

# ***CONTRANS INCOME FUND***

*Third Quarter Report  
September 30, 2005*

*3*

---



## REPORT FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER



As previously announced, Contrans sold its school bus business in the third quarter for net cash proceeds of approximately \$55 million. In October, we invested approximately \$20 million to acquire L.A. Dalton Systems Inc. and Hopefield Trucking Limited, two flatbed companies located in Southern Ontario. We expect that these two acquisitions alone will substantially replace the distributable cash that our school bus business had been generating. In addition, the trustees of Contrans have approved the payment of a special distribution of \$0.23 per unit, payable on January 16, 2006 to unitholders of record as at December 31, 2005 to nullify any adverse tax consequences that our unitholders may incur resulting from the sale of the school bus business. This special distribution will total approximately \$6.5 million and will leave about \$28.5 million of the sale proceeds to be redeployed.

The benefits and stability flowing from our diversified scope of operations have never been more apparent than they have been this year. Contrans provides transportation solutions to approximately 6,000 customers in various industries and geographic regions with its fleet of van, flatbed, dump dry bulk and liquid tank trailers as well as through logistics services. This diversity has allowed us to achieve overall success in 2005 despite the temporary loss of business suffered by our subsidiary, Brookville Carriers Van LP resulting from a labour disruption that commenced in December 2004 at Brookville's largest customer. This dispute was recently settled and normal operations are expected to be restored by the end of the current year.

Considerable public discussion has been generated in recent months concerning the future of income trusts in Canada. The federal government has issued a Consultation Paper, halted advance tax rulings and indicated that policy changes may be forthcoming within a matter of months. Contrans is a firm supporter of the current income trust model. We believe it has facilitated our own growth, provided meaningful returns to unitholders, and contributed to Canada's economic growth and productivity. We plan, on your behalf, to convey these views during the consultation process. We will communicate with you more fully in this regard in the coming weeks. Until then, I invite you to direct any views or concerns you may have surrounding this issue to your local Member of Parliament and the Minister of Finance. In the meantime, Contrans will continue to focus on growing its business in a prudent manner while creating value for unitholders in a challenging public policy environment.

Respectfully submitted,

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

Stan G. Dunford  
Chairman and Chief Executive Officer

November 10, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The attached consolidated financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles and reported in Canadian funds, detail the performance and financial position of Contrans Income Fund (the "Fund") for the periods ended September 30, 2005 and September 30, 2004. The financial statements should be read in conjunction with the analysis that follows.

### Financial Highlights

(unaudited)

Period ended September 30

	Three Months				Nine Months			
	2005		2004		2005		2004	
(in millions except per unit amounts)								
Revenue – transportation services <sup>(1)</sup>	\$ 83.3	100.0%	\$ 84.0	100.0%	\$ 252.1	100.0%	\$ 240.9	100.0%
Revenue – fuel surcharges	13.4		6.0		33.9		14.8	
Revenue – total	\$ 96.7		\$ 90.0		\$ 286.0		\$ 255.7	
Earnings before interest, taxes and amortization (EBITDA) <sup>(2)</sup>	\$ 10.9	13.1%	\$ 9.7	11.5%	\$ 31.0	12.3%	\$ 28.4	11.8%
Total amortization charges	2.8	3.4	3.1	3.7	8.3	3.3	8.3	3.4
Net interest expense	0.3	0.4	0.4	0.5	0.8	0.3	1.0	0.4
Earnings before taxes and discontinued operations (EBT)	7.8	9.3	6.2	7.3	21.9	8.7	19.1	8.0
Income taxes	0.3	0.4	0.2	0.2	0.7	0.3	—	—
Net income from continuing operations	\$ 7.5	8.9%	\$ 6.0	7.1%	\$ 21.2	8.4%	\$ 19.1	8.0%
Income (loss) from discontinued operations	(0.7)		(1.3)		1.0		(0.7)	
Net income	\$ 6.8		\$ 4.7		\$ 22.2		\$ 18.4	
Earnings per unit – basic and diluted								
Continuing operations	\$ 0.27		\$ 0.22		\$ 0.75		\$ 0.71	
Discontinued operations	(0.03)		(0.05)		0.04		(0.02)	
	\$ 0.24		\$ 0.17		\$ 0.79		\$ 0.69	
Distributable cash earned								
Continuing operations	\$ 0.38		\$ 0.32		\$ 1.00		\$ 0.96	
Discontinued operations	(0.02)		(0.12)		0.14		(0.03)	
	\$ 0.36		\$ 0.20		\$ 1.14		\$ 0.93	
Distributions declared per unit – regular <sup>(3)</sup>	\$ 0.31		\$ 0.31		\$ 0.94		\$ 0.94	

(1) 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. Therefore the percentages in this table were calculated using revenue from transportation services as a base.

(2) 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.

(3) The Trustees of the Fund have approved the payment of a special distribution of \$0.23 per unit, payable January 16, 2006 to unitholders of record as of December 31, 2005 to offset the potential income tax consequences arising from the disposal of the school bus business.

### Summary of Quarterly Results

(unaudited)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2005	2004	2005	2004	2005	2004	2004	2003
(in millions except per unit amounts)								
Revenue – transportation services	\$ 82.7	\$ 72.9	\$ 86.1	\$ 83.9	\$ 83.3	\$ 84.0	\$ 82.4	\$ 67.4
Revenue – fuel surcharges	9.0	3.6	11.4	5.3	13.4	6.0	9.1	2.7
Revenue	\$ 91.7	\$ 76.5	\$ 97.5	\$ 89.2	\$ 96.7	\$ 90.0	\$ 91.5	\$ 70.1
Net income from continuing operations	\$ 5.6	\$ 5.1	\$ 8.0	\$ 7.9	\$ 7.5	\$ 6.0	\$ 5.8	\$ 2.1
Earnings (loss) from discontinued operations	0.4	0.2	1.4	0.5	(0.7)	(1.3)	0.3	(0.2)
Net income	\$ 6.0	\$ 5.3	\$ 9.4	\$ 8.4	\$ 6.8	\$ 4.7	\$ 6.1	\$ 1.9
Earnings (loss) per unit – basic and diluted								
Continuing operations	\$ 0.20	\$ 0.20	\$ 0.28	\$ 0.28	\$ 0.27	\$ 0.22	\$ 0.21	\$ 0.09
Discontinued operations	0.01	0.01	0.05	0.02	(0.03)	(0.05)	0.01	(0.01)
	\$ 0.21	\$ 0.21	\$ 0.33	\$ 0.30	\$ 0.24	\$ 0.17	\$ 0.22	\$ 0.08

### Results from Continuing Operations

Acquisitions contributed additional revenue from transportation services ("revenue") of \$3.7 million in the third quarter of 2005 compared to 2004 (\$17.6 million year-to-date) and additional EBITDA of \$0.5 million (\$2.3 million year-to-date). Rate increases increased third quarter revenues by \$2.0 million (\$6.2 million year-to-date) and helped to offset increases in driver and owner-operator pay of \$0.7 million (\$2.3 million year-to-date). However, these net improvements were offset by deterioration in the performance of Brookville Carriers Van LP ("Brookville Van") whose revenues and EBITDA for the third quarter were \$3.9 million and \$1.4 million lower, respectively, compared to 2004 (\$10.6 million and \$3.9 million lower, respectively, year-to-date). Based in Saint John, New Brunswick, Brookville Van has suffered to date in 2005 from the effects of a nine-month-long strike at its largest customer, UPM, the plant closure of another customer in late 2004 and a relatively soft Maritime economy. Efforts to replace the lost business to maintain power count have been reasonably successful and Brookville Van is now beginning to resume service to UPM as its strike has been settled.

Costs directly associated with the closure of Fillion Transport Inc. in June 2005, approximated \$0.6 million.

### Seasonality

Generally, the second and fourth quarters are the strongest periods. 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.

### Discontinued Operations

On August 4, 2005 the Fund sold its school bus transportation segment for net cash proceeds of \$55.2 million which resulted in a gain of \$1.9 million before tax. After accounting for increased future income tax obligations, the sale resulted in a loss of \$0.2 million. Approximately \$1.7 million of the proceeds was used to retire certain equipment debt that had been secured by school bus assets.

This transaction will trigger a capital gain for tax purposes of approximately \$0.90 per unit that will flow through to unitholders. The trustees of the Fund approved a special distribution that will amount to approximately \$6.5 million (\$0.23 per unit) payable to unitholders of record as at December 31, 2005 to offset the potential income tax consequences of this transaction. This special distribution has been accrued for in the financial statements.

The following summarizes the school bus business' contribution to the Fund for the twelve-month period ended July 31, 2005:

(in thousands)	
Revenue	\$ 28,413
Earnings before income taxes	1,791
Operating cash flow	5,967
Net maintenance capital expenditures	1,309
Distributable cash	4,658
Total capital expenditures	\$ 2,308

In July 2004 the Fund spent \$1.4 million to replace school buses. In July of the current year no maintenance capital expenditures were made in anticipation of the sale of this business. The Fund's average requirement for net maintenance capital expenditures over the next ten years was expected to approximate \$4.0 million per year.

### Cash Flow

Cash flow from continuing operating activities before changes in non-cash working capital balances amounted to \$10.1 million in the third quarter of 2005 compared to \$9.1 million in the third quarter of 2004. For the year-to-date, cash flow from continuing operating activities before changes in non-cash working capital balances amounted to \$29.5 million in 2005 compared to \$27.1 million in 2004. Non-cash working capital decreased in the third quarter of 2005 by \$0.2 million (\$4.2 million increase year-to-date). The year-to-date working capital increase is a reflection of the seasonality of the business. In addition, cash outlays for licensing and insurance premiums have been incurred during the period.

## UNITHOLDER DISTRIBUTIONS

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

(unaudited)

Period ended September 30

(in thousands except per unit amounts)

	Three Months		Nine Months	
	2005	2004	2005	2004
Cash flow from operating activities	\$ 10,290	\$ 10,128	\$ 25,250	\$ 16,117
Net change in non-cash working capital <sup>(3)</sup>	(202)	(989)	4,240	10,971
Sale of property and equipment <sup>(2)</sup>	1,587	872	3,674	2,086
Maintenance capital expenditures <sup>(1) (4)</sup>	(1,093)	(1,238)	(5,251)	(3,377)
Distributable cash earned from continuing operations	10,582	8,773	27,913	25,797
Distributable cash earned from (used in) discontinued operations	(540)	(3,300)	3,834	(919)
Total distributable cash earned <sup>(7)</sup>	10,042	5,473	31,747	24,878
Distributions declared				
Regular	8,760	8,672	26,211	25,190
Special <sup>(6)</sup>	6,450	—	6,450	—
	15,210	8,672	32,661	25,190
Surplus (deficit) of distributable cash earned vs. regular distributions declared	\$ 1,282	\$ (3,199)	\$ 5,536	\$ (312)
Distributable cash earned per unit from:				
Continuing operations	\$ 0.38	\$ 0.32	\$ 1.00	\$ 0.96
Discontinued operations <sup>(5)</sup>	(0.02)	(0.12)	0.14	(0.03)
	0.36	0.20	1.14	0.93
Distributions declared per unit – regular <sup>(6)</sup>	0.31	0.31	0.94	0.94
Surplus (deficit) of distributable cash earned vs. regular distributions declared	\$ 0.05	\$ (0.11)	\$ 0.20	\$ (0.01)
Weighted average number of units outstanding – basic	28,016	27,732	27,938	26,850
Capital Expenditures – continuing operations				
Maintenance capital expenditures	\$ 1,093	\$ 1,238	\$ 5,251	\$ 3,377
Growth capital expenditures <sup>(1)</sup>	1,896	900	4,815	3,068
Total	\$ 2,989	\$ 2,138	\$ 10,066	\$ 6,445

(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 does not affect amounts that can be distributed to unitholders where financing is available for these purposes. 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.

(5) For the past three years, distributable cash from the Fund's school bus operations has been negative in the third quarter. Operating losses have been incurred in that quarter each year due to the school break and this has also been when the majority of maintenance capital expenditures have been incurred.

(6) A special distribution of \$0.23 per unit will be paid to unitholders of record as at December 31, 2005, payable on January 16, 2006 to offset the potential income tax consequences arising from the disposal of the school bus business.

(7) Management does not intend to make any further distributions to unitholders from the proceeds of the sale of the school bus business. Accordingly the proceeds have not been included in distributable cash.

Stronger earnings performance has resulted in distributable cash from continuing operations in 2005 exceeding that of 2004 although maintenance capital expenditures have increased as more equipment reached an age where it became economically beneficial to purchase replacement equipment. The Fund keeps its equipment relatively new and well-

maintained. In addition the Fund has a refurbishment program for certain trailing fleets to prolong their working lives.

The trustees of the Fund assess the level of distribution each month based on the Fund's actual and expected performance and expected capital requirements to maintain its fleet.

## Liquidity and Capital Resources

(unaudited)

As at September 30, 2005

(in millions)

Cash and cash equivalents				\$ 66.1
Operating line cash available				26.2
Current ratio				3.1:1
Total debt (including future tax obligations) to equity ratio				0.6:1
Property and equipment	<b>Owned</b>	<b>Leased</b>	<b>Owner-operated</b>	<b>Total</b>
Tractors	135	384	775	1,294
Trailers	1,446	500	103	2,049
Major office and terminal locations	16	—	—	16

## Outstanding Units

(unaudited)

As at October 31, 2005

(in thousands)

Subordinate voting trust units	21,787
Class A LP units	4,810
Class B LP units	1,468
Total	28,065

## Normal Course Issuer Bid

The Fund announced on September 13, 2005 that it will make a normal course issuer bid (the "bid") to purchase 1,710,000 of its outstanding Subordinate Voting Trust Units through September 14, 2006. Management intends to buy back these units only if it feels such purchases will benefit remaining unitholders. Units purchased pursuant to the bid will be cancelled.

## Critical Accounting Estimates

Management is required to make significant estimates and assumptions in preparing its financial statements. Management's discussion and analysis in the Fund's 2004 annual report contains a discussion of critical accounting estimates on pages 10 and 11. These estimates have remained substantially unchanged. Furthermore, 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.

## Financial Instruments

The Fund, from time to time, enters into foreign exchange contracts to manage its exposure to currency fluctuations. As at September 30, 2005, the Fund had foreign exchange contracts with an aggregate value of US \$4,500,000 to sell US funds throughout the remainder of 2005. The contracts expire on a monthly basis over the remainder of the year and enable the Fund to sell US funds between \$1.20 and \$1.2695.

## Business Risks

Management's discussion and analysis in the Fund's 2004 annual report contains a discussion of business risks on

pages 11 and 12. Those risks, other than those that relate to the school bus business, remain in effect as at September 30, 2005.

In addition to those risks, there have been recent discussions regarding potential changes in government fiscal policy as it pertains to income trusts. If enacted, these changes could affect the Fund's future earnings as well as the amount of and tax attributes of the Fund's distributions.

## Transactions with Related Parties

Certain of the Fund's tractor maintenance and short-term rentals have been supplied by a company controlled by the Chairman of the Fund for consideration of \$0.7 million in the third quarter (\$2.3 million year-to-date). These transactions were carried out in the normal course of business and recorded at the exchange amounts, which management believes approximates an arm's length arrangement.

## 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.

November 10, 2005

## CONSOLIDATED BALANCE SHEETS

(in thousands)

As at	<b>September 30 2005</b>	<b>December 31 2004 (Note 5)</b>
<b>Assets</b>	(unaudited)	(audited)
<b>Current Assets</b>		
Cash and cash equivalents	\$ 66,112	\$ 20,699
Accounts receivable	45,765	41,474
Other current assets	6,458	5,332
Assets held for sale (Note 5)	—	54,719
	<b>118,335</b>	122,224
<b>Property and Equipment</b>	<b>76,275</b>	74,652
<b>Goodwill</b>	<b>12,681</b>	12,161
<b>Intangible Assets (Note 4)</b>	<b>10,096</b>	10,487
	<b>\$ 217,387</b>	\$ 219,524
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 27,859	\$ 26,291
Distributions payable	9,371	2,899
Income taxes payable	195	690
Current portion of long-term debt	605	2,797
Liabilities held for sale (Note 5)	—	3,318
	<b>38,030</b>	35,995
<b>Long-term Debt</b>	<b>39,893</b>	40,182
<b>Asset Retirement Obligations</b>	<b>898</b>	—
<b>Future Income Taxes</b>	<b>6,766</b>	4,240
	<b>85,587</b>	80,417
<b>Unitholders' Equity</b>		
Contributed surplus (Note 6)	493	330
Trust units	109,171	106,148
Retained earnings	22,136	32,629
	<b>131,800</b>	139,107
	<b>\$ 217,387</b>	\$ 219,524

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 EARNINGS

(in thousands except per unit amounts)  
(unaudited)

	Three Months		Nine Months	
	2005	2004 (Notes 5 and 8)	2005	2004 (Notes 5 and 8)
For the period ended September 30				
Revenue	\$ 96,738	\$ 89,994	\$ 286,005	\$ 255,721
Operating expenses	77,455	72,025	230,035	204,235
Selling, general and administration expenses	8,330	8,206	24,950	23,127
Amortization of property and equipment	2,491	2,571	7,384	7,164
Amortization of intangible assets	315	521	921	1,095
	8,147	6,671	22,715	20,100
Net interest expense	312	397	838	1,028
Income before income taxes and discontinued operations	7,835	6,274	21,877	19,072
Income taxes	280	187	752	(27)
<b>Net Income from Continuing Operations</b>	<b>7,555</b>	<b>6,087</b>	<b>21,125</b>	<b>19,099</b>
Income (loss) from discontinued operations (Note 5)	(753)	(1,348)	1,043	(670)
<b>Net Income</b>	<b>\$ 6,802</b>	<b>\$ 4,739</b>	<b>\$ 22,168</b>	<b>\$ 18,429</b>
Net income per unit – basic and diluted				
Continuing operations	\$ 0.27	\$ 0.22	\$ 0.75	\$ 0.71
Discontinued operations	(0.03)	(0.05)	0.04	(0.02)
	\$ 0.24	\$ 0.17	\$ 0.79	\$ 0.69
Weighted average number of units outstanding				
Basic	28,016	27,732	27,938	26,850
Diluted	28,316	27,859	28,243	26,877

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(in thousands)  
(unaudited)

	Three Months		Nine Months	
	2005	2004	2005	2004
For the period ended September 30				
Retained Earnings – Beginning of Period	\$ 30,544	\$ 39,182	\$ 32,629	\$ 42,010
Net income	6,802	4,739	22,168	18,429
Distributions declared	(15,210)	(8,672)	(32,661)	(25,190)
<b>Retained Earnings – End of Period</b>	<b>\$ 22,136</b>	<b>\$ 35,249</b>	<b>\$ 22,136</b>	<b>\$ 35,249</b>

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENTS OF CASH FLOW

(in thousands)  
(unaudited)

	Three Months		Nine Months	
	2005	2004 (Note 5)	2005	2004 (Note 5)
For the period ended September 30				
<b>Cash Provided by (Used in)</b>				
<b>Operating Activities</b>				
Net income from continuing operations	\$ 7,555	\$ 6,087	\$ 21,125	\$ 19,099
Items not affecting cash:				
Unit-based compensation cost (Note 6)	—	—	163	330
Unrealized foreign exchange gains (Note 3)	(123)	—	(154)	—
Asset retirement obligations – accretion	11	—	37	—
Asset retirement obligations – settlements	(131)	—	(131)	—
Amortization of property and equipment	2,491	2,571	7,384	7,164
Amortization of intangible assets	315	521	921	1,095
Future income taxes	166	117	498	(364)
Gain on sale of property and equipment	(196)	(157)	(353)	(236)
	<b>10,088</b>	9,139	<b>29,490</b>	27,088
Net change in non-cash working capital (Note 7)	<b>202</b>	989	<b>(4,240)</b>	(10,971)
	<b>10,290</b>	10,128	<b>25,250</b>	16,117
<b>Investing Activities</b>				
Sale of school bus business (Note 5)	<b>55,230</b>	—	<b>55,230</b>	—
Expended on acquisitions (Note 2)	<b>(1,250)</b>	—	<b>(2,270)</b>	(17,665)
Sale of property and equipment	<b>1,587</b>	872	<b>3,674</b>	2,086
Purchase of property and equipment	<b>(2,989)</b>	(2,138)	<b>(10,066)</b>	(6,445)
	<b>52,578</b>	(1,266)	<b>46,568</b>	(22,024)
<b>Financing Activities</b>				
Distributions paid	<b>(8,755)</b>	(8,666)	<b>(26,189)</b>	(24,786)
Proceeds from long-term debt	—	—	<b>548</b>	37,500
Repayment of long-term debt	<b>(1,897)</b>	(4,932)	<b>(2,754)</b>	(14,706)
Proceeds of operating loan	—	—	—	(8,341)
Proceeds from issuance of units	<b>772</b>	673	<b>3,023</b>	40,146
	<b>(9,880)</b>	(12,925)	<b>(25,372)</b>	29,813
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
Continuing operations	<b>52,988</b>	(4,063)	<b>46,446</b>	23,906
Discontinued operations (Note 5)	<b>(1,097)</b>	(3,514)	<b>(1,033)</b>	(1,597)
<b>Cash and Cash Equivalents – Beginning of Period</b>	<b>14,221</b>	30,023	<b>20,699</b>	137
<b>Cash and Cash Equivalents – End of Period</b>	<b>\$ 66,112</b>	\$ 22,446	<b>\$ 66,112</b>	\$ 22,446

The accompanying notes are an integral part of these statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the periods ended September 30, 2005 and 2004

(unaudited)

(tabular amounts in thousands except per unit amounts)

### I. 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, 2004. These financial statements 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 year ended December 31, 2004.

### 2. Acquisitions

	Wood	Overland	Total
Property and equipment	\$ 670	\$ 600	<b>\$ 1,270</b>
Intangible assets			
Customer relationships	130	250	<b>380</b>
Non-competition agreements	100	50	<b>150</b>
Goodwill	160	360	<b>520</b>
<b>Fair value of assets acquired</b>	<b>1,060</b>	<b>1,260</b>	<b>2,320</b>
Accounts payable and accrued liabilities	40	10	<b>50</b>
<b>Fair value of liabilities assumed</b>	<b>40</b>	<b>10</b>	<b>50</b>
<b>Consideration</b>			
Cash	\$ 1,020	\$ 1,250	<b>\$ 2,270</b>

On June 1, 2005, the Fund acquired all operating assets of Howard L. Wood Transport Ltd. ("Wood"). Located in Bowmanville, Ontario, Wood provides truck transportation services using dump trailers.

On August 1, 2005, the Fund acquired all operating assets of Overland Carriers Ltd. ("Overland"). Based in Alberta, Overland provides truck transportation services using pneumatic tank trailers.

These acquisitions have been accounted for by the purchase method and the results of operations from the acquisition dates have been included in these consolidated financial statements. The purchase prices are subject to final adjustments.

### 3. Financial Instruments

The Fund from time to time enters into foreign exchange contracts to manage its net exposure to currency fluctuations against the US dollar. As at September 30, 2005, the Fund had contracts with an aggregate value of US \$4,500,000 to sell US funds throughout the remainder of 2005. The contracts expire on a monthly basis over the year and enable the Fund to sell US funds at amounts between a minimum of \$1.20 and a maximum of \$1.2695. As at September 30, 2005, these forward foreign exchange contracts have been marked to market resulting in a gain of \$123,000 recognized in the third quarter (year-to-date gain of \$154,000).

### 4. Intangible Assets

As at	September 30 2005	December 31 2004
Customer relationships	<b>\$ 10,195</b>	\$ 9,815
Non-competition agreements	<b>2,259</b>	2,109
Accumulated amortization	<b>(2,358)</b>	(1,437)
	<b>\$ 10,096</b>	\$ 10,487

### 5. Assets Held for Sale and Discontinued Operations

On August 4, 2005, the Fund sold its school bus segment for net cash proceeds of \$55.2 million which is subject to adjustment. The effective closing date of this transaction was July 31, 2005. Results from operations of this segment are included in the Fund's consolidated financial statements up to and including this date. Accordingly, the operating results of the school bus operation have been disclosed as discontinued operations.

Comparative figures for prior periods have been restated to present this segment as a discontinued operation.

Period ended September 30

	Three Months		Nine Months	
	2005 <sup>(1)</sup>	2004	2005 <sup>(1)</sup>	2004
Revenue	\$ 550	\$ 2,856	\$ 18,351	\$ 17,041
Income (loss) from operating activities	\$ (587)	\$ (1,348)	\$ 1,209	\$ (670)
Gain on disposal before income tax provision	1,862	—	1,862	—
Future income tax provision	(2,028)	—	(2,028)	—
Income (loss) from discontinued operations	\$ (753)	\$ (1,348)	\$ 1,043	\$ (670)

(1) period ended July 31, 2005

The assets and liabilities held for sale were as follows:

As at	September 30 2005	December 31 2004
Accounts receivable	\$ —	\$ 1,469
Other current assets	—	998
Property and equipment	—	29,879
Goodwill	—	20,505
Intangibles	—	1,868
Assets held for sale	\$ —	\$ 54,719
Accounts payable and accrued liabilities	\$ —	\$ 1,491
Income taxes payable	—	9
Future income taxes	—	1,818
Liabilities held for sale	\$ —	\$ 3,318

The cash flows provided by (used in) discontinued operations were as follows:

For the period ended September 30

	Three Months		Nine Months	
	2005	2004	2005	2004
Cash flow provided by (used in) operating activities	\$ (1,099)	\$ 45	\$ 3,527	\$ 2,743
Cash flow provided by (used in) investing activities	2	(3,559)	(4,560)	(4,340)
Cash flow used in discontinued operations	\$ (1,097)	\$ (3,514)	\$ (1,033)	\$ (1,597)

## 6. 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 subordinate voting trust units outstanding at the time of the grant. Upon issuance, 20% of the options vested immediately and the remainder vest at a rate of 20% annually over the next four anniversary dates. The exercise prices were 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 the assumptions used to determine the fair value of the options on the grant dates:

Option grant dates	March 25, 2004 and March 1, 2005
Expiration dates	March 25, 2014 and March 1, 2015
Risk-free interest rate	4.62% and 4.60%
Expected life	9 years
Expected volatility	20%
Expected dividend yield	10.87% and 8.33%
Estimated grant-date fair value	\$0.47 and \$0.89 per unit
Exercise price	\$11.50 and \$14.90

Period ended September 30

	Three Months		Nine Months	
	2005	2004	2005	2004
Unit options outstanding, beginning of period	<b>1,523</b>	1,575	<b>1,540</b>	—
Granted	<b>—</b>	—	<b>25</b>	1,575
Cancelled	<b>(5)</b>	(35)	<b>(5)</b>	(35)
Exercised	<b>—</b>	—	<b>(42)</b>	—
Unit options outstanding, end of period	<b>1,518</b>	1,540	<b>1,518</b>	1,540
Unit options exercisable, end of period	<b>577</b>	308	<b>577</b>	308
Amount charged to compensation expense and contributed surplus	<b>\$ —</b>	\$ —	<b>\$ 163</b>	\$ 330

## 7. Cash Flow

Change in non-cash working capital:

Period ended September 30

	Three Months		Nine Months	
	2005	2004	2005	2004
Decrease (increase) in accounts receivable	<b>\$ (3,124)</b>	\$ 304	<b>\$ (4,291)</b>	\$ (8,063)
Decrease (increase) in other current assets	<b>239</b>	(398)	<b>(972)</b>	(1,773)
Increase (decrease) in accounts payable and accrued liabilities	<b>2,945</b>	950	<b>1,518</b>	(956)
Increase (decrease) in income taxes payable	<b>142</b>	133	<b>(495)</b>	(179)
Net change in non-cash working capital	<b>\$ 202</b>	\$ 989	<b>\$ (4,240)</b>	\$ (10,971)
Cash paid in respect of:				
Interest	<b>\$ 298</b>	\$ 397	<b>\$ 824</b>	\$ 1,129
Income taxes (net of refunds received)	<b>(28)</b>	(63)	<b>749</b>	516

## 8. Comparative Figures

The 2004 comparative figures have been reclassified to reflect amounts billed for fuel surcharge as revenue. The effect of the reclassification was to increase revenue and operating expenses each by \$14.8 million for the nine months ended September 30, 2004 and by \$6.0 million for the three months ended September 30, 2004.

## 9. Seasonality

The Fund is subject to seasonal influences. Freight transportation volumes historically peak during the second and fourth quarters of the year. Freight shipments in the first and fourth quarters can be adversely affected by winter weather conditions and plant closings during the Christmas holiday season.

## 10. Subsequent Events

On October 3, 2005, the Fund acquired all the outstanding shares of L.A. Dalton Systems Inc. ("L.A. Dalton"), a flatbed trucking operation based in Binbrook, Ontario.

On October 14, 2005, the Fund acquired all the outstanding shares of Hopefield Trucking Limited ("Hopefield"), a flatbed trucking operation based in Mississauga, Ontario.

Aggregate consideration for these acquisitions will approximate \$20 million and is subject to adjustment.





**Principal Office**

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