

# ***CONTRANS INCOME FUND***

*Second Quarter Report  
June 30, 2004*

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## REPORT FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER



*I am extremely pleased to announce results from our second quarter. In this quarter Contrans produced its largest quarterly profit in its history. Our core operations have been very busy satisfying the increased requirements of our customers. Our customers, in turn, have been fair and supportive in rate negotiations that have allowed us to compete more effectively for the services of owner-operators and company drivers so as to further improve our profit margins. Our recent acquisitions have also contributed positively to our success.*

*North American shippers are discovering that their supply chains are becoming much tighter. Rates for both carriers and drivers have been increasing steadily. In spite of this, however, the industry is not attracting new drivers to keep pace with the demand. Two decades ago, truck drivers earned a premium wage compared to factory workers. That premium has eroded over the years. Now, in many cases, more money can be made working in a factory and, unlike long haul truckers, factory workers can be at home with their families on a regular basis. Pay rates have a long way to go before truck-driving will be perceived as a desirable occupation. In the meantime, I believe that the economy will continue to produce more than the trucking industry can move and freight rates and driver wages will continue to increase.*

*With drivers already in short supply, new U.S. hours of service regulations have reduced driver productivity*

*thus further hindering a shipper's ability to get its products to market. Although these rules were successfully challenged in court in July, the trucking industry had been preparing for the implementation of the rules well in advance. Carriers became less tolerant of undue delays caused by shippers or consignees. These efforts have improved equipment utilization and financial performance as a result.*

*Contrans' trust units have recently been selling in a trading range that offers us a currency that will enable us to participate in the ongoing consolidation in the freight and school bus transportation industries. There are many opportunities to grow today. Our challenge is to identify the opportunities that best fit our business model and maximize returns.*

*With a strong first half behind us, we are on our way to having a great year. The economy is strong, our profit margins are improving and the acquisitions that we have made this year have been accretive. We are confident that we will continue to enhance unitholder value.*

*Respectfully submitted,*

A handwritten signature in black ink, appearing to read 'Stan G. Dunford'.

*Stan G. Dunford  
Chairman of the Board*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The attached financial statements detail the performance and financial position of Contrans Income Fund (the "Fund") for the period ended June 30, 2004. The financial statements should be read in conjunction with the analysis that follows and with management's discussion and analysis that appears in the Fund's 2003 annual report.

### Financial Highlights

(unaudited)

Period ended June 30

	Three Months				Six Months			
	2004		2003		2004		2003	
(in millions except per unit amounts)								
Revenue	\$ 91.2	100.0%	\$ 72.7	100.0%	\$ 171.0	100.0%	\$ 148.0	100.0%
Earnings Before Interest, Taxes and Amortization (EBITDA) <sup>(1)</sup>	12.9	14.1	9.3	12.8	22.3	13.0	17.6	11.9
Amortization	4.2	4.6	3.3	4.5	7.6	4.4	6.7	4.5
Interest	0.6	0.7	0.4	0.6	1.2	0.7	0.8	0.5
Earnings Before Taxes (EBT)	8.1	8.8	5.6	7.7	13.5	7.9	10.1	6.9
Income tax provision	(0.3)	(0.4)	0.1	0.1	(0.2)	(0.1)	0.1	0.1
Net income	\$ 8.4	9.2%	\$ 5.5	7.6%	\$ 13.7	8.0%	\$ 10.0	6.8%
Total assets					225.3		169.9	
Long-term debt <sup>(2)</sup>					47.3		23.9	
Cash (operating loan)					30.0		(4.3)	
Distributions declared per unit	\$ 0.31		\$ 0.31		\$ 0.63		\$ 0.63	

1. EBITDA is not an earnings measure recognized by generally accepted accounting principles in Canada ("GAAP"), does not have a standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers. However, management believes that EBITDA is a useful measure in determining the Fund's cash flow and evaluating the performance of the Fund.

2. Includes current portion.

### Summary of Quarterly Results

(unaudited)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2004	2003	2004	2003	2003	2002	2003	2002
(in millions except per unit amounts)								
Revenue	\$ 79.8	\$ 75.3	\$ 91.2	\$ 72.7	\$ 70.6	\$ 72.5	\$ 74.2	\$ 73.2
Net Income	5.3	4.5	8.4	5.5	5.9	5.9	1.9	5.0
Earnings per unit – basic and diluted <sup>(1)</sup>	\$ 0.21	\$ 0.19	\$ 0.30	\$ 0.23	\$ 0.25	\$ 0.26	\$ 0.08	\$ 0.21

1. Amounts for the periods prior to July 23, 2002 have been revised to reflect the four-for-one split upon conversion of shares to trust units on July 23, 2002.

The improvement in the Fund's operating results has been primarily the result of revenue and margin increases in its core freight operations as well as positive contributions from acquisitions. Details of each operating segment's financial performance are set out below.

### Results from Operations

#### Freight Transportation

(unaudited)

Period ended June 30

	Three Months				Six Months			
	2004		2003		2004		2003	
(in millions)								
Revenue	\$ 83.9	100.0%	\$ 65.8	100.0%	\$ 156.8	100.0%	\$ 135.1	100.0%
EBITDA	11.5	13.7	7.9	12.0	20.2	12.9	15.9	11.8
Amortization	2.8	3.3	2.0	3.0	4.9	3.1	4.1	3.1
Interest	1.0	1.2	1.3	2.0	2.0	1.3	3.1	2.3
EBT	\$ 7.7	9.2%	\$ 4.6	7.0%	\$ 13.3	8.5%	\$ 8.7	6.4%

Both years reflect allocations of head office costs. In the MD&A in the 2003 second quarter interim report to unitholders, the freight transportation segment bore 100% of the head office costs to provide better comparability to 2002.

Second quarter revenues have increased over the prior year by \$11 million (\$15 million year-to-date) due to the acquisitions of KTS, Clark Transportation, Elgin Cartage and Olinyk Trucking in 2004 as well as the private fleet of Canada Starch Company in May 2003. These operations have also contributed \$2.0 million in EBITDA in the second quarter and \$2.4 million for the year-to-date.

Management has negotiated rate increases with many of its customers resulting in increased second quarter revenue of approximately \$2.0 million and \$3.2 million for the year-to-date. These increases have helped offset the impact of cost increases borne in 2003. Core freight operations have also benefited from increased general economic activity.

Pay rates for company drivers and owner-operators were increased in 2003 in an effort to compete more effectively in this labour market. Management has continued to monitor its remuneration packages in 2004 and has granted further pay increases to remain competitive. These efforts have contributed to increased overall numbers of owner-operators and company drivers working in core operations and added revenue of \$2.5 million in the second quarter and \$3.0 million for the year-to-date. The pay increases also caused operating costs to rise by approximately \$1.0 million in the second quarter of 2004 and

\$1.7 million for the year-to-date compared to the same periods in 2003.

Insurance premiums in the second quarter were \$800,000 higher than they were in 2003 and \$1.1 million higher year-to-date. Management believes that the increase in these costs is a result of the lingering effects of September 11, 2001 and the fact that there are a limited number of insurers in the transportation segment. Management has been negotiating with its customers for rate increases to compensate for increased insurance premiums.

Foreign exchange losses in the second quarter of 2004 were \$600,000 lower than they were in the same period in 2003 and \$1.2 million lower for the year-to-date.

Accident claim costs in the second quarter were \$150,000 lower than they were in 2004 than they were in the same period in 2003 and were \$750,000 lower for the year-to-date. The poorer accident experience last year arose mostly from harsher winter weather conditions.

Volumes from the Fund's customers in the construction industry reach their peak in the summer and autumn but drop off with winter weather. Harsh winter weather conditions hinder traffic and increase operating costs. In addition, many customers either shut down their production facilities or otherwise ship less product during the Christmas holiday season which adversely affects fourth quarter revenues.

### School Bus Transportation

(unaudited)

Period ended June 30

(in millions)

	Three Months				Six Months			
	2004		2003		2004		2003	
<b>Revenue</b>	<b>\$ 7.3</b>	<b>100.0%</b>	<b>\$ 6.9</b>	<b>100.0%</b>	<b>\$ 14.2</b>	<b>100.0%</b>	<b>\$ 13.0</b>	<b>100.0%</b>
EBITDA	<b>2.0</b>	<b>27.4</b>	2.3	33.3	<b>3.8</b>	<b>26.8</b>	4.0	30.8
Amortization	<b>1.2</b>	<b>16.4</b>	1.1	15.9	<b>2.5</b>	<b>17.6</b>	2.2	16.9
Interest	<b>0.3</b>	<b>4.1</b>	0.4	5.8	<b>0.6</b>	<b>4.3</b>	0.5	3.9
<b>EBT</b>	<b>\$ 0.5</b>	<b>6.9%</b>	<b>\$ 0.8</b>	<b>11.6%</b>	<b>\$ 0.7</b>	<b>4.9%</b>	<b>\$ 1.3</b>	<b>10.0%</b>

Includes allocations of head office costs.

The acquisition of Robert Lindsay Limited, on May 1, 2003, contributed \$200,000 of added revenue in the second quarter of 2004 and \$400,000 year-to-date. Revenue growth has also resulted from successful bids for additional school bus routes and rate increases. Insurance premiums were \$150,000 higher in the second quarter of 2004 than they were in 2003 and higher by \$400,000 year-to-date. Fuel costs were \$100,000 higher in the second quarter in 2004 than they were in 2003 and higher by \$300,000 year-to-date.

Revenues from school bus operations fluctuate with the number of school days in a period. During the summer months, revenue is derived solely from private charter services. Accordingly, the Fund's school bus operations

typically incur operating losses during July and August compared to steady profits during the balance of the year save for the Christmas and March breaks.

### Cash Flow

Cash flow from operating activities before changes in non-cash working capital balances amounted to \$12.0 million during the quarter compared to \$8.8 million last year. For the year-to-date, cash flow from operating activities before changes in non-cash working capital balances amounted to \$21.1 million compared to \$16.3 million last year. Non-cash working capital increased in the quarter by \$5.6 million and by \$12.4 million for the year-to-date. This was due primarily to the increase in accounts receivable which arose from

substantially increased volumes and some deterioration in aging. In addition, payments were made during the quarter

on account of bonuses and to satisfy amounts owing to partner carriers that provided services over the winter.

## UNITHOLDER DISTRIBUTIONS

### Distributable Cash (1)

(unaudited)

Period ended June 30

(in millions except per unit amounts)

	Three Months		Six Months	
	2004	2003	2004	2003
Cash flow from operating activities	\$ 6,469	\$ 8,837	\$ 8,688	\$ 16,092
Proceeds from sale of property and equipment <sup>(2)</sup>	802	438	1,253	1,245
Net change in non-cash working capital <sup>(3)</sup>	5,554	(6)	12,424	227
Maintenance capital expenditures <sup>(1) (4)</sup>	(2,694)	(1,405)	(2,960)	(2,531)
Distributable cash	\$ 10,131	\$ 7,864	\$ 19,405	\$ 15,033
Distributions declared	8,654	7,415	16,518	14,831
Distributable cash per unit	\$ 0.37	\$ 0.33	\$ 0.73	\$ 0.63
Distributions declared per unit	0.31	0.31	0.63	0.63
Weighted average number of units outstanding	27,673	23,723	26,404	23,723
Capital expenditures				
Maintenance capital expenditures	\$ 2,694	\$ 1,405	\$ 2,960	\$ 2,531
Growth capital expenditures <sup>(1)</sup>	1,078	470	2,168	470
Total	\$ 3,772	\$ 1,875	\$ 5,128	\$ 3,001

1. Distributable cash, maintenance capital expenditures and growth capital expenditures are not measures recognized by GAAP, do not have standardized meanings prescribed by GAAP and are therefore unlikely to be comparable to similarly named measures presented by other issuers. However, management believes that they are important and useful measures for readers to evaluate the performance of the Fund.

2. Proceeds from the sale of property and equipment are considered distributable to unitholders when there are not any prior ranking claims on these funds.

3. Cash used to fund working capital or growth capital expenditures do not affect amounts that can be distributed to unitholders where financing is available. Similarly, cash generated by changes in non-cash working capital that is part of a normal operating cycle is not considered distributable to unitholders.

4. Maintenance capital expenditures refer to capital expenditures that are necessary to sustain current revenue levels.

Management makes distributions based on the actual and expected performance of operations and expected average net annual capital requirements to maintain its fleet. The trustees of the Fund assess the level of distribution each month based on the Fund's actual performance.

### Liquidity and Capital Resources

On January 8, 2004, the Fund entered into new borrowing arrangements that provided a \$37.5 million term loan and a \$30 million demand loan. The term loan is repayable with a single principal payment due December 15, 2008 and bears interest at a fixed rate of 6.589%. Proceeds from the term loan were used to repay certain existing indebtedness. The demand loan provides funding for acquisitions and other growth opportunities as well as for working capital purposes.

On March 1, 2004, the Fund issued 3.7 million subordinate voting trust units at a price of \$11.00 each. Some of the net proceeds of the offering have been used to fund acquisitions.

As at June 30, 2004, the Fund had \$30 million in cash as well as \$25 million available in its operating line. As at June 30, 2004, the current ratio was 2.5 : 1 and the total debt (including future tax obligations) to equity ratio was 0.6 : 1.

As at June 30, 2004, the Fund had 353 tractors and 537 trailers under operating leases as well as 832 tractors and 156 trailers that were under contract with owner-operators. As at June 30, 2004, the Fund owned 1,506 trailers, 151 tractors, 660 school buses and 19 of its major office and terminal facilities..

### Outstanding Units

As at July 31, 2004

(unaudited)

(in thousands)

Subordinate voting trust units	20,963
Class A LP units	5,273
Class B LP units	1,468
Total	27,704

## Contractual Obligations

(unaudited)  
(in millions)

	2004	2005	2006	2007	2008	2009	Thereafter	Total
Long-term debt	\$ 3.2	\$ 2.4	\$ 1.6	\$ 0.4	\$ 37.5	\$ –	\$ 2.3	\$ 47.4
Lease obligations	5.3	8.0	5.4	3.0	1.7	0.4	0.4	24.2
Total	\$ 8.5	\$ 10.4	\$ 7.0	\$ 3.4	\$ 39.2	\$ 0.4	\$ 2.7	\$ 71.6

Management has ordered 75 new tractors that will replace some of the tractors of newly acquired operations. Delivery of these units is expected in the second half of the year and financing will be provided through operating leases. In addition, the Fund had 160 trailers at the beginning of the year under operating leases that had expiration dates throughout 2004. These trailers are being replaced with 144 new trailers that are being financed through operating leases. Contractual obligations will increase this year accordingly.

### Changes in Accounting Policies and Recommendations

The CICA has issued new recommendations on the recognition of asset retirement obligations, which establishes standards for recognizing, measuring and disclosing liabilities for asset retirement obligations and the associated asset retirement costs. A liability is recognized at fair value when an obligation is incurred and it can be reasonably estimated. The asset retirement cost is allocated to expense using a systematic and rational method over the estimated useful life of the related asset. The recommendations are to be applied for fiscal years beginning on or after January 1, 2004 and are not expected to have a material impact on the Fund.

The CICA has issued new recommendations on impairment of long-lived assets, which establishes standards for recognizing, measuring and disclosing impairment of long-lived assets held for use. An impairment is recognized when the carrying amount of an asset to be held and used exceeds the sum of undiscounted cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount exceeds its fair value. The recommendations are to be applied for fiscal years beginning on or after April 1, 2003. Management does not believe that the carrying values of its long-lived assets exceed their fair values.

On March 25, 2004, the Fund granted options to acquire trust units to key employees, directors and trustees to encourage their ownership of the Fund. The CICA has issued new recommendations recognizing stock-based compensation as an expense. Accordingly, the fair value method has been applied and a charge to earnings of \$330,000 has resulted from the granting of these options in the first quarter.

### Critical Accounting Estimates

Management's discussion and analysis in the Fund's 2003 annual report contains a discussion of critical accounting estimates. These estimates have remained substantially unchanged.

### Financial Instruments

The Fund periodically enters into foreign exchange forward contracts as hedges against its exposure to currency fluctuations. Gains or losses that are realized on the settlement of these contracts are classified as part of selling, general and administration expenses. No material gain or loss has been realized from the settlement of these contracts this year. As at June 30, 2004, the Fund had forward contracts to sell US\$9.0 million at an average contract exchange rate of CDN\$1.34.

### Business Risks

Management's discussion and analysis in the Fund's 2003 annual report contains a discussion of business risks. Those risks remain in effect as at June 30, 2004.

### Additional Information

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

### Forward-Looking Statements

Management's discussion and analysis contains certain forward-looking statements. These statements relate to future events or future performance. In some cases, 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 of management of the Fund with respect to future events. Actual events or results may differ materially. In evaluating these statements, readers should specifically consider various factors, including the risks outlined under "Risk Factors" in the Fund's Annual Information Form which is available at [www.sedar.com](http://www.sedar.com). These factors may cause actual results to differ materially from any forward-looking statement.

August 10, 2004

# **CONTRANS INCOME FUND**

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED  
JUNE 30, 2004

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*The consolidated financial statements have not been reviewed by the Fund's auditors.*

## CONSOLIDATED BALANCE SHEETS

(in thousands)

	As at	
	June 30 2004	December 31 2003
<b>Assets</b>	(unaudited)	(audited)
<b>Current Assets</b>		
Cash and cash equivalents	\$ 30,023	\$ 137
Accounts receivable	43,878	30,190
Other current assets	7,632	5,741
	<b>81,533</b>	36,068
<b>Property and Equipment</b>	<b>104,042</b>	91,777
<b>Goodwill and Intangible Assets (note 3)</b>	<b>39,696</b>	32,522
	<b>\$ 225,271</b>	\$ 160,367
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Operating loan (note 4)	\$ —	\$ 7,701
Accounts payable and accrued liabilities	25,135	22,783
Distributions payable	2,887	2,489
Income taxes payable	307	119
Current portion of long-term debt (note 4)	4,118	7,317
	<b>32,447</b>	40,409
<b>Long-term Debt (note 4)</b>	<b>43,264</b>	7,254
<b>Future Income Taxes</b>	<b>5,344</b>	5,463
	<b>81,055</b>	53,126
<b>Unitholders' Equity</b>		
Contributed surplus (note 5)	330	—
Trust units (note 6)	104,704	65,231
Retained earnings	39,182	42,010
	<b>144,216</b>	107,241
	<b>\$ 225,271</b>	\$ 160,367

The accompanying notes are an integral part of these statements.

Signed on behalf of the Board



Stan G. Dunford, Trustee



Archie M. Leach, C.A., Trustee

## CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands except per unit and share amounts)  
(unaudited)

	Three Months		Six Months	
	2004	2003	2004	2003
For the period ended June 30				
<b>Revenue</b>	<b>\$ 91,191</b>	\$ 72,742	<b>\$ 171,034</b>	\$ 148,081
Operating expenses	<b>69,622</b>	56,051	<b>132,227</b>	115,716
Selling, general and administration expenses	<b>8,699</b>	7,348	<b>16,471</b>	14,794
Amortization of property and equipment	<b>3,701</b>	3,289	<b>7,003</b>	6,615
Amortization of intangible assets	<b>479</b>	42	<b>656</b>	70
<b>Income From Operations</b>	<b>8,690</b>	6,012	<b>14,677</b>	10,886
Net interest expense	<b>615</b>	408	<b>1,201</b>	776
<b>Income Before Income Taxes</b>	<b>8,075</b>	5,604	<b>13,476</b>	10,110
Income taxes	<b>(361)</b>	105	<b>(214)</b>	100
<b>Net Income</b>	<b>\$ 8,436</b>	\$ 5,499	<b>\$ 13,690</b>	\$ 10,010
Net income per unit – basic and diluted	<b>\$ 0.30</b>	\$ 0.23	<b>\$ 0.52</b>	\$ 0.42
<b>Weighted Average Units Outstanding</b> – basic and diluted	<b>27,673</b>	23,723	<b>26,404</b>	23,723

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(in thousands)  
(unaudited)

	Three Months		Six Months	
	2004	2003	2004	2003
For the period ended June 30				
<b>Retained Earnings – Beginning of Period</b>	<b>\$ 39,400</b>	\$ 50,982	<b>\$ 42,010</b>	\$ 53,887
Net income for the period	<b>8,436</b>	5,499	<b>13,690</b>	10,010
Distributions declared	<b>(8,654)</b>	(7,415)	<b>(16,518)</b>	(14,831)
<b>Retained Earnings – End of Period</b>	<b>\$ 39,182</b>	\$ 49,066	<b>\$ 39,182</b>	\$ 49,066

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENTS OF CASH FLOW

(in thousands)  
(unaudited)

For the period ended June 30	Three Months		Six Months	
	2004	2003	2004	2003
<b>Cash provided by (used in)</b>				
<b>Operating Activities</b>				
Net income	\$ 8,436	\$ 5,499	\$ 13,690	\$ 10,010
Items not affecting cash				
Unit-based compensation cost (note 5)	—	—	330	—
Amortization of property and equipment	3,701	3,289	7,003	6,615
Amortization of intangible assets	479	42	656	70
Future income taxes	(521)	30	(481)	(50)
Gain on sale of property and equipment	(72)	(29)	(86)	(326)
	12,023	8,831	21,112	16,319
Net change in non-cash working capital (note 8)	(5,554)	6	(12,424)	(227)
	6,469	8,837	8,688	16,092
<b>Investing Activities</b>				
Expended on acquisitions (note 2)	(9,714)	(4,710)	(17,665)	(5,710)
Proceeds from sale of property and equipment	802	438	1,253	1,245
Purchase of property and equipment	(3,772)	(1,875)	(5,128)	(3,001)
	(12,684)	(6,147)	(21,540)	(7,466)
<b>Financing Activities</b>				
Distributions paid	(8,647)	(7,415)	(16,120)	(14,831)
Proceeds from long-term debt	—	288	37,500	288
Repayment of long-term debt	(3,286)	(1,308)	(9,774)	(3,126)
Proceeds from (repayment of) operating loan	—	4,348	(8,341)	4,348
Proceeds from issuance of trust units (note 6)	633	—	39,473	—
	(11,300)	(4,087)	42,738	(13,321)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(17,515)</b>	<b>(1,397)</b>	<b>29,886</b>	<b>(4,695)</b>
<b>Cash and Cash Equivalents – Beginning of Period</b>	<b>47,538</b>	<b>1,511</b>	<b>137</b>	<b>4,809</b>
<b>Cash and Cash Equivalents – End of Period</b>	<b>\$ 30,023</b>	<b>\$ 114</b>	<b>\$ 30,023</b>	<b>\$ 114</b>

The accompanying notes are an integral part of these statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(unaudited)  
(tabular amounts in thousands except for per unit amounts)

**1. Significant Accounting Policies**

(a) Basis of presentation

These unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements using the same accounting policies as were applied in the audited consolidated financial statements for the year ended December 31, 2003, except for the adoption of the fair value-based method of accounting for unit-

based compensation as described in note 5. They do not conform in all respects with disclosures required for annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Fund for the period ended December 31, 2003.

(b) 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.

**2. Acquisitions**

Six months ended June 30, 2004	Olinyk Trucking Ltd.	Elgin Cartage Limited	Clark Leasing Limited	Keruda Traffic Service Inc	Total
Accounts receivable	\$ 263	\$ 2,323	\$ 1,416	\$ 582	\$ 4,584
Other current assets	62	298	250	48	658
Property and equipment	562	9,371	4,318	1,056	15,307
Intangible assets					
Customer relationships	—	2,502	2,718	1,185	6,405
Non-competition agreement	315	500	565	45	1,425
<b>Fair value of assets acquired</b>	<b>1,202</b>	<b>14,994</b>	<b>9,267</b>	<b>2,916</b>	<b>28,379</b>
Operating loan	—	640	—	—	640
Accounts payable and accrued liabilities	219	1,664	1,343	901	4,127
Income taxes payable	6	464	30	—	500
Long-term debt	—	4,890	—	195	5,085
Future income taxes	80	282	—	—	362
<b>Fair value of liabilities assumed</b>	<b>305</b>	<b>7,940</b>	<b>1,373</b>	<b>1,096</b>	<b>10,714</b>
	<b>\$ 897</b>	<b>\$ 7,054</b>	<b>\$ 7,894</b>	<b>\$ 1,820</b>	<b>\$ 17,665</b>
<b>Consideration</b>					
Cash	\$ 897	\$ 7,054	\$ 7,894	\$ 1,820	\$ 17,665

On January 1, 2004, the Fund acquired all of the outstanding shares of Olinyk Trucking Ltd., a flatbed trucking operation located in Edmonton, Alberta.

On March 1, 2004, the Fund acquired all of the outstanding shares of Elgin Cartage Limited ("Elgin"). Located in London, Ontario, Elgin provides a range of truckload transportation services principally focused on transportation of industrial dry waste. Elgin also transports other bulk commodities in dump and liquid trailers. The business operates mainly within Ontario and Michigan. An additional \$1.5 million of consideration is payable contingent upon Elgin achieving certain performance objectives over the next three years. Any additional consideration that is paid will be charged to intangible assets.

On April 1, 2004, the Fund acquired all of the outstanding shares of Clark Leasing Limited ("Clark"). Located in Perth,

Ontario, Clark provides a range of truckload transportation services utilizing refrigerated and dry van trailers and ocean containers. The business operates mainly within Ontario, Quebec and the northeastern United States.

On June 1, 2004, the Fund acquired all of the outstanding shares of Keruda Traffic Service Inc. ("KTS"). Located in Waterford Ontario, KTS provides truckload transportation services utilizing dry van trailers mainly within Ontario, Michigan, Ohio and Indiana.

The purchase price of these acquisitions are subject to final adjustments.

The acquisitions have been accounted for by the purchase method and the results of operations from the acquisition date have been included in these financial statements.

### 3. Goodwill and Intangible Assets

	As at June 30, 2004	As at December 31, 2003
Goodwill	<b>\$ 29,135</b>	\$ 29,135
Intangible assets		
Customer relationships	<b>8,620</b>	2,215
Non-competition agreements	<b>2,835</b>	1,410
Accumulated amortization	<b>(894)</b>	(238)
Intangible assets net of amortization	<b>10,561</b>	3,387
	<b>\$ 39,696</b>	\$ 32,522

### 4. Long-term Debt

	As at June 30, 2004	As at December 31, 2003
Senior secured note payable with fixed interest rate of 6.589%	<b>\$ 37,500</b>	\$ —
Notes payable with fixed and floating interest rates between 5.5% and 9.1% (December 31, 2003 – 4.5% and 9.3%)	<b>7,579</b>	11,360
Floating rate term loans with interest at prime (December 31, 2003 – prime plus 0.25%)	<b>—</b>	1,000
Other unsecured loans with interest at varying rates and due dates	<b>2,303</b>	2,211
	<b>47,382</b>	14,571
Less: Current portion	<b>4,118</b>	7,317
	<b>\$ 43,264</b>	\$ 7,254

The senior secured note payable provides for monthly payments of interest only and the principal portion is repayable in full on December 15, 2008. Notes payable are repayable in equal monthly payments and mature at dates between August 2004 and December 2007. Liens on rolling stock with a net book value of approximately \$77 million have been provided as security for the senior secured note and the notes payable.

On January 8, 2004, the Fund entered into a new bank credit facility for \$30 million. This revolving, demand, operating facility also allows for the funding of acquisitions and other growth opportunities.

As at June 30, 2004, there were no restrictions preventing the Fund from making distributions to unitholders.

Aggregate minimum payments remaining on long-term debt are as follows:

Years ended December 31	
2004	\$ 3,182
2005	2,426
2006	1,619
2007	352
2008	37,500
2009	—
Thereafter	2,303
	<b>\$ 47,382</b>

### 5. Unit-based Compensation Plan

The Fund maintains a unit option plan to encourage ownership of the Fund by key employees, directors and trustees of the Fund. Under the terms of the plan, 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 subordinate voting trust units outstanding at the time of the granting of the options.

On March 25, 2004, the Fund granted 1,575,000 options to key employees, directors and trustees. At issuance, 20% of the options vested immediately and the remainder will vest at a rate of 20% annually over the next four anniversary dates. The exercise price is \$11.50, which was the closing trading price of the Fund on the day prior to the date of the grant of the options. Any unexercised options will expire on March 25, 2014. Options issued under the plan are non-transferable. 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.

The Fund accounts for its grants of options in accordance with the fair value-based method of accounting for unit-based compensation using a binomial model. The estimated grant-date fair value was \$0.47 per unit. Accordingly, the amount charged to compensation cost and contributed surplus during the period was \$330,000.

Below are the assumptions used to determine the fair value of the options on the grant date:

	2004	2003
Risk-free interest rate	<b>4.62%</b>	—
Expected life	<b>9 years</b>	—
Expected volatility	<b>20%</b>	—
Expected dividend yield	<b>10.87%</b>	—

## 6. Trust Units

### Issue of subordinate voting trust units

On March 1, 2004, the Fund issued 3.7 million subordinate voting trust units at a price of \$11.00 each. The net proceeds after deducting costs of the offering were \$38.3 million. Proceeds of the offering have been used to fund acquisitions and the remainder is available for future acquisitions for working capital purposes. The first cash distribution in which purchasers of this issue were entitled to participate was for the month of March 2004 with a record date of March 31, 2004 and a payment date of April 15, 2004.

The Fund also received proceeds of \$1.2 million from the issuance subordinate voting trust units under the dividend reinvestment plan and the optional cash plan for the six month period ended June 30, 2004.

	As at June 30, 2004		As at December 31, 2003	
	Units	\$	Units	\$
Subordinate voting trust units	<b>20,963</b>	<b>\$ 96,182</b>	16,970	\$ 56,465
Class A LP units	<b>5,273</b>	<b>7,224</b>	5,451	7,468
Class B LP units	<b>1,468</b>	<b>1,298</b>	1,468	1,298
Total	<b>27,704</b>	<b>\$ 104,704</b>	23,889	\$ 65,231

## 7. Financial Instruments

The Fund enters into foreign exchange forward contracts from time to time to manage its net exposure to currency fluctuations against the U.S. dollar. As at June 30, 2004, the Fund has outstanding forward contracts to sell US\$9.0 million with an average contract exchange rate of US\$1.34. These forward contracts expire through December 2004.

## 8. Cash Flow

Change in non-cash working capital

Period ended June 30

	Three Months		Six Months	
	2004	2003	2004	2003
Decrease (increase) in accounts receivable	<b>\$ (3,067)</b>	\$ 4,048	<b>\$ (9,104)</b>	\$ (1,243)
Increase in other current assets	<b>(162)</b>	(365)	<b>(1,233)</b>	(326)
Increase (decrease) in income taxes payable	<b>603</b>	(54)	<b>(312)</b>	(392)
Increase (decrease) in accounts payable and accrued liabilities	<b>(2,928)</b>	(3,623)	<b>(1,775)</b>	1,734
Net change in non-cash working capital	<b>\$ (5,554)</b>	\$ 6	<b>\$ (12,424)</b>	\$ (227)
Cash paid in respect of				
Interest	<b>\$ 594</b>	\$ 410	<b>\$ 1,302</b>	\$ 787
Income taxes (net of refunds received)	<b>(443)</b>	129	<b>579</b>	542

## 9. Segmented Information

The Fund operates in the freight transportation industry and in the school bus transportation industry, both based in Canada. There have been no transactions between operating segments except for interest charges on long-term note indentures. Costs incurred at the Fund's head office, denoted as "Other" in the table below, are allocated to each operating segment.

Six months ended June 30, 2004	Revenue	Net interest expense (income)	Amortization of property and equipment	Income (loss) before income taxes	Total assets	Capital expenditures
Freight	\$ 156,848	\$ 2,012	\$ 4,339	\$ 13,264	\$ 115,344	\$ 4,000
School bus	14,186	569	2,410	678	38,387	822
Other	—	(1,380)	254	(466)	71,540	306
	\$ 171,034	\$ 1,201	\$ 7,003	\$ 13,476	\$ 225,271	\$ 5,128

Three months ended June 30, 2004	Revenue	Net interest expense (income)	Amortization of property and equipment	Income (loss) before income taxes	Total assets	Capital expenditures
Freight	\$ 83,907	\$ 1,004	\$ 2,373	\$ 7,700	\$ 115,344	\$ 2,846
School bus	7,284	279	1,190	512	38,387	620
Other	—	(668)	138	(137)	71,540	306
	\$ 91,191	\$ 615	\$ 3,701	\$ 8,075	\$ 225,271	\$ 3,772

Six months ended June 30, 2003	Revenue	Net interest expense (income)	Amortization of property and equipment	Income before income taxes	Total assets	Capital expenditures
Freight	\$ 135,054	\$ 3,119	\$ 4,153	\$ 8,681	\$ 103,484	\$ 1,101
School bus	13,027	490	2,215	1,329	46,740	1,118
Other	—	(2,833)	247	100	19,709	782
	\$ 148,081	\$ 776	\$ 6,615	\$ 10,110	\$ 169,933	\$ 3,001

Three months ended June 30, 2003	Revenue	Net interest expense (income)	Amortization of property and equipment	Income before income taxes	Total assets	Capital expenditures
Freight	\$ 65,841	\$ 1,346	\$ 2,028	\$ 4,601	\$ 103,484	\$ 69
School bus	6,901	440	1,125	819	46,740	1,024
Other	—	(1,378)	136	184	19,709	782
	\$ 72,742	\$ 408	\$ 3,289	\$ 5,604	\$ 169,933	\$ 1,875

## 10. Comparative Figures

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

## 11. Seasonality

Both the Fund's freight transportation and busing operations are subject to seasonal influences. Freight transportation volumes historically peak during the second and third quarter of the year. Freight shipments in the first and fourth quarters are adversely affected by winter weather conditions and plant closings during the Christmas holiday season. The Fund's school bus operations generate relatively little revenue during July and August when schools are not in session.



**Principal Office**  
Contrans Income Fund  
1179 Ridgeway Road  
Woodstock, Ontario N4S 8P6  
(519) 421-4600  
Website: [www.contrans.ca](http://www.contrans.ca)