

*CONTRANS INCOME FUND*



*VAN*



*FLATBED*



*TANK/LIQUID*



*DUMP*

CONTRANS HAS BEEN OPERATING IN THE TRANSPORTATION INDUSTRY SINCE 1985 AS A PROVIDER OF FREIGHT TRANSPORTATION SERVICES AND SOLUTIONS. WITH APPROXIMATELY 1,300 POWER UNITS, 2,300 TRAILERS AND 1,800 EMPLOYEES AND OWNER-OPERATORS, CONTRANS IS ONE OF THE LARGEST FREIGHT TRANSPORTATION COMPANIES IN CANADA.



## FINANCIAL HIGHLIGHTS

(\$ thousands)	2008 <sup>(1)</sup>	2007	2006 <sup>(2)</sup>	2005 <sup>(3)</sup>	2004 <sup>(3)</sup>
Revenue – transportation services <sup>(4)</sup>	\$ 409,674	\$ 429,183	\$ 399,929	\$ 342,066	\$ 323,262
– fuel surcharges <sup>(4)</sup>	79,158	56,682	55,317	43,424	23,993
Revenue – as stated	\$ 488,832	\$ 485,865	\$ 455,246	\$ 385,490	\$ 347,255
EBITDA <sup>(4)</sup>	\$ 52,172 12.7%	\$ 56,007 13.0%	\$ 52,215 13.1%	\$ 41,106 12.0%	\$ 37,611 11.6%
EBT <sup>(4)</sup>	\$ 30,302 7.4%	\$ 34,251 8.0%	\$ 34,222 8.6%	\$ 28,415 8.3%	\$ 25,126 7.8%

(1) Includes unrealized foreign exchange loss of \$5.1 million.

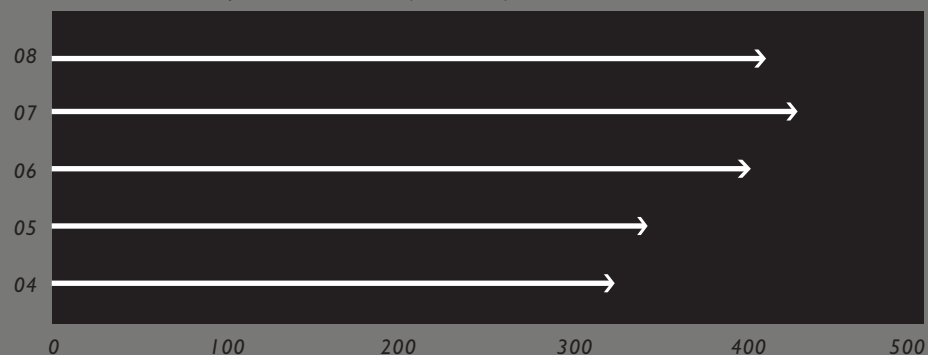
(2) Excludes gain on sale of real estate of \$2.9 million.

(3) Excludes results from discontinued operations.

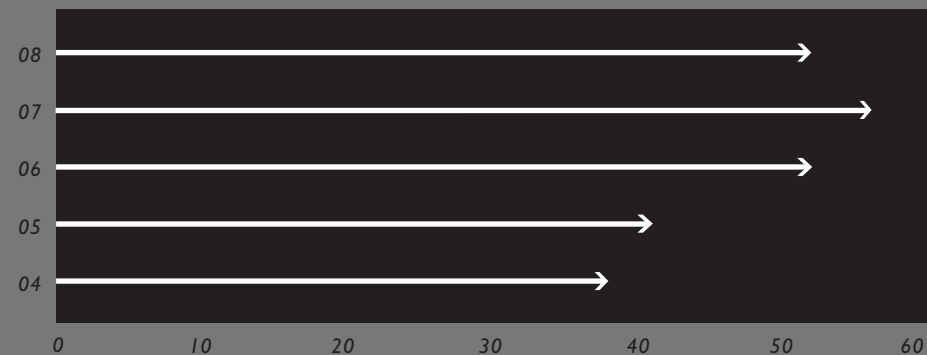
(4) See "Use of non-GAAP Financial Measures" in Management's Discussion and Analysis and the financial highlights table in Management's Discussion and Analysis for reconciliations to nearest GAAP financial measures. EBITDA (Earnings before interest, income taxes, depreciation and amortization) and EBT (Earnings before income taxes) percentages are calculated using Revenue – transportation services as the denominator. Management regards revenue from transportation services as the most relevant indicator of business activity.

## MANAGEMENT MET MANY OPERATING CHALLENGES WITH QUICK, DECISIVE ACTIONS

REVENUE – Transportation Services (\$ millions)



EBITDA (\$ millions)





*Management's skill and experience will serve Contrans' unitholders well in the challenging times that lie ahead.*

*Contrans may have produced its best financial performance ever given the bleak and deteriorating business environment in which it operated throughout the year. Management met many operating challenges with quick, decisive actions. Management's skill and experience will serve Contrans' unitholders well in the challenging times that lie ahead.*

*Few businesses can operate without the need for debt in their capital structure. Contrans is in the enviable position of not needing to refinance at a time when financing sources are scarce and debt service costs have become more expensive. Late in the year, management renewed one of its long-*

*term, interest-only credit facilities on favourable terms to Contrans. With this facility now in place, Contrans has no obligation to repay principal on its long-term debt until 2013. Furthermore, Contrans had \$28 million of cash on the balance sheet at the end of the year.*

*The current recession is global in scale and is affecting every aspect of the North American economy. In spite of Contrans' diverse customer base, service offerings and geographic spheres of operations, it is not immune to the effects of this recession. Management's top priority will be a continued focus on maintaining the financial strength of Contrans*

*particularly if the current recession becomes even more severe or prolonged. Management will remain aggressive in the marketplace, will remain focused on operating efficiencies and will continue to scrutinize all discretionary disbursements.*

*Respectfully submitted,*



**Stan G. Dunford**

*Chairman and  
Chief Executive Officer*

*February 25, 2009*



**Management will remain aggressive in the market-place ...**

The consolidated financial statements contained in this annual report, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and reported in Canadian funds, detail the performance and financial position of Contrans Income Fund (the "Fund") for the years ended December 31, 2008 and 2007. The financial statements should be read in conjunction with the analysis that follows. A cautionary note regarding non-GAAP measures and forward-looking statements follows this Management's Discussion and Analysis of Operations and Financial Condition.

### Financial Highlights

Years ended December 31

(in millions except per unit amounts)

	2008		2007		2006	
Revenue – as stated	\$ 488.8		\$ 485.9		\$ 455.2	
– fuel surcharges <sup>(1)</sup>	(79.2)		(56.7)		(55.3)	
Revenue – transportation services <sup>(1)</sup>	409.6	100.0%	429.2	100.0%	399.9	100.0%
Operating expenses – net of fuel surcharges	310.5	75.8	330.0	76.9	309.5	77.4
Selling, general and administration expenses	43.0	10.5	42.8	10.0	38.3	9.6
Foreign exchange loss (gain)	4.0	1.0	0.4	0.1	(0.1)	—
Earnings before amortization, interest, gain on sale of land and income taxes (EBITDA)	52.1	12.7	56.0	13.0	52.2	13.0
Amortization of property and equipment	12.3	3.0	12.9	3.0	13.4	3.4
Amortization of intangible assets	3.8	0.9	3.9	0.8	2.2	0.5
Net interest expense	5.7	1.4	5.0	1.2	2.4	0.6
Earnings before gain on sale of land and income taxes	30.3	7.4	34.2	8.0	34.2	8.5
Gain on sale of land	—	—	—	—	2.9	0.7
Earnings before income taxes (EBT)	30.3	7.4	34.2	8.0	37.1	9.2
Income tax provision						
Current	0.7	0.2	1.1	0.3	0.6	0.1
Future <sup>(2)</sup>	0.1	—	6.9	1.6	0.7	0.2
	0.8	0.2	8.0	1.9	1.3	0.3
Net earnings and comprehensive income	\$ 29.5	7.2%	\$ 26.2	6.1%	\$ 35.8	8.9%
Earnings per unit – basic	\$ 1.01		\$ 0.91		\$ 1.26	
– diluted	1.01		0.91		1.25	
Total assets	\$ 274.6		\$ 270.6		\$ 260.9	
Long-term debt and obligations under capital leases	93.0		90.4		75.3	
Cash	28.8		18.3		2.8	
Distributions declared per unit	\$ 1.25		\$ 1.25		\$ 1.25	

(1) See "Use of non-GAAP Financial Measures" below.

(2) Reflects a \$7.6 million non-cash charge in 2007 resulting from the enactment of new taxes on income trusts commencing in 2011. This \$7.6 million future income tax provision reduced the Fund's earnings per unit (basic and diluted) from \$1.17 to \$0.91 in 2007.



#### Fourth Quarter Results

(Unaudited)

Quarters ended December 31

(in millions except per unit amounts)

	2008		2007	
Revenue – as stated	<b>109.6</b>		118.5	
– fuel surcharges <sup>(1)</sup>	<b>(12.7)</b>		(15.2)	
Revenue – transportation services <sup>(1)</sup>	<b>\$ 96.9</b>	<b>100.0%</b>	\$ 103.3	100.0%
Operating expenses – net of fuel surcharges	<b>73.5</b>	<b>75.9</b>	80.3	77.7
Selling, general and administration expenses	<b>10.4</b>	<b>10.7</b>	10.4	10.1
Foreign exchange loss	<b>4.5</b>	<b>4.6</b>	0.2	0.2
EBITDA	<b>8.5</b>	<b>8.8</b>	12.4	12.0
Amortization of property and equipment	<b>3.0</b>	<b>3.1</b>	3.1	3.0
Amortization of intangible assets	<b>1.0</b>	<b>1.0</b>	1.0	1.0
Net interest expense	<b>1.4</b>	<b>1.4</b>	1.2	1.2
EBT	<b>3.1</b>	<b>3.3</b>	7.1	6.8
Income tax provision:				
– Current	<b>0.2</b>	<b>0.2</b>	(0.1)	(0.1)
– Future	<b>(0.1)</b>	<b>(0.1)</b>	(0.3)	(0.3)
	<b>0.1</b>	<b>0.1</b>	(0.4)	(0.4)
Net earnings and comprehensive income	<b>\$ 3.0</b>	<b>3.2%</b>	\$ 7.5	7.2%
Earnings per unit – basic and diluted	<b>\$ 0.10</b>		\$ 0.26	

(1) See “Use of non-GAAP Financial Measures” below.

#### Results from Operations

##### Revenue – transportation services

Freight shipments have been affected by adverse economic conditions, most notably in the Fund’s van operation. Revenue from this operation in 2008 was \$21.6 million lower than it was in 2007 (Q4 2008 – \$5.0 million lower than it was in Q4 2007). UPM, a major east coast van customer, closed its plant in August 2007. Revenue from this customer was \$11.2 million in 2007. In addition, the Fund’s van operations have rationalized unprofitable traffic lanes in conjunction with a realignment of its oper-

ations that occurred in the first quarter of 2008. The Fund also continues to be adversely affected by reduced volumes of Canadian exports to the US caused by the weakening of the US economy. These factors that have decreased the Fund’s revenue have been mitigated by internal growth in certain of the Fund’s other businesses. Revenue from fuel surcharges increased in 2008 as a result of higher fuel prices particularly in the third quarter of 2008. Fuel surcharges dropped off in the fourth quarter commensurate with the decrease in diesel prices.

##### Operating expenses

Expressed as a percentage of revenue – transportation services, operating expenses decreased in 2008 compared to 2007. The Fund continues to benefit from the rationalization of unprofitable traffic lanes noted above. Internal growth improved equipment utilization and overall revenue quality. In the second half of 2008, the Fund benefitted from the lag between falling fuel prices and fuel surcharge adjustments. The opposite effect occurred in the first half of 2008 when fuel prices increased. Accident claim costs were \$1.2 million higher in 2008 compared to 2007 but were \$0.1 million lower in the fourth quarter of 2008 compared to the fourth quarter of 2007.

##### Selling, general and administration expenses

Approximately \$1.0 million of costs were incurred in 2008 as a result of the Fund’s realignment of its east coast operations. These charges included penalties for the early return of leased equipment and severance costs. These costs were offset by reduced salary and equipment lease expenses.

##### Foreign exchange loss

Some of the Fund’s revenues are billed in US dollars. The Fund has some natural hedges in the form of US dollar expenses, however, the majority of the Fund’s expenses are incurred in Canadian funds. Management mitigates its currency risk by entering into foreign exchange forward contracts. In 2008, the Fund recorded a mark to market fair value adjustment that resulted in an unrealized, non-cash loss on foreign exchange forward

... and will remain focused on operating efficiencies.

contracts of \$4.9 million (2007 – \$0.6 million unrealized, non-cash gain). The mark to market fair value adjustment on foreign exchange forward contracts in the fourth quarter of 2008 resulted in a \$4.6 million unrealized, non-cash loss in that quarter (Q4 2007 – \$1.0 million unrealized, non-cash loss).

### Summary of Quarterly Results

(Unaudited)

(in millions except for per unit amounts)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2008	2007	2008	2007	2008	2007	2008	2007
Revenue – as stated	\$ 120.5	\$ 119.4	\$ 129.7	\$ 125.8	\$ 128.9	\$ 122.1	\$ 109.6	\$ 118.5
– fuel surcharges <sup>(1)</sup>	(18.2)	(13.0)	(23.9)	(14.6)	(24.3)	(13.9)	(12.7)	(15.2)
Revenue – transportation services	\$ 102.3	\$ 106.4	\$ 105.8	\$ 111.2	\$ 104.6	\$ 108.2	\$ 96.9	\$ 103.3
Net earnings	\$ 5.0	\$ 8.1	\$ 10.2	\$ 1.5	\$ 11.4	\$ 9.1	\$ 3.0	\$ 7.5
Earnings per unit – basic and diluted	\$ 0.17	\$ 0.28	\$ 0.35	\$ 0.05	\$ 0.40	\$ 0.32	\$ 0.10	\$ 0.26

(1) See "Use of non-GAAP Financial Measures" below.

### Seasonality

Generally, the second quarter is the Fund's strongest period. Volumes from customers in the construction industry typically build as temperatures warm in the spring, peak in the autumn and then drop off with winter weather. Some manufacturing customers close their plants during the summer and many customers either shut down their production facilities or otherwise reduce shipments during the Christmas holiday season. Harsh winter weather conditions hinder traffic and increase operating costs.

### Cash Flow

Cash flow from continuing operating activities before changes in non-cash working capital balances amounted to \$51.3 million in 2008 compared to \$49.0 million in 2007. This was primarily due to increased profits before considering the impact of the mark to market fair value adjustment on the Fund's foreign exchange forward contracts.

Non-cash working capital items have decreased in 2008 compared to 2007 due principally to reduced fourth quarter business activity. Accounts

### Net interest expense

Net interest expense increased as average debt levels in 2008 were higher than in 2007. In addition, interest received on cash balances accrues on a floating rate basis. Interest income was negatively impacted by falling rates in 2008 compared to 2007.

receivable, accounts payable and accrued liability balances were lower as a result. The mark to market fair value adjustment on the Fund's unrealized foreign exchange losses of \$4.9 million were recorded as accounts payable and accrued liabilities.

The Fund recognized the disposal of its plant services operation on September 30, 2008. Cash proceeds from the sale were \$2.1 million. This operation had not produced satisfactory returns and management did not believe that the prospects for improvement were good.

Proceeds from the sale of property and equipment in 2008 were \$3.3 million (2007 – \$7.4 million). During 2007, proceeds of \$2.3 million were generated from the sale of real estate resulting from terminal closures and from the sale of the assets of a small bulk operation.

The Fund's dividend reinvestment plan ("DRIP") was reinstated in January 2008. The Fund received \$6.5 million in 2008 from participation in its DRIP (2007 – \$4.9 million). Of this amount, \$1.6 million was received in the fourth quarter of 2008 (2007 – \$nil).



### Cash Distributions

(Unaudited)

Periods ended December 31

(\$ thousands)

	Three months	Twelve months		
	2008	2008	2007	2006
Cash flow provided by operating activities <sup>(1)</sup>	\$ 19,641	\$ 50,474	\$ 46,597	\$ 42,392
Net earnings	2,942	29,512	26,225	35,789
Distributions declared	(9,229)	(36,457)	(36,033)	(35,670)
Surplus of cash flow from operating activities over distributions declared	\$ 10,412	\$ 14,017	\$ 10,564	\$ 6,722
Surplus (deficit) of net earnings over distributions declared	\$ (6,287)	\$ (6,945)	\$ (9,808)	\$ 119
Net earnings	\$ 2,942	\$ 29,512	\$ 26,225	\$ 35,789
Unrealized loss (gain) on foreign exchange contracts	4,593	4,925	(553)	64
Amortization of intangible assets	945	3,778	3,881	2,238
Income tax provision (recovery) – future	(87)	113	6,897	755
Net earnings before amortization of intangible assets and future income tax provision (recovery)	\$ 8,393	\$ 38,328	\$ 36,450	\$ 38,846
Surplus (deficit) of net earnings before amortization of intangible assets and future income tax provision over distributions declared	\$ (836)	\$ 1,871	\$ 417	\$ 3,176

(1) Includes changes in non-cash working capital balances.

Management does not believe that the fact that net earnings were exceeded by distributions declared in 2008 reflects an economic return of capital for the following reasons:

1. The computation of net earnings includes two material, non-cash expenses – amortization of intangibles of \$3.8 million and a mark to market fair value adjustment on the Fund's foreign exchange forward contracts that resulted in an unrealized, non-cash loss of \$4.9 million.
2. Amortization of intangibles, unlike amortization of property and equipment, does not represent a charge to earnings for future capital outlays required to maintain current productive capacity.

3. Under Canadian GAAP, the Fund is required to apply fair value accounting to its foreign exchange forward contracts since the Fund has not met stringent requirements that would permit hedge accounting and a deferral of gains or losses on these financial instruments. However, management believes that as the Fund will continue to receive \$US revenues in 2009, all other things being equal, this revenue stream will carry with it a foreign exchange premium that will offset, at least in part, the losses on the foreign exchange forward contracts as they settle in 2009.

Contrans is in the enviable position of not needing to refinance at a time when financing sources are scarce.

**Distributable Cash** <sup>(1)</sup>

(Unaudited)

Periods ended December 31

(\$ thousands except per unit amounts)

	Three months		Twelve months		
	2008	2007	2008	2007	2006
Cash flow provided by operating activities	\$ 19,641	\$ 11,800	\$ 50,474	\$ 46,597	\$ 42,392
Change in non-cash working capital	(7,663)	527	836	2,354	7,174
Proceeds on sale of equipment (excluding land)	836	2,324	3,332	7,363	4,888
Asset retirement obligations – settlements	(68)	(3)	(212)	(55)	(250)
Capital lease repayments where no financing available <sup>(1)</sup>	(534)	—	(1,794)	—	—
Long-term debt repayments where no financing available <sup>(1)</sup>	(63)	—	(441)	—	—
Maintenance capital expenditures <sup>(1)</sup>	(1,559)	(2,893)	(4,785)	(6,707)	(10,056)
Distributable cash earned before proceeds from sale of plant services operation <sup>(1)</sup>	10,590	11,755	47,410	49,552	44,148
Proceeds from sale of land	—	—	—	—	3,717
Proceeds from sale of plant services operation	—	—	2,107	—	—
Distributable cash earned <sup>(1)</sup>	10,590	11,755	49,517	49,552	47,865
Distributions declared	9,229	8,986	36,457	36,033	35,670
Surplus of distributable cash earned vs. distributions declared	\$ 1,361	\$ 2,769	\$ 13,060	\$ 13,519	\$ 12,195
Per unit calculations:					
Distributable cash earned before proceeds from sale of plant services operation	\$ 0.36	\$ 0.41	\$ 1.63	\$ 1.72	\$ 1.55
Proceeds from sale of land	—	—	—	—	0.13
Proceeds from sale of plant services operation	—	—	0.07	—	—
	0.36	0.41	1.70	1.72	1.68
Distributions declared per unit	0.31	0.31	1.25	1.25	1.25
Surplus of distributable cash earned vs. distributions declared per unit	\$ 0.05	\$ 0.10	\$ 0.45	\$ 0.47	\$ 0.43
Weighted average number of units outstanding	29,478	28,749	29,122	28,826	28,513
<b>Purchase of property and equipment</b>					
Maintenance capital expenditures <sup>(1)</sup>	\$ 1,559	\$ 2,893	\$ 4,785	\$ 6,707	\$ 10,056
Growth capital expenditures <sup>(1)</sup>	288	1,620	2,835	5,711	15,707
Total	\$ 1,847	\$ 4,513	\$ 7,620	\$ 12,418	\$ 25,763
Capital lease repayments where no financing available <sup>(1)</sup>	\$ 534	\$ —	\$ 1,794	\$ —	\$ —
Capital lease repayments funded out of surplus cash <sup>(1)</sup>	—	154	—	374	212
Repayment of capital lease obligations	\$ 534	\$ 154	\$ 1,794	\$ 374	\$ 212
Long-term debt repayments where no financing available <sup>(1)</sup>	\$ 63	\$ —	\$ 441	\$ —	\$ —
Proceeds from long-term debt received December 15, 2008	31,875	—	31,875	—	—
Long-term debt repayments funded out of surplus or restricted cash <sup>(1)</sup>	5,625	70	5,625	248	577
Repayment of long-term debt	\$ 37,563	\$ 70	\$ 37,941	\$ 248	\$ 577

(1) See "Use of non-GAAP Financial Measures" below.



The amount of distributable cash earned has exceeded distributions to unitholders in the current year. However, management believes that current unitholders appreciate a stable rate of distributions. Based on the Fund's scope of operations as at December 31, 2008, management expects that the Fund's average net maintenance capital expenditure will approximate \$10 million per year over the next ten years. The actual amount that will be expended in a year may vary depending on factors that include, but are not necessarily limited to, the age and condition of the fleet, the growth of the Fund's business, changes in government regulations regarding the weights and dimensions of highway equipment and the funding method used by the Fund. See also "Forward-Looking Statements".

#### **Distributable Cash Earned – Reconciliation**

Cash used to fund working capital, growth capital expenditures or debt repayments does not affect amounts that can be distributed to unitholders when financing is available. Similarly, cash generated by changes in non-cash working capital is not considered distributable to unitholders. Proceeds from the sale of retired highway equipment effectively reduce the cost of maintenance capital expenditures and therefore these proceeds should be considered when determining what amounts can be distributed to unitholders. Settlements of asset retirement obligations reflect amounts paid by the Fund, at the termination of equipment leases, to bring such equipment to the condition that was stipulated and agreed to in each lease contract. Accordingly, these settlements need to be considered when determining distributable cash earned since they are not included in cash provided by operating activities in the statements of cash flow. Maintenance capital expenditures refer to capital expenditures that are necessary to sustain current revenue levels.

#### **Liquidity and Capital Resources**

(Unaudited)

As at December 31, 2008

(\$ millions)

Cash and cash equivalents	
Unrestricted	\$ 18.4
Restricted	\$ 10.4
Operating line cash available	\$ 29.1
Current ratio	2.2:1
Total debt (including future tax obligations) to equity ratio	1.1:1

The Fund requires working capital, sourced by operating cash flows and an operating line, to fund day-to-day operating activities and to pay distributions. Management believes that the Fund's operating line is adequate to meet seasonal fluctuations in working capital requirements.

The Fund's operating cash flows in 2008 grew appreciably over the prior year in spite of operating in a poor economic environment. In addition, a significant portion of the Fund's long-term debt facility was renewed and cash balances increased during the year. The Fund is, however, affected by economic cycles and there is uncertainty as to the ultimate severity and duration of the current recession. Accordingly, when assessing the level of distributions to unitholders each month, the Fund's trustees consider many factors including the Fund's current financial condition, its expected future financial performance, the anticipated capital requirements to maintain its fleet over the longer term as well as repayment obligations and restrictive covenants that are contained in the Fund's loan agreements. Bearing these factors in mind, and given the uncertainty surrounding the current economic conditions, the trustees of the Fund will consider, on a month to month basis, the sustainability of the level of distributions that is currently being paid to unitholders.

The Fund retired a \$37.5 million loan on December 15, 2008 by entering into a new \$31.9 million loan and by drawing \$5.6 million from restricted funds. The new loan has a term of five years, requires monthly, interest-only

**Management renewed one of its long-term, interest-only credit facilities on favourable terms to Contrans.**

payments and bears interest at 5.9%. Other terms and conditions remained substantially unchanged. Principal maturities of the Fund's senior secured debt are as follows:

(\$ millions)	
December 15, 2013	\$ 31.9
October 15, 2016	\$ 50.0

Under the terms of its long-term credit agreement, the Fund's restricted cash and cash equivalents balance of \$10.4 million as at December 31, 2008 (\$16 million as at December 31, 2007) can only be used to finance growth activities or to repay senior secured notes payable. Due to the achievement of certain performance objectives, additional consideration of \$3 million was paid out of the restricted cash and cash equivalents balance in January, 2009 to the former owners of Tripar Transportation Inc., a company acquired by the Fund in 2006.

### Productive Capacity

#### Definition

The Fund's productive capacity is a function of the following service modes:

- Tractors and trailers owned or leased by the Fund
- Tractors and trailers of owner-operators under contract with the Fund
- Partner carriers under contract with the Fund

The Fund's capital requirements are affected by each of the foregoing service modes. In addition, capital requirements vary by the type of trailer used within each of Contrans' operating divisions. For example, a dry van trailer can cost between \$25,000 and \$40,000 whereas a pneumatic tank trailer can cost more than \$150,000.

#### Management strategy

The Fund generally prefers to utilize owner-operators' tractors over company tractors. Owner-operators own their own tractors providing the Fund with equipment that it would otherwise have to lease or purchase. Some owner-operators also own their own trailers. Accordingly, these individ-

uals are effectively a source of capital as well as providers of freight-hauling capacity. In addition, owner-operators' goals are generally well-aligned with those of the Fund. As a result, the Fund is very focused on recruiting and retaining qualified owner-operators.

The Fund is also focused on maintaining good working relationships with partner carriers that are safe, provide reliable service and have adequate insurance coverage. The Fund is often an important source of revenue for these carriers who, in turn, provide service to the Fund's customers when the Fund cannot provide its own equipment or when it is more efficient to make use of partner carrier capacity.

#### Financing strategy

In 2008, the Fund began financing some of its equipment purchases through capital leases to preserve cash in response to growing economic uncertainty. The Fund added approximately \$10 million worth of new equipment in 2008 that was financed with capital leases. Of this amount, \$6.0 million was incurred to maintain productive capacity and \$4.0 million was for growth purposes. Repayment terms of capital lease obligations are typically four years for tractors and range from five to seven years for trailers.

Historically, the Fund has used operating leases to finance the acquisition of tractors and certain types of trailers to reduce the risk associated with fluctuations in the market for used equipment. Terms of tractor leases usually coincide with engine warranty periods to protect the Fund from costly repairs.

#### Property and equipment

(Unaudited)	Owned	Leased	Owner-operated	Total
As at December 31, 2008				
Tractors	177	378	724	1,279
Trailers	1,561	635	96	2,292
Major office and terminal locations	16	5	—	21



### Tax Attributes of Distributions

The tax attributes of the distributions made to holders of the Fund's subordinate voting trust units can be found on the Fund's website at [www.contrans.ca](http://www.contrans.ca) under Investor Relations.

### Contractual Obligations

(Unaudited)

As at December 31, 2008

(\$ millions)	2009	2010	2011	2012	2013	Thereafter	Total
Senior secured notes payable	\$ 5.1	\$ 5.1	\$ 5.1	\$ 5.1	\$ 36.9	\$ 59.1	\$ 116.4
Obligations under capital leases	2.3	2.1	2.0	1.7	1.3	1.6	11.0
Obligations under operating leases	10.8	7.0	1.8	0.4	—	—	20.0
Derivative financial instruments	58.6	—	—	—	—	—	58.6
Accounts payable and accrued liabilities	33.2	—	—	—	—	—	33.2
Distributions payable	3.1	—	—	—	—	—	3.1
Equipment purchase commitments	0.4	—	—	—	—	—	0.4
<b>Total</b>	<b>\$ 113.5</b>	<b>\$ 14.2</b>	<b>\$ 8.9</b>	<b>\$ 7.2</b>	<b>\$ 38.2</b>	<b>\$ 60.7</b>	<b>\$ 242.7</b>

### Outstanding Units

(Unaudited)

As at January 31, 2009

(in thousands)

Subordinate Voting Trust units	23,425
Class A LP units	4,810
Class B LP units	1,468
<b>Total</b>	<b>29,703</b>

### Financial Instruments

The Fund from time to time enters into foreign exchange contracts to manage its exposure to currency fluctuations. As at December 31, 2008, the Fund had contracts to sell \$4.0 million of US funds per month from January to December 2009. These contracts settle at exchange rates between \$1.0000 and \$1.0935 (January to July), between \$1.0200 and \$1.1095 (August to October) and between \$1.0500 and \$1.1529 (November and December). As at December 31, 2008, the fair value of these contracts was recorded as a liability of \$4.9 million.

### Critical Accounting Estimates

Management is required to make significant estimates and assumptions in preparing its financial statements, the most significant of which are as follows:

Financial Statement Item	Methodology, Assumptions
Accounts receivable – provisions for doubtful accounts	Specific account analysis performed and provisions created. Also a general provision is established based on past performance.
Note receivable – fair value	Based on expected future payments.
Asset retirement obligations	Based on past experience.
Goodwill and long-lived assets – impairment testing	Based on expected future cash flows. Consideration is given to past performance and future conditions that are known, or expected to change, that will affect future cash flows.
Property, equipment and intangible assets – useful lives	Based on past experience.
Accrued liabilities – matters involving litigation	Accruals for settlement established based on information provided by legal counsel or insurance claims professionals.

*Contrans may have produced its best financial performance ever given the bleak and deteriorating business environment in which it operated.*

Management does not believe that there are changes that are reasonably likely to occur in the assumptions that have been used that will have a material impact on the Fund's financial position, changes in financial condition or results of operations.

#### **New Accounting Pronouncements**

Effective January 1, 2008, the Fund adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, Capital Disclosures; CICA Handbook Section 3862, Financial Instruments – Disclosures; and CICA Handbook Section 3863, Financial Instruments – Presentation. The adoption of these standards did not have an impact on the Fund's financial results or financial position.

Handbook Section 1535 requires the Fund to disclose information that enables users of its financial statements to evaluate the Fund's objectives, policies and processes for managing capital. This includes disclosures of any externally imposed covenants and the consequences for non-compliance. These new disclosures are included in note 11 of the consolidated financial statements as at December 31, 2008.

Handbook Section 3862 requires the Fund to revise and enhance disclosure requirements to provide additional information on the nature and extent of risks arising from financial instruments to which the entity is exposed and how it manages those risks. The new disclosures, pursuant to this new Handbook section, are included in note 14 of the consolidated financial statements as at December 31, 2008. Handbook Section 3863 carries forward the presentation standards which previously existed under Handbook Section 3861.

The Accounting Standards Board ("AcSB") has issued a revised Section 3064 – Goodwill and Intangible Assets. This revised section is applicable to accounting periods beginning on or after October 1, 2008. This section establishes new standards for the recognition and measurement of intangible assets, but does not affect accounting for goodwill. Management does not expect that the adoption of this revised section will have a material impact on the Fund's financial statements.

The AcSB has issued a revised Section 1601 – Consolidated Financial Statements. This revised section is applicable to accounting periods beginning on or after January 1, 2011. This section establishes standards for the preparation of consolidated financial statements and is to be applied prospectively. Management does not expect that the adoption of this revised section will have a material impact on the Fund's financial statements.

The AcSB has issued a revised Section 1602 – Non-controlling Interests. This revised section is applicable to accounting periods beginning on or after January 1, 2011. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Currently there are no non-controlling interests in the Fund's subsidiaries and therefore management does not expect that the adoption of this revised section will have a material impact on the Fund's financial statements.

The AcSB has issued a revised Section 1582 – Business Combinations. This revised section is applicable to accounting periods beginning on or after January 1, 2011. The objective of this section is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. Management does not expect that the adoption of this revised section will have a material impact on the Fund's financial statements.

#### **International Financial Reporting Standards (IFRS)**

In February 2008 the AcSB announced that publicly-listed companies would, for fiscal years beginning on or after January 1, 2011, be required to report their results under IFRS. Management is in the process of assessing the impact of the implementation of IFRS on its accounting policies and financial statements. IFRS allows for different accounting treatments on first implementing IFRS and management is evaluating its alternatives. Management will also be assessing possible changes that may need to be implemented to ensure that adequate internal controls over financial reporting, disclosure controls and procedures will remain in place once IFRS is implemented. In addition, the impact on information systems will be addressed as will the training needs for the Fund's finance and accounting personnel.



### **Business Risks**

The Fund is affected by economic cycles. The Fund provides transportation services to approximately 6,000 customers in various industries and geographic regions. The Fund's operations haul freight on van, flatbed, dump, dry bulk and liquid tank trailers. Some of the Fund's customers are in industries where demand for their goods is relatively inelastic.

The diversity of the customer base also limits concentration of credit risk. No single customer accounts for more than 10% of the Fund's revenue.

Cross-border travel is required to service many customers. Approximately 35% of the total distance travelled by the Fund's trucks is travelled in the US. Accordingly, border crossings and customs clearances affect these shipments. Today's political uncertainties and border security concerns affect cross-border traffic. The Fund participates in professional and industry associations designed to protect the transportation industry's interests. In addition, management informs customers about border delays and seeks fair compensation for lost productivity.

The Fund is subject to certain foreign exchange risks as it has positive US dollar cash flow. Management manages this risk through foreign exchange contracts, denominating equipment leases in US dollars and through customer negotiations.

Changes in the relative value of the Canadian dollar against the US dollar also affect the flow of goods between the two countries as well as competition for freight. Management competes for trans-border freight by providing high levels of service to service-sensitive customers.

The Fund's operating entities are subject to lawsuits arising from accidents and other insurable risks. Management maintains prudent levels of insurance coverage and high safety standards to minimize this exposure. Furthermore, management contracts only with insurers licensed to underwrite in Canada. The Canadian insurance industry is highly regulated with stringent capital and liquidity requirements.

The Fund relies primarily on the services of owner-operators and professional drivers. Besides offering competitive rates of pay, management is conscious of the quality of the working environment. In addition, when the Fund lacks its own hauling resources, partner carriers can provide additional capacity.

Management has no control over fuel prices. Although the Fund has fuel surcharge programs with most of its customers that offset higher fuel prices, the effectiveness of these programs during times of sudden, significant increases in fuel prices is diminished. Rapid fluctuations in fuel prices, moreover, absorb more management time.

Changes in interest rates affect both interest paid on floating rate debt and interest received on surplus cash. As at December 31, 2008, approximately 97% of the Fund's long-term debt had fixed interest rates.

### **Controls and Procedures**

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The system of internal controls has been documented at all material operating divisions of the Fund. The Fund's management, including the Chief Executive Officer and the Chief Financial Officer, assessed the design of the Fund's internal controls and tested their operation over financial reporting as at December 31, 2008 and determined that there were no material weaknesses in the Fund's internal controls over financial reporting and concluded that the Fund's disclosure controls and procedures were effective.

No changes were made in the Fund's internal control over financial reporting during the year ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Fund's internal control over financial reporting.

A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under future conditions.

**Transactions With Related Parties**

In 2008, the Fund paid \$6.1 million to Peterbilt of Ontario Inc., a company controlled by the Chairman of the Fund, for tractor repairs, vehicle maintenance and lease costs. In addition, the Fund also leased certain premises to Peterbilt of Ontario Inc. in 2008 for consideration of \$0.2 million. These transactions were carried out in the normal course of business and recorded at the exchange amount, which management believes approximates an arm's length arrangement.

**Use of Non-GAAP Financial Measures**

Management has included certain non-GAAP measures to supplement its consolidated financial statements which are presented in accordance with Canadian GAAP. Non-GAAP measures do not have any standardized meaning prescribed under Canadian GAAP and therefore they are unlikely to be comparable to similar measures employed by other issuers. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP. Management has included these non-GAAP measures for the reasons set forth below.

**EBITDA, distributable cash, maintenance capital expenditures and growth capital expenditures:**

Management believes that these measures are useful supplements to the information contained in the Fund's statements of cash flow as they facilitate a greater depth of analysis. Accordingly, these measures can enhance the evaluation of the Fund's historical and prospective operating performances as well as the sustainability of the Fund's distributions.

**Revenue – transportation services, revenue – fuel surcharges:**

Management believes that it is important to isolate the effects of fuel surcharges, a volatile source of revenue, when analyzing operating results. Management regards revenue from transportation services as the relevant indicator of business level activity. Accordingly, the percentages in the Financial Highlights table were calculated using revenue from transportation services as a base. In addition, operating expenses are stated after

netting fuel surcharges against fuel expenses in the Financial Highlights table. Management believes that this facilitates a comparison of operating costs between periods.

**Forward-Looking Statements**

Management's discussion and analysis contains certain forward-looking statements that involve a number of risks and uncertainties. Forward-looking statements relate to future events or future performance and include, but are not limited to, changes in government regulations regarding weights and dimensions of highway equipment, the age and condition of the transportation fleet and the growth of the Fund's business. Often, but not always, forward-looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology. Such statements reflect the current views and estimates of management of the Fund with respect to future events, as of the date such statements are made, and they involve known and unknown risks and uncertainties which may cause actual events or results to differ materially from those expressed or implied by forward-looking statements. In evaluating these statements, readers should specifically consider factors such as the risks outlined under "Risk Factors" in the Fund's Annual Information Form, which is available at [www.sedar.com](http://www.sedar.com). Although the Fund has attempted to identify important factors that could cause actual events, actions or results to differ materially from those described in the forward-looking statements, there may be other factors that cause such events, actions or results to differ. The Fund undertakes no obligation to update forward-looking statements if circumstances or management's views or estimates change. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements.

**Additional Information**

Additional information, including the Fund's Annual Information Form, is available at [www.sedar.com](http://www.sedar.com).

February 25, 2009

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Contrans Income Fund and all the information in this annual report are the responsibility of management and have been reviewed and approved by the Board of Trustees ("Board").

Management has prepared the financial statements in accordance with Canadian generally accepted accounting principles. Where alternative accounting methods exist, management has chosen those methods most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgement. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects. Management has ensured that the financial information presented throughout the annual report is consistent with that in the financial statements.

Management maintains systems of internal controls designed to provide reasonable assurance that the financial information is accurate and complete and that the Fund's assets are adequately safeguarded.

The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Board appoints an Audit Committee, which is comprised entirely of outside trustees. The Audit Committee meets quarterly with management and regularly with the Fund's external auditors, KPMG LLP, to discuss internal controls, auditing matters and financial reporting issues. KPMG LLP has full and free access to the Audit Committee. The Audit Committee reports its findings to the Board who approve the financial statements for issuance to the unitholders. The Audit Committee also considers, for review by the Board and approval by the unitholders, the engagement or reappointment of the auditors.



**Stan G. Dunford**

Chairman and Chief Executive Officer

February 25, 2009

## AUDITORS' REPORT TO THE UNITHOLDERS OF CONTRANS INCOME FUND

We have audited the consolidated balance sheets of Contrans Income Fund as at December 31, 2008 and 2007 and the consolidated statements of earnings and comprehensive income, retained earnings and cash flows for the years then ended. 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 then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants, Licensed Public Accountants

London, Canada

February 3, 2009

**CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME**

(in thousands except for per unit amounts)

Years ended December 31	2008	2007
<b>Revenue</b>	<b>\$ 488,832</b>	\$ 485,865
Operating expenses	<b>389,737</b>	386,686
Selling, general and administration expenses	<b>42,973</b>	42,798
Foreign exchange loss	<b>3,950</b>	374
Amortization of property and equipment	<b>12,342</b>	12,854
Amortization of intangible assets	<b>3,778</b>	3,881
	<b>36,052</b>	39,272
Net interest expense (income) – long-term	<b>6,281</b>	5,113
– short-term	<b>(531)</b>	(92)
<b>Earnings before Income Taxes</b>	<b>30,302</b>	34,251
<b>Income Tax Provision (Note 10):</b>		
Current	<b>677</b>	1,129
Future	<b>113</b>	6,897
	<b>790</b>	8,026
<b>Net Earnings and Comprehensive Income</b>	<b>\$ 29,512</b>	\$ 26,225
Earnings per unit – basic and diluted	<b>\$ 1.01</b>	\$ 0.91
Weighted average number of units outstanding – basic and diluted	<b>29,122</b>	28,826

**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**

(in thousands)

Years ended December 31	2008	2007
<b>Retained Earnings – Beginning of Year</b>	<b>\$ 7,380</b>	\$ 18,975
Net earnings	<b>29,512</b>	26,225
Premium paid on units repurchased	<b>—</b>	(1,787)
Distributions declared	<b>(36,457)</b>	(36,033)
<b>Retained Earnings – End of Year</b>	<b>\$ 435</b>	\$ 7,380

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

(in thousands)

As at December 31	2008	2007
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 9)	\$ 28,826	\$ 18,301
Accounts receivable	49,089	54,599
Income taxes recoverable	538	—
Other current assets	6,167	6,021
	<b>84,620</b>	78,921
Note Receivable (Note 5)	538	—
Property and Equipment (Note 6)	106,551	107,295
Intangible Assets (Note 7)	18,905	22,905
Goodwill	63,978	61,478
	<b>\$ 274,592</b>	\$ 270,599
<b>Liabilities and Unitholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 33,215	\$ 31,191
Distributions payable	3,087	2,996
Income taxes payable	—	417
Current portion of capital lease obligations (Note 8)	1,823	398
Current portion of long-term debt (Note 9)	—	7,408
	<b>38,125</b>	42,410
Long-Term Debt (Note 9)	83,686	82,071
Capital Lease Obligations (Note 8)	7,518	482
Asset Retirement Obligations	1,036	1,192
Future Income Taxes (Note 10)	15,773	15,660
	<b>146,138</b>	141,815
<b>Unitholders' Equity (Note 11)</b>		
Contributed surplus	834	744
Trust units	127,185	120,660
Retained earnings	435	7,380
	<b>128,454</b>	128,784
	<b>\$ 274,592</b>	\$ 270,599

Commitments and contingencies (Notes 12 and 13)

The accompanying notes are an integral part of these statements.

Signed on behalf of the Board of Trustees



Stan G. Dunford, Trustee



Archie M. Leach, C.A., Trustee

CONSOLIDATED STATEMENTS OF CASH FLOW

(in thousands)

Years ended December 31	2008	2007
<b>Cash Provided by (Used in)</b>		
<b>Operating Activities</b>		
Net earnings	\$ 29,512	\$ 26,225
Items not affecting cash:		
Unrealized foreign exchange loss (gain) (Note 14 b)	5,131	(553)
Unit-based compensation expense (Note 11)	90	94
Long-term debt – accretion	128	136
Loss on sale of plant services operation (Note 5)	79	—
Fair value adjustment to note receivable (Note 5)	226	—
Asset retirement obligations – accretion	50	54
Amortization of property and equipment	12,342	12,854
Amortization of intangible assets	3,778	3,881
Future income taxes	113	6,897
Gain on sale of equipment	(139)	(637)
	<b>51,310</b>	48,951
Change in non-cash working capital (Note 16)	<b>(836)</b>	(2,354)
	<b>50,474</b>	46,597
<b>Investing Activities</b>		
Expended on acquisitions (Note 4)	—	(6,423)
Asset retirement obligations – settlements	(212)	(55)
Proceeds on disposal of plant services operation (Note 5)	2,107	—
Proceeds on sale of equipment	3,332	7,363
Purchase of property and equipment	(7,620)	(12,418)
	<b>(2,393)</b>	(11,533)
<b>Financing Activities</b>		
Distributions paid	(36,366)	(36,139)
Proceeds from long-term debt	32,020	16,099
Repayment of long-term debt	(37,941)	(248)
Repayment of capital lease obligations	(1,794)	(374)
Repurchase of trust units	—	(3,850)
Issuance of trust units (Note 11)	6,525	4,905
	<b>(37,556)</b>	(19,607)
<b>Increase in Cash and Cash Equivalents</b>	<b>10,525</b>	15,457
Cash and Cash Equivalents – Beginning of Year	<b>18,301</b>	2,844
Cash and Cash Equivalents – End of Year	<b>\$ 28,826</b>	\$ 18,301

The accompanying notes are an integral part of these statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007  
(tabular amounts in thousands except for per unit amounts)

### 1. Organization

Contrans Income Fund (the "Fund") is an unincorporated, open-ended limited purpose trust established under the laws of the province of Ontario. The Fund was created for the purpose of acquiring and holding investments.

The Fund is based in Canada and operates in a single industry segment, freight transportation.

### 2. Changes in Accounting Policies

Effective January 1, 2008, the Fund adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, Capital Disclosures; CICA Handbook Section 3862, Financial Instruments – Disclosures; and CICA Handbook Section 3863, Financial Instruments – Presentation. The adoption of these standards did not have an impact on the Fund's financial results or financial position.

Handbook Section 1535 requires the Fund to disclose information that enables users of its financial statements to evaluate the Fund's objectives, policies and processes for managing capital. This includes disclosures of any externally imposed covenants and the consequences for non-compliance. These new disclosures are included in note 11.

Handbook Section 3862 requires the Fund to revise and enhance disclosure requirements to provide additional information on the nature and extent of risks arising from financial instruments to which the entity is exposed and how it manages those risks. The new disclosures, pursuant to this new Handbook Section, are included in note 14. Handbook Section 3863 carries forward the presentation standards which previously existed under Handbook Section 3861.

### 3. Significant Accounting Policies

These financial statements are prepared in accordance with accounting principles generally accepted in Canada. Significant accounting policies adopted by the Fund are as follows:

### PRINCIPLES OF CONSOLIDATION

The purchase method of accounting for business combinations has been used and the accounts of all subsidiaries have been consolidated with those of the Fund. Intercompany balances and transactions have been eliminated upon consolidation.

### FINANCIAL ASSETS AND FINANCIAL LIABILITIES

CICA Handbook Section 3855 establishes standards for recognizing and measuring financial assets and financial liabilities. It requires that financial assets and liabilities be recognized on the balance sheet when the Fund becomes a party to the contractual provisions of a financial instrument. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, loans and receivables, held to maturity, available for sale or financial liabilities. Management determines the classification of financial assets and liabilities at initial recognition.

The Fund designated its cash and cash equivalents and derivative financial instruments, which have not been designated in a hedging relationship, as held for trading, with gains and losses arising from changes in fair value of these instruments recorded in the consolidated statement of earnings and comprehensive income.

Accounts receivable and note receivable are classified as loans and receivables which are measured at amortized cost using the effective interest method. Accounts payable and accrued liabilities, distributions payable and long-term debt are classified as other liabilities which are also measured at amortized cost using the effective interest method.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

(tabular amounts in thousands except for per unit amounts)

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on deposit and short-term interest-bearing securities with maturities at purchase date of three months or less.

### PROPERTY AND EQUIPMENT

Property and equipment are valued at acquisition cost less accumulated amortization. Amortization is provided over the estimated service lives of the assets as follows:

**Buildings** – Straight-line over 15 to 40 years

**Rolling Stock** – Tractors – 25% declining balance

Trailers – Straight-line over 10 to 15 years

**Service Vehicles and Other Equipment** – 20% to 30% declining balance

Management periodically reviews the estimated service lives of these assets and adjusts amortization accordingly.

### GOODWILL AND INTANGIBLE ASSETS

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is tested for impairment on an annual basis or more frequently, if events or changes in circumstances indicate that the asset might be impaired. Management periodically reviews the estimated lives of intangible assets and adjusts amortization accordingly. Intangible assets, with finite lives, are amortized on a straight-line basis over a period of up to 10 years.

### IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, including property and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undis-

counted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer amortized. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

### ASSET RETIREMENT OBLIGATIONS

The Fund recognizes the fair value of a future asset retirement obligation as a liability in the period in which it enters into operating leases. The fair value of the asset retirement obligation is determined using the discounted expected cash flow approach and accordingly the change in the obligation due to the passage of time is recognized in income as an operating expense. Any change in the obligation due to changes in estimated cash flow is recognized as an adjustment to the carrying amount of the obligation. The Fund concurrently recognizes a corresponding change in the carrying amount of the related long-lived asset. This asset is amortized over the term of the operating lease agreement.

### REVENUE RECOGNITION

Revenue is recognized upon delivery of goods to customers.

### INCOME TAXES

The liability method is used to account for future income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated income tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to be

in effect when the temporary differences are expected to be recovered or settled. The effects of changes in income tax rates are reflected in future income tax assets and liabilities in the period that the rate changes are substantively enacted. Under the SIFT rules (see note 10) the Fund is also required to recognize future income tax assets and liabilities with respect to the temporary differences between the carrying amount and the tax bases of its assets and liabilities and those of its flow-through entities that are expected to reverse in or after 2011.

#### **FOREIGN CURRENCY**

Assets and liabilities denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet dates and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses denominated in foreign currencies are translated at monthly average rates of exchange during the year. Foreign exchange gains and losses are included in earnings and comprehensive income.

#### **DERIVATIVE FINANCIAL INSTRUMENTS**

The Fund enters into foreign exchange contracts periodically to hedge against its US dollar-denominated revenues. These contracts are marked to market with the related gains or losses included in earnings and comprehensive income for each reported period.

#### **UNIT-BASED COMPENSATION**

The Fund applies the fair value-based method to account for awards made under its long-term incentive plan described in note 11. The fair value of the options at the date of granting is recognized as unit-based compensation expense over the vesting period and is credited to contributed surplus. Consideration received upon exercise of the options, together with the amount previously credited to contributed surplus, is recorded as trust units.

#### **EARNINGS PER UNIT**

Basic earnings per unit is computed by dividing net earnings by the weighted average trust units outstanding during the year. Diluted earnings per unit is similarly computed except that the weighted average units outstanding are increased to include additional trust units from an assumed exercise of unit options, if dilutive. The number of additional units is calculated by assuming that outstanding unit options were exercised and that the proceeds from such exercises were used to acquire trust units at average market prices.

#### **MEASUREMENT UNCERTAINTY**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts at the date of, and for the period of, the financial statements. Actual results could differ from those estimates. Estimates are reviewed on a regular basis and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. The assets and liabilities which require management to make significant estimates and assumptions in determining carrying values include accounts receivable, note receivable, property and equipment, goodwill, intangible assets, accounts payable and accrued liabilities, future income taxes and asset retirement obligations.

### **4. Acquisitions**

<b>2008</b>	Tripar
Goodwill	\$ 3,000
Fair value of assets acquired	\$ 3,000

Acquisitions have been accounted for using the purchase method. The results of operations from the acquisition date have been included in these consolidated financial statements.

Due to the achievement of certain performance objectives, additional consideration of \$3 million was paid in January, 2009 to the former owners of Tripar Transportation Inc. ("Tripar"), a company acquired by the Fund in 2006. This additional consideration was allocated to goodwill.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

(tabular amounts in thousands except for per unit amounts)

2007	Marco	ECL	Cornerstone	Firm	Other	Total
Accounts receivable	\$ 706	\$ —	\$ —	\$ —	\$ —	\$ 706
Other current assets	8	—	—	—	—	8
Property and equipment	1,147	—	—	—	199	1,346
Intangible assets						
Customer relationships	200	—	—	—	80	280
Non-competition agreements	282	—	—	—	40	322
Goodwill	—	1,694	2,200	667	—	4,561
<b>Fair value of assets acquired</b>	<b>2,343</b>	<b>1,694</b>	<b>2,200</b>	<b>667</b>	<b>319</b>	<b>7,223</b>
Accounts payable and accrued liabilities	781	—	—	—	19	800
<b>Fair value of liabilities assumed</b>	<b>781</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>19</b>	<b>800</b>
	\$ 1,562	\$ 1,694	\$ 2,200	\$ 667	\$ 300	\$ 6,423
<b>Consideration</b>						
Cash	\$ 1,562	\$ 1,694	\$ 2,200	\$ 667	\$ 300	\$ 6,423
Entity acquired	Date	% Shares Acquired	Base	Service Area		
Marco Transport Inc. ("Marco")	1-Mar-07	100%	Quebec	Dump		
Narum Transport Ltd. ("Other")	24-Sept-07	Assets acquired	Alberta	Tank		

### 5. Disposal of Plant Services Operation

In September 2008, the Fund recognized the disposal of its plant services operation, located in Hamilton, Ontario.

	2008
As at September 30	
Net book value of assets disposed:	
Property and equipment	\$ 2,885
Intangible assets	222
Goodwill	500
Deferred income	(427)
	\$ 3,180
Consideration received:	
Cash	\$ 2,107
Note receivable (fair value)	994
	\$ 3,101
Loss on disposal	\$ 79

Note receivable (fair value)	Current	Long-term	Total
As at September 30, 2008	\$ 307	\$ 687	\$ 994
Fair value adjustment	(77)	(149)	(226)
<b>As at December 31, 2008</b>	<b>\$ 230</b>	<b>\$ 538</b>	<b>\$ 768</b>

The note receivable has a face value of \$1.5 million, bears interest at 5% above the Bank of Canada prime rate and is payable quarterly. Future principal repayments will be conditional upon covenant compliance and future free cash flows of the purchaser. The current portion of the note receivable is included in accounts receivable. The fair value adjustment to the note receivable was made to reflect increased credit risk.

## 6. Property and Equipment

2008	Cost	Accumulated amortization	Net
Land	\$ 8,474	\$ —	\$ 8,474
Buildings	26,125	8,866	17,259
Rolling stock and other – owned	123,393	52,883	70,510
Rolling stock – capital leases	11,128	820	10,308
	<b>\$ 169,120</b>	<b>\$ 62,569</b>	<b>\$ 106,551</b>

2007	Cost	Accumulated amortization	Net
Land	\$ 8,243	\$ —	\$ 8,243
Buildings	24,525	7,790	16,735
Rolling stock and other – owned	130,807	49,450	81,357
Rolling stock – capital leases	1,078	118	960
	<b>\$ 164,653</b>	<b>\$ 57,358</b>	<b>\$ 107,295</b>

## 7. Intangible Assets

2008	Cost	Accumulated amortization	Net
Customer relationships	\$ 22,565	\$ 8,159	\$ 14,406
Non-competition agreements	8,994	4,495	4,499
	<b>\$ 31,559</b>	<b>\$ 12,654</b>	<b>\$ 18,905</b>

2007	Cost	Accumulated amortization	Net
Customer relationships	\$ 22,775	\$ 5,970	\$ 16,805
Non-competition agreements	8,994	2,894	6,100
	<b>\$ 31,769</b>	<b>\$ 8,864</b>	<b>\$ 22,905</b>

## 8. Capital Lease Obligations

As at December 31	2008	2007
2009 and prior	\$ 2,341	\$ 857
2010	2,061	94
2011	1,968	—
2012	1,707	—
2013	1,294	—
Thereafter	1,630	—
Minimum lease payments	11,001	951
Less amount representing interest at rates ranging from 4.8% to 8.9% (2007 – 8.0% to 9.2%)	1,660	71
Present value of net minimum capital lease payments	9,341	880
Less: current portion	1,823	398
	<b>\$ 7,518</b>	<b>\$ 482</b>

Interest of \$0.4 million (2007 – \$0.1 million) relating to capital lease obligations has been included in interest expense – long-term. The Fund has an unrealized loss on its US dollar denominated capital lease obligations of \$0.2 million as at December 31, 2008.

## 9. Long-Term Debt

	2008	2007
Senior secured notes payable with fixed interest rates between 5.9% and 6.5% (2007 – 6.5% and 6.6%)	\$ 81,374	\$ 87,048
Other unsecured loans with varying interest rates and due dates	2,312	2,431
	<b>83,686</b>	89,479
Less: current portion	—	7,408
Long-term debt	<b>\$ 83,686</b>	<b>\$ 82,071</b>

The senior secured notes payable are stated net of unamortized financing transaction costs of \$0.5 million and provide for monthly payments of interest only. On December 15, 2008 the Fund renewed \$31.9 million of its previous \$37.5 million credit facility for a term of five years. Other terms and covenants of the existing facility remained unchanged. The principal repayments are due on December 15, 2013 (\$31.9 million) and October 15, 2016 (\$50 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

(tabular amounts in thousands except for per unit amounts)

Liens on rolling stock with a net book value of approximately \$68 million have been provided as security for the senior secured notes. The lender also holds a second floating charge over receivables and a general security interest in the remaining assets of the Fund.

As at December 31, 2008 and 2007, there were no restrictions preventing the Fund from making distributions to unitholders.

Aggregate minimum principal payments required on long-term debt in each of the next five years are as follows:

2009 to 2012	\$ —
2013	31,875
Thereafter	52,312
Minimum principal payments	84,187
Unamortized financing transaction costs	(501)
Long-term debt	\$ 83,686

### CASH AND CASH EQUIVALENTS

Under the terms of the long-term debt facility, \$10.4 million (2007 – \$16 million) of the cash and cash equivalents on hand at December 31, 2008 is restricted and may only be used to repay senior secured notes and to fund growth opportunities. On December 15, 2008, \$5.6 million of these restricted funds was used to retire an equal amount of senior secured notes that matured on that date.

### 10. Income Taxes

The following table reconciles the provision for income taxes recorded in the statement of earnings and comprehensive income with a statutory income tax rate of 33.0% (2007 – 35.0%):

	2008	2007
Earnings before income taxes	\$ 30,302	\$ 34,251
Computed income tax expense at Canadian statutory rate	10,000	11,988
Reduction of taxes due to taxable income allocated to unitholders	(10,097)	(11,691)
US state taxes	606	664
Change to future Canadian statutory tax rate	—	(265)
Impact of SIFT rules	175	7,600
Other	106	(270)
Income tax provision	\$ 790	\$ 8,026

The tax effects of temporary differences that give rise to future tax assets and liabilities are presented below:

	2008	2007
<b>Future tax assets</b>		
Deductible reserves	\$ (488)	\$ (794)
Issue costs and financing fees	(7)	(72)
Other	(575)	(581)
<b>Future tax liabilities</b>		
Property, equipment and intangible assets	13,984	13,854
Impact of off-calendar year end of corporate subsidiary	2,859	3,253
Net future income tax liability	\$ 15,773	\$ 15,660

The Fund is a mutual fund trust as defined under the Income Tax Act (Canada). Accordingly, distributions paid to unitholders are currently deductible when calculating income that is subject to income tax. However, on June 22, 2007, legislation (the "SIFT rules") was passed that will subject the Fund to federal income taxation at approximately the same rate that is applicable to Canadian corporations. Distributions will no longer be deductible in the computation of the Fund's taxable income. The SIFT rules take effect starting with taxation years ending in 2011.

In 2008 the Fund recorded a future income tax expense of \$0.2 million (2007 – \$7.6 million) as a result of the SIFT rules. The Fund is required to recognize temporary differences between the accounting and tax bases of its assets and liabilities that are expected to reverse in or after 2011.

Certain of the Fund's subsidiaries are currently subject to income taxation and provide for income tax obligations based upon statutory corporate tax rates.

## 11. Unitholders' Equity

### TRUST UNITS

#### AUTHORIZED

Unlimited numbers of Subordinate Voting Trust units ("trust units") and Class A Limited Partnership ("LP") units and 1,467,724 Class B LP units are authorized.

#### ISSUED AND FULLY PAID

	Trust Units		Class A LP Units		Class B LP Units		Total	
	Units	Value	Units	Value	Units	Value	Units	Value
Balance at December 31, 2006	22,410	\$ 109,917	4,810	\$ 6,590	1,468	\$ 1,298	28,688	\$ 117,805
Distribution reinvestment plan	471	4,905	—	—	—	—	471	4,905
Units repurchased	(410)	(2,050)	—	—	—	—	(410)	(2,050)
Balance at December 31, 2007	22,471	\$ 112,772	4,810	\$ 6,590	1,468	\$ 1,298	28,749	\$ 120,660
Distribution reinvestment plan	870	6,525	—	—	—	—	870	6,525
<b>Balance at December 31, 2008</b>	<b>23,341</b>	<b>\$ 119,297</b>	<b>4,810</b>	<b>\$ 6,590</b>	<b>1,468</b>	<b>\$ 1,298</b>	<b>29,619</b>	<b>\$ 127,185</b>

#### VOTING, DISTRIBUTION AND EXCHANGE RIGHTS

The trust units and the Class A LP units are entitled to one vote each. The Class B LP units are entitled to ten votes each. The Fund's trust indenture requires distribution of the Fund's cash flow to unitholders after giving consideration to such items as expected capital requirements, unit redemptions or any amounts which the Fund's Trustees may reasonably consider necessary to provide for as administrators of the Fund. Distributions are made equally on a pro rata basis. Each Class A LP unit and Class B LP unit is exchangeable for a trust unit effectively giving the Class A and Class B LP units the same rights and entitlements as the Trust units.

#### REDEMPTION RIGHTS

Trust units are redeemable by unitholders at any time at a price equal to the lesser of 90% of their market price during the five trading day period commencing immediately after the date of surrender and 100% of the closing market price on the redemption date.

#### UNIT-BASED COMPENSATION PLAN

The Fund maintains a unit option plan to encourage ownership of the Fund by directors, officers and key employees. Under the terms of the plan, a

total of 2,762,165 trust units have been reserved for issuance. The maximum number of options that can be issued to an individual is 5% of the trust units outstanding at the time of the grant. Upon issuance, 20% of the options vest immediately and the remainder vest at a rate of 20% annually over the next four anniversary dates. The exercise prices are established based on the closing trading price of the Fund on the day prior to the date of the grant. Any option granted which is cancelled or terminated for any reason prior to exercise will be returned to the pool and will be available for future unit option grants. Below are facts and assumptions used in the Black-Scholes option pricing model to calculate the fair value of the options on the grant dates and to determine the unit based compensation expense:

	March 25, 2004	March 1, 2005	March 9, 2006
Options grant dates	March 25, 2004	March 1, 2005	March 9, 2006
Expiration dates	March 25, 2014	March 1, 2015	March 9, 2016
Risk-free interest rates	4.62%	4.60%	4.21%
Expected life	9 years	9 years	7 years
Expected volatility	20%	20%	20%
Expected dividend yield	10.87%	8.33%	9.61%
Estimated grant-date fair value per unit	\$ 0.47	\$ 0.89	\$ 0.43
Exercise price	\$ 11.50	\$ 14.90	\$ 13.01

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

(tabular amounts in thousands except for per unit amounts)

Years ended December 31	2008		2007	
	Units	Weighted average exercise price	Units	Weighted average exercise price
Unit options outstanding – beginning of year	2,029	\$ 12.23	2,179	\$ 12.21
Cancelled	(10)	14.90	(150)	12.00
Unit options outstanding – end of year	2,019	\$ 12.22	2,029	\$ 12.23
Unit options exercisable – end of year	1,646	\$ 12.03	1,201	\$ 12.01
Amount charged to compensation expense		\$ 90		\$ 94

### UNITHOLDERS' EQUITY

	Contributed Surplus	Trust Units	Retained Earnings	Total
Balance at December 31, 2006	\$ 663	\$ 117,805	\$ 18,975	\$ 137,443
Net earnings	—	—	26,225	26,225
Distributions declared	—	—	(36,033)	(36,033)
Distribution reinvestment plan	—	4,905	—	4,905
Unit-based compensation	94	—	—	94
Units repurchased	(13)	(2,050)	(1,787)	(3,850)
Balance at December 31, 2007	\$ 744	\$ 120,660	\$ 7,380	\$ 128,784
Net earnings	—	—	29,512	29,512
Distributions declared	—	—	(36,457)	(36,457)
Distribution reinvestment plan	—	6,525	—	6,525
Unit-based compensation	90	—	—	90
Balance at December 31, 2008	\$ 834	\$ 127,185	\$ 435	\$ 128,454

#### CAPITAL MANAGEMENT

The Fund's objectives in managing capital are to ensure sufficient liquidity exists to pursue its strategy of growth, both internally and through accretive acquisitions and to provide returns to its unitholders.

Management defines capital as unitholders' equity and net debt. Net debt is defined as all interest-bearing debt, including obligations under capital leases, less cash and cash equivalents.

#### CAPITAL UNDER MANAGEMENT

As at December 31	2008	2007
Long-term debt	\$ 83,686	\$ 89,479
Capital lease obligations	9,341	880
Cash and cash equivalents	(28,826)	(18,301)
Net debt	64,201	72,058
Unitholders' equity	128,454	128,784
Total capital	\$ 192,655	\$ 200,842

The Board of Trustees approves monthly distributions, annual operating plans and business acquisitions.

The Fund's debt covenants are based on cash flow, leverage and asset cover ratios. If the Fund exceeds these covenant limits the lenders can restrict the Fund from paying distributions. The Fund monitors its compliance with all covenants and the factors affecting their calculation. At December 31, 2008, the Fund was in compliance with all its covenants. The Fund's lenders have a security interest in all of the assets of the Fund.

The Fund's dividend reinvestment plan ("DRIP") provides capital for future business development. This plan allows existing unitholders to automatically reinvest their monthly dividend into new units. The new units are issued at 95% of the average market price for the preceding ten trading days.

#### 12. Commitments – Operating Leases

Future minimum payments under operating leases for rolling stock and property are as follows:

2009	\$ 10,840
2010	7,046
2011	1,785
2012	395
Thereafter	—

#### 13. Contingencies

In September 1994, two actions were filed by separate groups of former employees against Laidlaw Carriers Inc. ("Laidlaw") and an Ontario loan and trust company. These actions involved the valuation of the employees' benefit plans in 1988. In 2001, after application for leave to appeal an earlier court decision was denied, these actions became a single class proceeding. Management is unable to determine the outcome of this lawsuit at this time.

Laidlaw had been a wholly-owned subsidiary of Contrans Corp. and, upon amalgamations that took place on July 23, 2002, the potential liability surrounding these actions was combined with Contrans Corp., a corporation controlled by the Fund.

In the ordinary course of business, the Fund had issued letters of credit amounting to \$0.9 million at December 31, 2008. These letters of credit expire at various dates from January 2009 to November 2009.

#### 14. Financial Instruments

##### a) FAIR VALUES

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and distributions payable approximate their fair values due to the relatively short period to maturity of these instruments. The fair value of foreign exchange contracts is disclosed in note 14 (b).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

(tabular amounts in thousands except for per unit amounts)

Long-term debt with a carrying value of \$83.7 million (December 31, 2007 – \$89.5 million) has a fair value of \$88.1 million at December 31, 2008 (December 31, 2007 – \$89.6 million). At December 31, 2008, the fair value of capital lease obligations was \$9.2 million. The fair values are calculated using discounted cash flows at current market rates.

The fair value of the note receivable is \$0.8 million based on the expected future payments discounted at current market rates.

### b) DERIVATIVE FINANCIAL INSTRUMENTS

The Fund from time to time enters into foreign exchange contracts to manage its net exposure to currency fluctuations. As at December 31, 2008 the Fund had the following contracts in place to sell US dollars in order to hedge foreign exchange risk on US dollar denominated net receivables:

Maturity dates	Monthly amount	CAD \$ Settlement rates
Jan to July 2009	US \$4 million	\$1.0000–\$1.0935
Aug to Oct 2009	US \$4 million	\$1.0200–\$1.1095
Nov and Dec 2009	US \$4 million	\$1.0500–\$1.1529

As at December 31, 2008, the fair value of these contracts was recorded as a liability of \$4.9 million (2007 – asset of \$0.6 million) and included in accounts payable and accrued liabilities on the consolidated balance sheets. The value of the contracts was provided by the counterparty on an open market basis.

### c) RISK MANAGEMENT

The Fund has exposure to the following risks from its use of financial instruments:

#### i) CREDIT RISK

Credit risk is the risk that a counterparty to a financial instrument will fail to meet their payment obligations and is primarily attributable to accounts receivable and note receivable. The Fund manages its credit risk by having a diverse range of customers, monitoring the aging of its accounts receivable and through credit checks that are carried out on new customers. General provisions for doubtful accounts are made based on past experience.

Specific provisions are made against trade receivables for any customer that is known to be in poor financial condition. The bad debt expense, both specific and general, for 2008 was \$0.3 million (2007 – \$0.7 million).

The movement in the provision for doubtful accounts is as follows:

Provision as at December 31, 2007	\$ 2,081
Accounts written off	(85)
Bad debt expense	325
<b>Provision as at December 31, 2008</b>	<b>\$ 2,321</b>

The Fund has specifically provided for \$1.3 million of accounts receivable that were considered to be impaired as at December 31, 2008. Management considers the financial health of the customer as well as the aging of the account when considering whether an account is impaired. At December 31, 2008, approximately \$14.6 million of receivables are overdue but are not considered impaired.

A provision for doubtful accounts of \$2.3 million (December 31, 2007 – \$2.1 million) is netted against accounts receivable on the consolidated balance sheets. In addition, the deferred income on disposal of the plant services operation was reclassified as an allowance for note receivable impairment and the total allowance of \$0.7 million was applied to reduce the face value of the note receivable to its estimated fair value of \$0.8 million as at December 31, 2008. Bad debt expenses and provision for note receivable impairment are included in selling, general and administration expenses in the consolidated statements of earnings and comprehensive income.

#### ii) FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. Some of the Fund's revenue is billed in US dollars and, accordingly, the Fund is subject to foreign exchange risk. Management manages this risk through foreign exchange contracts, denominating certain of its equipment leases in US dollars and through customer negotiations. The impact of a 1% strengthening/weakening of the Canadian dollar against the US

dollar would result in a decrease/increase in net earnings of \$0.1 million as at December 31, 2008, all other things being equal.

The Fund operates in both Canada and the United States. However, due to the nature of the operations and inherent system limitations, it is impracticable to split the results from operations between the two countries.

### III) INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument will change with market interest rates. Changes in interest rates affect both interest paid on floating rate debt and interest received on surplus cash and cash equivalents and note receivable. As at December 31, 2008, approximately 97% of the Fund's long-term debt had fixed interest rates. A 1% change in the interest rate on the floating rate debt, cash and cash equivalents and note receivable would only have a nominal impact on net earnings.

### IV) LIQUIDITY RISK

Liquidity risk is the risk that the Fund will not be able to meet its obligations as they fall due. The Fund ensures that it has sufficient cash or credit lines to meet these obligations. The Fund has a demand operating line of \$30 million to meet seasonal fluctuations in working capital requirements, for letters of credit and to fund growth opportunities. At December 31, 2008, the Fund had \$0.9 million of letters of credit outstanding (December 31, 2007 – \$0.9 million).

The Fund has contractual maturities of financial liabilities as follows:

(\$ millions)	2009	2010	2011	2012	2013	Thereafter	Total
Senior secured notes payable	\$ 5.1	\$ 5.1	\$ 5.1	\$ 5.1	\$ 36.9	\$ 59.1	\$ 116.4
Obligations under capital leases	2.3	2.1	2.0	1.7	1.3	1.6	11.0
Obligations under operating leases	10.8	7.0	1.8	0.4	—	—	20.0
Derivative financial instruments	58.6	—	—	—	—	—	58.6
Accounts payable and accrued liabilities	33.2	—	—	—	—	—	33.2
Distributions payable	3.1	—	—	—	—	—	3.1
Equipment purchase commitments	0.4	—	—	—	—	—	0.4
<b>Total</b>	<b>\$ 113.5</b>	<b>\$ 14.2</b>	<b>\$ 8.9</b>	<b>\$ 7.2</b>	<b>\$ 38.2</b>	<b>\$ 60.7</b>	<b>\$ 242.7</b>

### 15. Related Party Transactions

The Fund had business transactions with and had balances owing to and from companies controlled by the Chairman of the Fund as follows:

As at December 31	2008	2007
Accounts payable	\$ 115	\$ 231
Accounts receivable	38	11

For the years ended December 31	2008	2007
Repairs, maintenance and leases	\$ 6,129	\$ 6,136
Rental income	192	192

These transactions were carried out in the normal course of business and recorded at exchange amounts, which approximates an arm's length arrangement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

(tabular amounts in thousands except for per unit amounts)

### 16. Cash Flow

Change in non-cash working capital:

	2008	2007
Decrease in accounts receivable	\$ 6,167	\$ 2,275
Increase in other current assets	(146)	(212)
Decrease in accounts payable and accrued liabilities	(5,902)	(4,747)
Increase (decrease) in income taxes payable	(955)	330
Net change in non-cash working capital	\$ (836)	\$ (2,354)
Cash paid in respect of:		
Interest	\$ 6,309	\$ 4,847
Income taxes	1,729	790
Non-cash transactions		
Value of equipment financed through capital leases	10,050	—

### 17. Comparative Figures

Certain comparative figures have been restated to conform to the current year's basis of presentation.

### 18. Future Accounting Changes

#### a) INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008 the Accounting Standards Board ("AcSB") announced that publicly-listed companies would, for fiscal years beginning on or after January 1, 2011, be required to report their results under IFRS. The Fund is in the process of assessing the impact of the implementation of IFRS on its financial statements, accounting policies and information systems. IFRS allows for different accounting treatments on first implementing IFRS and the Fund is evaluating these options at present.

#### b) GOODWILL AND INTANGIBLE ASSETS

The AcSB has issued a revised Section 3064 – Goodwill and Intangible Assets. This revised section is applicable to accounting periods beginning on or after October 1, 2008. This section establishes new standards for

the recognition and measurement of intangible assets, but does not affect accounting for goodwill. Management does not expect that the adoption of this revised section will have a material impact on the Fund's financial statements.

#### c) CONSOLIDATED FINANCIAL STATEMENTS

The AcSB issued a revised Section 1601 – Consolidated Financial Statements. This revised section is applicable to accounting periods beginning on or after January 1, 2011. This section establishes standards for the preparation of consolidated financial statements. Management does not expect that the adoption of this revised section will have a material impact on the Fund's financial statements.

#### d) NON-CONTROLLING INTERESTS

The AcSB issued a revised Section 1602 – Non-controlling Interests. This revised section is applicable to accounting periods beginning on or after January 1, 2011. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. There are currently no non-controlling interests, nor are there any expected, in the Fund's subsidiaries. Accordingly, management does not expect that the adoption of this revised section will have a material impact on the Fund's financial statements.

#### e) BUSINESS COMBINATIONS

The AcSB issued a revised Section 1582 – Business Combinations. This revised section is applicable to accounting periods beginning on or after January 1, 2011. The objective of this section is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. Management does not expect that the adoption of this revised section will have a material impact on the Fund's financial statements.

SELECTED FINANCIAL DATA

<i>(Unaudited)</i>	<b>2008</b>	<b>2007</b>	<b>2006<sup>(1)</sup></b>	<b>2005<sup>(2)</sup></b>	<b>2004</b>
Return on equity <sup>(3) (4)</sup>	<b>22.9%</b>	19.7%	24.7%	20.3%	19.9%
Operating ratio <sup>(4) (5)</sup>	<b>91.2%</b>	90.8%	90.9%	91.4%	92.1%
Debt to equity <sup>(4) (6)</sup>	<b>1.1</b>	1.1	0.9	0.7	0.6
Earnings before income taxes <sup>(7)</sup>	<b>\$ 30,302</b>	\$ 34,251	\$ 34,222	\$ 28,415	\$ 24,869
Tangible book value per unit <sup>(4) (8)</sup>	<b>\$ 1.54</b>	\$ 1.54	\$ 1.89	\$ 3.51	\$ 3.38
Earnings per unit – basic <sup>(9)</sup>	<b>\$ 1.01</b>	\$ 0.91	\$ 1.17	\$ 0.98	\$ 0.90
Price earnings ratio <sup>(4) (10)</sup>	<b>5.8</b>	10.4	10.3	14.3	15.5
Weighted average number of units outstanding <sup>(7)</sup>	<b>29,122</b>	28,826	28,513	27,980	27,087

(1) Excludes gain from sale of real estate of \$2.9 million.

(2) Excludes results from discontinued operations.

(3) Return on equity was calculated by dividing net income by average unitholders' equity.

(4) See "Use of non-GAAP Financial Measures" in Management's Discussion and Analysis above.

(5) Operating ratio was calculated by dividing total expenses before interest and taxes by revenue.

(6) Debt to equity was calculated by dividing total debt (including future tax obligations) by unitholders' equity.

(7) Thousands.

(8) Tangible book value per unit was calculated by dividing tangible unitholders' equity by the number of units outstanding at year-end.

(9) Earnings per unit – basic was calculated by dividing net income by the weighted average number of units outstanding during the year.

(10) Price earnings ratio was calculated by dividing year-end closing price by earnings per unit.

## CORPORATE INFORMATION

### **Trustees**

**Stan G. Dunford**

Chairman of the Board and CEO  
Contrans Income Fund

**Robert B. Burgess, Q.C.**

Barrister and Solicitor

**Archie M. Leach**

President and CEO  
Carroll Hospital Group

**G. Ross Amos**

President  
Everest Canadian Investments Ltd.

**Gregory W. Rumble**

President and COO  
Contrans Income Fund

### **Officers**

**Stan G. Dunford**

Chairman of the Board and CEO

**Gregory W. Rumble**

President and COO

**James S. Clark**

Vice-President, Finance and CFO

**W. Todd Jenereaux**

Vice-President,  
Corporate Development

**D. Jamieson Miller**

Secretary-Treasurer

**Norman McDonough**

Vice-President, Risk and Compliance

**David W. Golton**

Vice-President, Tank Operations

**Laban B. Herr**

Vice-President, Van Operations

**Steven Brookshaw**

Vice-President, Flatbed Operations

**Scott B. Talbot**

Vice-President, Bulk Operations

### **Principal Office**

Courier address:

1179 Ridgeway Road  
Woodstock, Ontario  
N4V 1E3

Mailing address:

PO Box 1669  
1179 Ridgeway Road  
Woodstock, Ontario  
N4S 0A9  
(519) 421-4600

### **Stock Exchange Listing**

Toronto Stock Exchange  
Symbol: CSS.UN

### **Transfer Agent and Registrar**

Computershare Trust Company  
of Canada  
100 University Avenue  
Toronto, Ontario  
M5J 2Y1

### **Annual Meeting**

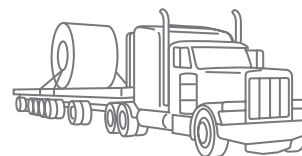
TSX Broadcast and  
Conference Centre  
The Exchange Tower  
130 King Street West  
Toronto, Ontario  
Thursday, April 30, 2009  
at 4:30 p.m.

### **Annual Information Form**

A copy of the Fund's Annual  
Information Form may be  
obtained, without charge, upon  
written request.

### **Website**

[www.contrans.ca](http://www.contrans.ca)





***Contrans Income Fund***

*1179 Ridgeway Road, Woodstock, Ontario N4V 1E3*

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