year ended December 31, 2008.

Tax legislation pertaining to the taxation of income distributed by SIFTs and the tax treatment of trust distributions by SIFTs to their unitholders received royal assent on June 22, 2007. Currently, the Fund does not pay tax on income it distributes to its unitholders. Management anticipates that the Fund will not be subject to tax until January 1, 2011. As a result of the Canadian trust taxation legislation passed in June 2007, the Fund is subject to certain capital growth restrictions referred to as normal growth guidelines. These guidelines limit the amount of unitholders' capital that can be issued by the Fund from November 1, 2006 to December 31, 2010 and is generally limited to the greater of 20% of the market capitalization of the Fund on October 31, 2006 or \$50,000 per year. Any unused balance up to the 20% yearly limit may be carried forward for use in future periods. This legislation was further amended on December 4, 2008, to allow up to the greater of 40% of the October 31, 2006 market capitalization and \$100,000 to be utilized for the period from December 4, 2008 to December 31, 2010. The equity issued in 2007 and from January 1 to December 3, 2008 was the maximum available under the normal growth guidelines. If the maximum normal growth limit is exceeded at any time, the Fund may be subject to tax prior to 2011.

The Fund has fully utilized \$50,000 under the normal growth guidelines up to December 3, 2008. The equity issuance limit was allocated as follows: \$4,500 in exchangeable partnership units were issued pursuant to the acquisition of Bruce Tile, \$5,000 in exchangeable partnership units were issued pursuant to the acquisition of Durisol, \$37,500 in additional units of the Fund were issued pursuant to a private placement for the acquisitions of Brooklin and Boucher, and \$3,000 in exchangeable partnership units were issued pursuant to the acquisition of Brooklin (Note 21).

In addition to capital growth guidelines, the Fund also monitors its foreign ownership levels. In order to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Accordingly, the Declaration of Trust provides that at no time may non-residents of Canada be the beneficial owners of more than 49% of the units then outstanding. The Fund is in compliance with this requirement.

Note 19. Financial Instruments

Fair value

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and other assets and liabilities approximate their fair values due to the immediate or short-term maturity of these financial instruments. The fair value of the Fund's long-term debt approximates its carrying value as it bears interest at a floating rate. During the applicable period, the fair value of the interest rate swap was estimated based on the amount that would need to be paid or would be received to terminate the agreement as of the consolidated balance sheet date.

Currency risk

The Fund is exposed to currency risk comprised primarily of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. There is a risk to the Fund's earnings that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Fund's financial results are reported in Canadian dollars. The Fund's exposure to foreign currency risk is primarily related to fluctuations in the value of the Canadian dollar relative to that of the United States dollar, as a portion of the Fund's transactions occur with customers or suppliers in United States dollars. If the Canadian dollar depreciated 5 percent against the US dollar at December 31, 2008, with all other variables held constant, the impact of the foreign currency change on our US dollar denominated financial instruments would lead to higher earnings before taxes of \$84. If the Canadian dollar appreciated 5 percent against the US dollar at December 31, 2008, with all other variables held constant, the impact of the foreign currency change on our US dollar denominated financial instruments would lead to lower earnings before taxes of \$84. For the year ended December 31, 2008, selling, general and administrative expenses included a foreign exchange gain of \$1,195 (2007 – \$20).

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The company from time-to-time enters into forward exchange contracts to manage exposure to currency rate fluctuations. The company has currently not elected to apply hedge accounting for foreign exchange forward contracts. These derivatives are measured at fair value at the end of each period and the gains or losses resulting from the re-measurement are recognized in selling, general and administrative expense. As at December 31, 2008, the Fund has outstanding foreign exchange forward contracts all due in 2009 representing commitments to sell \$8,900 United States dollars at an average rate of 1.2489 and buy \$2,000 United States dollars at a rate of 1.2240. In 2008, the fair value of these forward exchange contracts, not designated as a hedge, were included in current assets and the mark-to-market values were recorded in interest and financing expenses. The change in the fair value recorded during the year ended December 31, 2008 was \$128.

Interest rate risk

The Fund has exposure to movements in interest rates primarily due to the Fund's credit facilities that vary in accordance with borrowing rates in Canada and the United States. The Fund is required under its credit agreement to enter into an interest rate swap for a minimum of 50% of the term facility outstanding by the end of December 2008. The Fund may enter into interest rate swaps to mitigate the exposure to floating interest rates. Prior to March 31, 2008, but effective during the second quarter of 2008, the Fund entered into an interest rate swap on \$32,500 of its term credit facility converting the interest rate from a floating interest rate to a fixed interest rate of 3.85% plus pricing margin. Prior to December 31, 2008, but effective in January 2009, the Fund entered into a second interest rate swap on \$37,500 of its term credit facility converting the interest rate from a floating interest rate to a fixed interest rate of 2.08% plus pricing margin. The combined interest rate swaps convert a total of \$70,000 of the Fund's term credit facility from a floating interest rate to a fixed interest rate. As these swaps qualify for accounting as a cash flow hedges and the Fund designates these swaps as a hedge, the fair value of unrealized gains and losses were included in other comprehensive income, net of taxes, and the fair value of the interest rate swaps designated as a hedge is included in long-term debt.

During 2007, the Fund applied mark-to-market accounting for its interest rate swap as it did not apply hedge accounting to this instrument. The swap matured during the third quarter of 2007. In 2007, the fair value of the interest rate swap not designated as a hedge was included in current assets and the unrealized gains and losses arising from fluctuations in the value of the interest rate swap were recorded as interest and financing expenses. The unrealized loss recorded during the year ended December 31, 2007 was \$43.

The Fund's exposure to interest rate risk relates to the floating interest rate on its term, bridge and revolving credit facilities. The increase or decrease in interest expense for the year ending December 31, 2008 on the floating rate credit facilities could amount to \$1,063 for each 1% absolute change in the floating interest rate.

Credit risk

The Fund's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. The Fund's credit risk for cash and cash equivalents is reduced as balances are held with major financial institutions. Exposure to credit risk with respect to its accounts receivables are minimized by the Fund's large customer base, which covers a diverse range of business sectors primarily in Canada. During the years ended December 31, 2008 and 2007, no single customer accounted for more than 10% of the total revenues. The Fund follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Fund maintains provisions for potential credit losses, and any such losses to date have been within management's expectations. Of the Fund's accounts receivable, \$38,644 was past due as at December 31, 2008. The definition of items that are past due is determined by reference to terms agreed with individual customers. Of the past due accounts at December 31, 2008, \$34,174 has been subsequently collected.

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The balances past due are aged as follows:

As at December 31, 2008	
0 – 30 days	\$ 20,418
31 – 60 days	7,771
61 – 90 days	4,572
Greater than 91 days past due	5,883
	\$ 38,644

The Fund is also exposed to credit risk from potential default by any of its counterparties on its foreign exchange forward contracts and interest rate swaps. The Fund manages this credit risk by dealing with counterparties that are major financial institutions and that the Fund anticipates will satisfy their obligations under the contracts.

Liquidity Risk

Liquidity risk arises through an excess of financial liabilities over available financial assets at any point in time. The Fund's objective in managing liquidity risk is to maintain sufficient readily available resources in order to meet its financial obligations as they come due. Management monitors rolling forecasts of expected cash flows in order to determine the Fund's liquidity position and monitors balance sheet liquidity ratios. In order to meet its financial obligations, the Fund relies on collecting its accounts receivable in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs. The Fund settles its financial obligations out of cash and cash equivalents and undrawn revolving credit facility.

The Fund's financial liabilities are comprised of accounts payable and accrued liabilities, distributions payable and long-term debt. The following are the contractual payments of financial liabilities as at December 31, 2008:

For the years ended December 31	
2009	\$ 110,238
2010	10,222
2011	10,125
2012	148,178
2013	687
	\$ 279,450

Note 20. Contingencies and Commitments

Commitments for equipment under operating leases

For the years ended December 31	
2009	\$ 4,581
2010	3,971
2011	3,012
2012	2,432
2013	1,365
Thereafter	3,621

Royalties

The Fund has entered into licensing agreements whereby it has the right to use certain trademarks on its products in the normal course of business.

Capital expenditures

As at December 31, 2008, outstanding commitments for capital expenditures under purchase orders and contracts amounted to approximately \$4,652. Of this amount, \$102 relates to building improvements and \$3,050 relates to the

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purchase of manufacturing equipment due in 2009. Commitment to purchase land and buildings for \$1,500 is due when certain conditions are met.

Contingent liabilities

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

The Fund in limited circumstances provides bonds, often using standard contractual terms, to counterparties in transactions relating to the performance and completion of construction contracts. Historically, the Fund has not made any significant payments under such claims, and no amounts have been accrued in the accompanying consolidated financial statements.

Note 21. Business Acquisitions

Bruce Tile

In March 2008, the Fund completed the acquisition of certain tangible and intangible assets and liabilities of Bruce Tile for total consideration of \$12,707. During the third quarter of 2008, land and building of \$2,612 was purchased.

Durisol Inc. and its related companies (“Durisol”)

In June 2008, the Fund completed the acquisition of the outstanding shares of Durisol for approximate consideration of \$23,815. Contingent consideration in the form of cash, to a maximum of \$15,000, may be payable to the vendor in 2010 upon the acquired company exceeding a set threshold of earnings before interest, taxes, depreciation and amortization adjusted for certain inclusions and exclusions. The contingent consideration may be recognized into the Fund’s financial statements as goodwill when and if the contingency is resolved and consideration is issued. The Fund has a commitment to purchase land and buildings of \$1,500.

A.E. Concrete Precast Products Ltd. (“AE Concrete”)

In June 2008, the Fund completed the acquisition of the outstanding shares of AE Concrete for approximate consideration of \$20,409 subject to working capital adjustments.

Brooklin Concrete (“Brooklin”)

In July 2008, the Fund completed the acquisition of acquire Clearford’s assets of its Brooklin division for approximate consideration of \$43,658 subject to working capital adjustments.

Boucher Precast Concrete Ltd (“Boucher”)

In July 2008, the Fund completed the acquisition of the outstanding shares of Boucher for approximate consideration of \$22,339 subject to working capital adjustments.

1219316 Alberta Ltd. (Con-Force Concrete Products – “CFCP”)

In July 2008, the Fund completed the acquisition of the outstanding shares of CFCP, a subsidiary of Burnco Rock Products Limited, for consideration of \$53,608.

Oxford

In August 2008, the Fund completed the acquisition of certain tangible and intangible assets of Oxford for total consideration of \$5,748, subject to working capital adjustments.

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For the year ended December 31, 2008	Bruce Tile	Durisol	AE Concrete	Brooklin	Boucher	CFCP	Oxford	Total
Net assets acquired:								
Accounts receivables	\$ -	\$ 15,025	\$ 2,891	\$ 4,753	\$ 4,553	\$ 13,709	\$ -	\$ 40,931
Inventories	2,602	924	1,918	4,644	755	5,682	1,590	18,115
Other current assets	-	267	355	131	75	166	-	994
Property, plant and equipment	9,412	2,501	4,658	21,707	8,311	15,865	2,664	65,118
Goodwill	-	255	8,609	7,844	8,757	17,216	-	42,681
Intangibles:								
Trademarks and tradenames	-	3,400	-	1,500	840	-	-	5,740
Customer contracts	-	900	-	-	155	210	-	1,265
Customer lists	1,116	5,200	6,900	5,500	4,600	8,800	1,494	33,610
Non-compete agreements	-	-	400	1,000	1,100	1,400	-	3,900
Licences	-	4,000	-	-	-	-	-	4,000
Other intangible assets	-	120	120	-	-	-	-	240
	1,116	13,620	7,420	8,000	6,695	10,410	1,494	48,755
Assets acquired	13,130	32,592	25,851	47,079	29,146	63,048	5,748	216,594
Liabilities assumed:								
Current liabilities	423	4,690	2,883	2,887	3,314	4,584	-	18,781
Long-term debt	-	-	21	534	216	-	-	771
Future income tax liabilities – long-term	-	4,087	2,538	-	3,277	4,856	-	14,758
Consideration	\$ 12,707	\$ 23,815	\$ 20,409	\$ 43,658	\$ 22,339	\$ 53,608	\$ 5,748	\$ 182,284

For the year ended December 31, 2008	Bruce Tile	Durisol	AE Concrete	Brooklin	Boucher	CFCP	Oxford	Total
Consideration comprising:								
Cash	\$ 8,207	\$ 18,815	\$ 19,498	\$ 41,240	\$ 17,464	\$ 51,237	\$ 5,748	\$ 162,209
Note payable (Note 9)	-	-	-	-	5,000	-	-	5,000
Exchangeable partnership units (Note 12)	4,500	5,000	-	3,000	-	-	-	12,500
Receivable over the next year	-	-	-	(582)	(125)	-	-	(707)
Payable over the next year	-	-	911	-	-	2,371	-	3,282
Consideration	\$ 12,707	\$ 23,815	\$ 20,409	\$ 43,658	\$ 22,339	\$ 53,608	\$ 5,748	\$ 182,284

The amount of goodwill expected to be deductible for future income tax purposes totals \$5,883 for Brooklin.

These acquisitions have been accounted for using the purchase price method and accordingly, the consolidated financial statements include the results of operations for the businesses from the date of acquisition. The purchase price, including transaction costs, has been allocated to the net assets acquired based on management's best estimate of fair values. The 2008 acquisition purchase price allocations are subject to adjustment and are expected to be finalized in 2009.

Armtec Infrastructure Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

In October 2007, the Fund completed the acquisition of Con-Force for total consideration of \$122,096 of which \$5,887 was paid in the first quarter of 2008.

For the year ended December 31, 2007	Con-Force
Net assets acquired:	
Current assets	\$ 41,235
Property, plant and equipment	44,897
Goodwill	32,016
Intangibles:	
Trademarks and tradenames	19,600
Customer contracts	5,700
Customer lists	23,600
ERP system	1,050
Non-compete agreements	3,600
	53,550
Assets acquired	171,698
Liabilities assumed:	
Current liabilities	27,802
Long-term debt	1,428
Future income tax liabilities – long-term	20,372
Consideration	\$ 122,096
For the year ended December 31, 2007	Con-Force
Consideration comprising:	
Cash	\$ 98,709
Exchangeable partnership units	17,500
Payable over the next year	5,887
Consideration	\$ 122,096

On July 27, 2004, the Fund indirectly acquired all of the securities of Armtec Holdings Limited that held 100% ownership of Armtec Limited for cash consideration of \$78.4 million. In July 2007, cash of \$536 was received with respect to an indemnification of income tax liabilities incurred prior to July 27, 2004. The funds received were reflected as a reduction of the original consideration paid resulting in the reduction of goodwill.

Note 22. Segmented Information

On June 5, 2008, the Fund acquired all of the outstanding shares of Durisol. Durisol designs and manufactures highway noise barriers and related infrastructure products, such as retaining walls and acoustic enclosures. With this transaction, the Fund has determined that the Durisol division will form a third operating segment. The differentiating factors between the segments are the unique products and services provided by each division.

The Fund operates in three segments. The Armtec division manufactures drainage products and engineered solutions for infrastructure applications. The Con-Force division manufactures and installs precast and pre-stressed concrete components for a variety of applications including bridges, parkades, stadiums, office and residential buildings. The Durisol division designs and manufactures highway noise barriers and related infrastructure products. The corporate headquarters and other small operating entities are included within the Armtec division operating segment.

Armtec Infrastructure Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The Con-Force and Durisol divisions recognize revenue for construction contracts using the percentage-of-completion method. The Fund ensures that accounting policies are consistently followed among the Fund's operating segments for earnings from operations, net earnings and assets.

Geographic sales

For the years ended December 31	2008	2007
Canada	\$ 356,485	\$ 196,800
International	35,578	9,426
Revenues to external customers	\$ 392,063	\$ 206,226

Operating segments

For the year ended December 31, 2008	Armtec division	Con-Force division	Durisol division	Total
Revenues to external customers	\$ 190,479	\$ 171,445	\$ 30,139	\$ 392,063
Amortization of property, plant and equipment	4,091	4,117	137	8,345
Amortization of intangible assets	2,874	8,300	1,032	12,206
Earnings from operations	16,154	18,947	5,521	40,622
Interest and financing expenses	3,517	5,177	503	9,197
Recovery of future income taxes	605	1,092	182	1,879
Net earnings	13,242	14,862	5,200	33,304
Assets	150,894	345,971	39,732	536,597
Property, plant and equipment	43,962	96,738	2,936	143,636
Payments for property, plant and equipment	4,602	4,824	573	9,999
Goodwill – beginning of year	39,012	32,016	-	71,028
Goodwill acquired (Note 21)	-	42,426	255	42,681
Goodwill – end of year	\$ 39,012	\$ 74,442	\$ 255	\$ 113,709
For the year ended December 31, 2007	Armtec division	Con-Force division	Durisol division	Total
Revenues to external customers	\$ 174,118	\$ 32,108	\$ -	\$ 206,226
Amortization of property, plant and equipment	3,557	512	-	4,069
Amortization of intangible assets	2,626	2,952	-	5,578
Earnings from operations	18,740	2,423	-	21,163
Interest and financing expenses	2,208	609	-	2,817
Recovery of future income taxes	680	3,863	-	4,543
Net earnings	17,212	5,677	-	22,889
Assets	161,391	165,236	-	326,627
Property, plant and equipment	31,470	45,746	-	77,216
Payments for property, plant and equipment	3,079	1,361	-	4,440
Goodwill – beginning of year	39,548	-	-	39,548
Goodwill acquired (Note 21)	-	32,016	-	32,016
Goodwill adjustment (Note 21)	(536)	-	-	(536)
Goodwill – end of year	\$ 39,012	\$ 32,016	\$ -	\$ 71,028

Note 23. Comparative Figures

Certain comparative figures have been reclassified in accordance with the current year's presentation.

Armtec Infrastructure Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 24. Subsequent Events

a) Unit issuance

The Fund completed an issuance of an additional 3,100,000 units of the Fund at a unit price of \$17.75 representing gross proceeds of \$55,025. Proceeds, net of transaction costs, are held in escrow and will be used to repay the Fund's bridge term facility. The bridge term facility is currently held in the form of a bankers' acceptance which matures April 1, 2009.

b) Exercise and cancellation of exchangeable units

Subsequent to the year end, 58,686 exchangeable partnership units were exchanged into units of the Fund. Subsequent to the year end, 27,000 exchangeable partnership units were cancelled in settlement of the amount due from Clearford.

c) Distributions

On January 19, 2009, a distribution of \$0.18 per unit, or a total of \$3,085 (including distributions attributed to exchangeable partnership units), was declared in respect of January 2009. The record date of the distribution was January 30, 2009, with a payment date of February 13, 2009.

On February 17, 2009, a distribution of \$0.18 per unit, or a total of \$3,085 (including distributions attributed to exchangeable partnership units), was declared in respect of February 2009. The record date of the distribution was February 27, 2009, with a payment date of March 13, 2009.

On March 18, 2009, a distribution of \$0.18 per unit, or a total of \$3,638 (including distributions attributed to exchangeable partnership units), was declared in respect of March 2009. The record date of the distribution was March 31, 2009, with a payment date of April 15, 2009.