

# ***CONTRANS INCOME FUND***

*Second Quarter Report  
June 30, 2005*

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## REPORT FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER



*On August 4, 2005, Contrans succeeded in selling its school bus business for total consideration of approximately \$56 million, including \$54 million in cash. While we had improved the performance of school bus operations this year, this disposition will enable us to more aggressively grow our trucking operations where we feel the returns are greater and more consistent.*

*Our trucking operations continued to enjoy great success in the second quarter of 2005. The acquisitions that we made in 2004 have continued to have a positive impact on our results and we have achieved improved margins in other operations.*

*Remarkably, this success has not come as a result of a booming economy. In fact, this success has been achieved in spite of some very serious operating challenges. Management's ability to react quickly to changes in the business environment, however, has mitigated the effects of these challenges. This ability, in addition to management's unwavering focus on revenue quality and on opportunities to realize operating efficiencies, as well as our great customer base, has made Contrans even more resilient. This in turn has made our distributions more stable.*

*Respectfully submitted,*

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

*Stan G. Dunford*

*Chairman and Chief Executive Officer*

*August 9, 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 June 30, 2005 and June 30, 2004. The financial statements should be read in conjunction with the analysis that follows.

### Financial Highlights

(unaudited)

Period ended June 30

	Three Months				Six Months			
	2005		2004		2005		2004	
(in millions except per unit amounts)								
Revenue – transportation services <sup>(1)</sup>	\$ 86.1	100.0%	\$ 83.9	100.0%	\$ 168.8	100.0%	\$ 156.8	100.0%
Revenue – fuel surcharges	11.4		5.3		20.5		8.9	
Revenue – total	\$ 97.5		\$ 89.2		\$ 189.3		\$ 165.7	
Earnings before interest, taxes and amortization (EBITDA) <sup>(2)</sup>	\$ 11.3	13.1%	\$ 10.8	12.9%	\$ 20.1	11.9%	\$ 18.6	11.9%
Total amortization charges	2.8	3.3	2.9	3.5	5.5	3.3	5.2	3.3
Interest	0.3	0.3	0.3	0.4	0.5	0.3	0.6	0.4
Earnings before taxes and discontinued operations (EBT)	8.2	9.5	7.6	9.0	14.1	8.3	12.8	8.2
Income tax provision	0.2	0.2	(0.3)	(0.4)	0.5	0.3	(0.2)	(0.1)
Net income from continuing operations	\$ 8.0	9.3%	\$ 7.9	9.4%	\$ 13.6	8.0%	\$ 13.0	8.3%
Income from discontinued operations	1.4		0.5		1.8		0.7	
Net income	\$ 9.4		\$ 8.4		\$ 15.4		\$ 13.7	
Earnings per unit – basic								
Continuing operations	\$ 0.28		\$ 0.28		\$ 0.49		\$ 0.49	
Discontinued operations	0.05		0.02		0.06		0.03	
	\$ 0.33		\$ 0.30		\$ 0.55		\$ 0.52	
Earnings per unit – diluted								
Continuing operations	\$ 0.28		\$ 0.28		\$ 0.48		\$ 0.49	
Discontinued operations	0.05		0.02		0.06		0.03	
	\$ 0.33		\$ 0.30		\$ 0.54		\$ 0.52	
Distributions declared per unit	\$ 0.31		\$ 0.31		\$ 0.63		\$ 0.63	

(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.

### Summary of Quarterly Results

(unaudited)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2005	2004	2005	2004	2004	2003	2004	2003
(in millions except per unit amounts)								
Revenue – transportation services	\$ 82.7	\$ 72.9	\$ 86.1	\$ 83.9	\$ 84.0	\$ 67.6	\$ 82.4	\$ 67.4
Revenue – fuel surcharges	9.0	3.6	11.4	5.3	6.0	2.6	9.1	2.7
Revenue	\$ 91.7	\$ 76.5	\$ 97.5	\$ 89.2	\$ 90.0	\$ 70.2	\$ 91.5	\$ 70.1
Net income from continuing operations	\$ 5.6	\$ 5.1	\$ 8.0	\$ 7.9	\$ 6.0	\$ 6.8	\$ 5.8	\$ 2.1
Income from discontinued operations	0.4	0.2	1.4	0.5	(1.3)	(0.9)	0.3	(0.2)
Net income	\$ 6.0	\$ 5.3	\$ 9.4	\$ 8.4	\$ 4.7	\$ 5.9	\$ 6.1	\$ 1.9
Earnings per unit from continuing operations								
Basic	\$ 0.20	\$ 0.20	\$ 0.28	\$ 0.28	\$ 0.22	\$ 0.29	\$ 0.21	\$ 0.09
Diluted	0.20	0.20	0.28	0.28	0.22	0.29	0.21	0.09
Earnings per unit from discontinued operations								
Basic	\$ 0.01	\$ 0.01	\$ 0.05	\$ 0.02	\$ (0.05)	\$ (0.04)	\$ 0.01	\$ (0.01)
Diluted	0.01	0.01	0.05	0.02	(0.05)	(0.04)	0.01	(0.01)

### **Results from Continuing Operations**

Acquisitions contributed additional revenue from transportation services ("revenue") of \$3.4 million in the second quarter of 2005 compared to 2004 (\$13.9 million year-to-date) and additional EBITDA of \$0.4 million (\$1.8 million year-to-date). Rate increases increased second quarter revenues by \$2.2 million (\$4.2 million year-to-date) and helped to offset increases in driver and owner-operator pay of \$0.7 million (\$1.6 million year-to-date). However, these net improvements were offset by deterioration in the performance of Brookville Carriers Van LP ("Brookville Van"). This operation, based in Saint John, New Brunswick, has suffered from the effects of a continuing strike at one major customer, UPM, the plant closure of another customer in late 2004 and a relatively soft Maritime economy. Efforts to replace the lost business sufficiently to maintain power count have been reasonably successful and the Fund is well-positioned to service UPM when operations resume. However, Brookville Van's revenue for the second quarter was \$4.0 million lower compared to 2004 (\$6.7 million lower year-to-date) while this operation's second quarter EBITDA was \$1.5 million lower in 2005 than in 2004 (\$2.5 million lower year-to-date).

In June 2005, the Fund closed Fillion Transport Inc., an underperforming flatbed carrier based in Beloeil, Quebec. Costs directly associated with this closure are estimated to total \$0.6 million and have been included in second quarter results.

### **Seasonality**

Generally, the second and third quarters are the strongest periods for freight operations. 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**

While school bus business profitability improved in 2005, management felt that there is greater long-term potential value for unitholders through the redeployment of capital into trucking ventures. Accordingly, on August 4, 2005, the Fund entered into an agreement to sell its bus transportation segment for approximately \$56 million (subject to final adjustments). Of this amount, approximately \$2.0 million was used to retire certain equipment debt secured by school bus assets and the balance of the sale price was received in cash.

This sale is not expected to result in a material gain or loss for accounting purposes. However this transaction will trigger a capital gain for tax purposes of approximately \$0.90 per unit that will flow through to unitholders. Accordingly, 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 of December 31, 2005 to offset the adverse tax consequences of this transaction. The remainder of the sale proceeds will be available to fund growth opportunities and for working capital purposes.

The following summarizes the school bus business' contribution to Contrans for the twelve month period ended June 30, 2005:

(in thousands)	
Revenue	\$28,216
Earnings before taxes	1,820
Operating Cash Flow	5,970
Distributable Cash	3,450
Net Maintenance CAPEX	2,520
Total CAPEX	3,742

The disposal of the school bus business reduces the Fund's average requirement for net maintenance capital expenditures over the next ten years by approximately \$4.0 million per year. Average requirements for net maintenance capital expenditures for continuing operations are estimated to be \$6.0 million per year. Actual expenditures may vary from year to year depending on the age and condition of equipment and on acquisitions. They may also be affected by regulatory changes.

### **Cash Flow**

Cash flow from continuing operating activities before changes in non-cash working capital balances amounted to \$10.9 million in the second quarter of 2005 compared to \$10.3 million in the second quarter of 2004. For the year-to-date, cash flow from continuing operating activities before changes in non-cash working capital balances amounted to \$19.4 million in 2005 compared to \$18.0 million in 2004. Non-cash working capital increased in the second quarter of 2005 by \$1.5 million (\$4.4 million year-to-date). The increase in non-cash working capital during the second quarter primarily resulted from the settlement of payroll-related obligations. In addition to this, year-to-date working capital increased reflecting the seasonality of the business. Revenue volumes are higher at most other parts of the year compared to late December and increased the Fund's working capital requirements accordingly. In addition, the Fund has made outlays for licensing and insurance premiums since the year end.

## UNITHOLDER DISTRIBUTIONS

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

(unaudited)

Period ended June 30

(in thousands except per unit amounts)

	Three Months		Six Months	
	2005	2004	2005	2004
Cash flow from operating activities	\$ 9,380	\$ 5,032	\$ 14,960	\$ 5,989
Proceeds from sale of property and equipment <sup>(2)</sup>	951	772	2,087	1,214
Net change in non-cash working capital <sup>(3)</sup>	1,495	5,250	4,442	11,960
Maintenance capital expenditures <sup>(1) (4)</sup>	(2,044)	(2,075)	(4,158)	(2,139)
Distributable cash earned from continuing operations	9,782	8,979	17,331	17,024
Distributable cash earned from discontinued operations	2,876	1,155	4,374	2,379
Total distributable cash earned	12,658	10,134	21,705	19,403
Distributions declared	(8,741)	(8,654)	(17,451)	(16,518)
Surplus of distributable cash earned vs. distributions declared	\$ 3,917	\$ 1,480	\$ 4,254	\$ 2,885
Distributable cash earned per unit (basic) from:				
Continuing operations	\$ 0.35	\$ 0.33	\$ 0.62	\$ 0.64
Discontinued operations <sup>(5)</sup>	0.10	0.04	0.16	0.09
	0.45	0.37	0.78	0.73
Distributions declared per unit	(0.31)	(0.31)	(0.63)	(0.63)
Surplus of distributable cash earned vs. distributions declared	\$ 0.14	\$ 0.06	\$ 0.15	\$ 0.10
Weighted average number of units outstanding – basic	27,946	27,673	27,898	26,404
Capital expenditures – continuing operations				
Maintenance capital expenditures	\$ 2,044	\$ 2,075	\$ 4,158	\$ 2,139
Growth capital expenditures <sup>(1)</sup>	1,602	1,078	2,919	2,168
Total	\$ 3,646	\$ 3,153	\$ 7,077	\$ 4,307

(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.

Stronger earnings performance has resulted in distributable cash in 2005 exceeding that of 2004 although maintenance capital expenditures have increased. The Fund has kept its equipment relatively new and well-maintained. In addition, the Fund has a refurbishment program for certain trailing fleets to ensure the equipment remains safe, efficient and mechanically fit. However, in 2005 the amount of maintenance capital expenditures has been and is expected to

continue to be higher than in recent years as more equipment is reaching an age where it is economically beneficial to purchase replacement equipment.

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 June 30, 2005

(in millions)

Cash and cash equivalents	\$ 14.2
Operating line cash available – continuing operations	23.3
Current ratio – excluding assets and liabilities held for sale	2.1:1
Total debt (including future tax obligations but excluding liabilities held for sale) to equity ratio	0.5:1

Property and equipment – continuing operations	Owned	Leased	Owner-operated	Total
Tractors	144	382	776	1,302
Trailers	1,489	480	106	2,075
Major office and terminal locations	17	—	—	17

## Outstanding Units

(unaudited)

As at July 31, 2005

(in thousands)

Subordinate voting trust units	21,728
Class A LP units	4,810
Class B LP units	1,468
Total	28,006

## 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 June 30, 2005, the Fund had foreign exchange contracts with an aggregate value of US \$9,000,000 to sell U.S. 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 U.S. dollars between \$1.20 and \$1.2695. The Fund applied the standards set out in the CICA's Accounting Guideline 13, "Hedging Relationships" and the CICA's Emerging Issue Committee Abstract 128, "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments" to account for these contracts.

## 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 remain in effect as at June 30, 2005.

## 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 \$0.8 million in the second quarter (\$1.6 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.

August 9, 2005

## CONSOLIDATED BALANCE SHEETS

(in thousands)

As at	June 30 2005	December 31 2004 (Note 5)
<b>Assets</b>	(unaudited)	(audited)
<b>Current Assets</b>		
Cash and cash equivalents	\$ 14,221	\$ 20,699
Accounts receivable	42,641	41,474
Other current assets	6,574	5,332
Assets held for sale (Note 5)	56,694	54,719
	<b>120,130</b>	122,224
<b>Property and Equipment</b>	<b>76,325</b>	74,652
<b>Goodwill</b>	<b>12,321</b>	12,161
<b>Intangible Assets (Note 4)</b>	<b>10,111</b>	10,487
	<b>\$ 218,887</b>	\$ 219,524
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 24,905	\$ 26,291
Distributions payable	2,916	2,899
Income taxes payable	53	690
Current portion of long-term debt	2,889	2,797
Liabilities held for sale (Note 5)	3,481	3,318
	<b>34,244</b>	35,995
<b>Long-Term Debt</b>	<b>39,860</b>	40,182
<b>Asset Retirement Obligations</b>	<b>775</b>	—
<b>Future Income Taxes</b>	<b>4,572</b>	4,240
	<b>79,451</b>	80,417
<b>Unitholders' Equity</b>		
Contributed surplus (Note 6)	493	330
Trust units	108,399	106,148
Retained earnings	30,544	32,629
	<b>139,436</b>	139,107
	<b>\$ 218,887</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		Six Months	
	2005	2004 (Notes 5 and 8)	2005	2004 (Notes 5 and 8)
For the period ended June 30				
Revenue	\$ 97,535	\$ 89,163	\$ 189,267	\$ 165,727
Operating expenses	77,513	70,396	152,580	132,210
Selling, general and administration expenses	8,701	7,920	16,620	14,921
Amortization of property and equipment	2,513	2,511	4,893	4,593
Amortization of intangible assets	304	438	606	574
	8,504	7,898	14,568	13,429
Net interest expense	265	335	526	631
Income before income taxes and discontinued operations	8,239	7,563	14,042	12,798
Income taxes	291	(361)	472	(214)
<b>Net Income from Continuing Operations</b>	<b>7,948</b>	<b>7,924</b>	<b>13,570</b>	<b>13,012</b>
Income from discontinued operations (Note 5)	1,444	512	1,796	678
<b>Net Income</b>	<b>\$ 9,392</b>	<b>\$ 8,436</b>	<b>\$ 15,366</b>	<b>\$ 13,690</b>
Net income per unit – basic				
Continuing operations	\$ 0.28	\$ 0.28	\$ 0.49	\$ 0.49
Discontinued operations	0.05	0.02	0.06	0.03
	\$ 0.33	\$ 0.30	\$ 0.55	\$ 0.52
Net income per unit – diluted				
Continuing operations	\$ 0.28	\$ 0.28	\$ 0.48	\$ 0.49
Discontinued operations	0.05	0.02	0.06	0.03
	\$ 0.33	\$ 0.30	\$ 0.54	\$ 0.52
Weighted average number of units outstanding – basic	27,946	27,673	27,898	26,404
Weighted average number of units outstanding – diluted	28,318	27,673	28,266	26,404

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(in thousands)  
(unaudited)

	Three Months		Six Months	
	2005	2004	2005	2004
For the period ended June 30				
Retained Earnings – Beginning of Period	\$ 29,893	\$ 39,400	\$ 32,629	\$ 42,010
Net income	9,392	8,436	15,366	13,690
Distributions declared	(8,741)	(8,654)	(17,451)	(16,518)
<b>Retained Earnings – End of Period</b>	<b>\$ 30,544</b>	<b>\$ 39,182</b>	<b>\$ 30,544</b>	<b>\$ 39,182</b>

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
	2005	2004	2005	2004
		(Note 5)		(Note 5)
<b>Cash Provided by (Used in)</b>				
<b>Operating Activities</b>				
Net income from continuing operations	\$ 7,948	\$ 7,924	\$ 13,570	\$ 13,012
Items not affecting cash:				
Unit-based compensation cost (Note 6)	(20)	—	163	330
Unrealized loss (gain) on foreign exchange contracts (Note 3)	121	—	(31)	—
Asset retirement obligations accretion	26	—	26	—
Amortization of property and equipment	2,513	2,511	4,893	4,593
Amortization of intangible assets	304	438	606	574
Future income taxes	157	(521)	332	(481)
Gain on sale of property and equipment	(174)	(70)	(157)	(79)
	<b>10,875</b>	10,282	<b>19,402</b>	17,949
Net change in non-cash working capital (Note 7)	<b>(1,495)</b>	(5,250)	<b>(4,442)</b>	(11,960)
	<b>9,380</b>	5,032	<b>14,960</b>	5,989
<b>Investing Activities</b>				
Expended on acquisitions (Note 2)	(1,020)	(9,714)	(1,020)	(17,665)
Proceeds from sale of property and equipment	951	772	2,087	1,214
Purchase of property and equipment	(3,646)	(3,153)	(7,077)	(4,307)
	<b>(3,715)</b>	(12,095)	<b>(6,010)</b>	(20,758)
<b>Financing Activities</b>				
Distributions paid	(8,731)	(8,256)	(17,434)	(16,120)
Proceeds from long-term debt	548	—	548	37,500
Repayment of long-term debt	(273)	(3,285)	(857)	(9,774)
Repayment of operating loan	—	—	—	(8,341)
Proceeds from issuance of units	1,303	632	2,251	39,473
	<b>(7,153)</b>	(10,909)	<b>(15,492)</b>	42,738
Increase (Decrease) in Cash and Cash Equivalents from Continuing Operations	<b>(1,488)</b>	(17,972)	<b>(6,542)</b>	27,969
Increase (Decrease) in Cash and Cash Equivalents from Discontinued Operations	<b>(1,980)</b>	457	<b>64</b>	1,917
Cash and Cash Equivalents – Beginning of Period	<b>17,689</b>	47,538	<b>20,699</b>	137
Cash and Cash Equivalents – End of Period	<b>\$ 14,221</b>	\$ 30,023	<b>\$ 14,221</b>	\$ 30,023

The accompanying notes are an integral part of these statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the periods ended June 30, 2005 and 2004

(unaudited)

(tabular amounts in thousands except for 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
Property and equipment	<b>\$ 670</b>
Intangible assets	
Customer relationships	<b>130</b>
Non-competition agreements	<b>100</b>
Goodwill	<b>160</b>
<b>Fair value of assets acquired</b>	<b>1,060</b>
Accounts payable and accrued liabilities	<b>40</b>
<b>Fair value of liabilities acquired</b>	<b>40</b>
<b>Consideration</b>	
Cash	<b>\$ 1,020</b>

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

This acquisition has been accounted for by the purchase method and the results of operations from the acquisition date have been included in these consolidated financial statements. The purchase price is 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 U.S. dollar. The Fund applied the standards set out in the CICA's Accounting Guideline 13, "Hedging Relationships" and the CICA's Emerging Issue Committee abstract 128, "Accounting for Trading, Speculative or Non-hedging Derivative Financial Instruments" to account for these contracts. As at June 30, 2005, the Fund had contracts with an aggregate value of US \$9,000,000 to sell U.S.

funds throughout the remainder of 2005. The contracts expire on a monthly basis over the year and enable the Fund to sell U.S. dollars at amounts between a minimum of \$1.20 and a maximum of \$1.2695. Accordingly, as at June 30, 2005, these forward foreign exchange contracts have been marked to market resulting in a loss of \$121,000 recognized in the second quarter (year-to-date gain of \$31,000).

### 4. Intangible Assets

	June 30 2005	December 31 2004
As at		
Customer relationships	<b>\$ 9,945</b>	\$ 9,815
Non-competition agreements	<b>2,209</b>	2,109
Accumulated amortization	<b>(2,043)</b>	(1,437)
	<b>\$ 10,111</b>	\$ 10,487

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

On August 4, 2005, the Fund sold its school bus segment. Accordingly, the operating results of the school bus operation have been disclosed as discontinued operations. The assets and liabilities relating to the school bus segment have been recorded at the lower of cost or fair value less costs to sell and are classified as held for sale. There was no impairment charge required.

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

The assets and liabilities held for sale were as follows:

	June 30 2005	December 31 2004
As at		
Accounts receivable	<b>\$ 1,601</b>	\$ 1,469
Other current assets	<b>475</b>	998
	<b>2,076</b>	2,467
Property and equipment	<b>29,876</b>	29,879
Goodwill	<b>21,587</b>	20,505
Intangibles	<b>3,155</b>	1,868
	<b>54,618</b>	52,252
Assets held for sale	<b>\$ 56,694</b>	\$ 54,719
Accounts payable and accrued liabilities	<b>\$ 1,658</b>	\$ 1,491
Income taxes payable	<b>5</b>	9
	<b>1,663</b>	1,500
Future income taxes	<b>1,818</b>	1,818
Liabilities held for sale	<b>\$ 3,481</b>	\$ 3,318

## 5. Assets Held for Sale and Discontinued Operations – cont'd

The operating results were as follows:

	Three Months		Six Months	
	2005	2004	2005	2004
Sales	\$ 9,838	\$ 7,283	\$ 17,801	\$ 14,185
Income from discontinued operations	1,444	512	1,796	678

The cash flow provided by (used in) discontinued operations was as follows:

	Three Months		Six Months	
	2005	2004	2005	2004
Cash flow provided by operating activities	\$ 2,155	\$ 1,048	\$ 4,626	\$ 2,698
Cash flow used in investing activities	(4,135)	(591)	(4,562)	(781)
Cash flow provided by (used in) discontinued operations	\$ (1,980)	\$ 457	\$ 64	\$ 1,917

## 6. Unit-based Compensation Plans

The Fund maintains two unit option plans to encourage ownership of the Fund by directors, officers and key employees. Under the terms of the plans, 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. For both plans, 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 date:

	Plan 1	Plan 2
Date of inception	March 25, 2004	March 1, 2005
Date of expiration	March 25, 2014	March 1, 2015
Risk free interest rate	4.62%	4.60%
Expected life	9 years	9 years
Expected volatility	20%	20%
Expected yield	10.87%	8.33%
Estimated grant-date fair value	\$0.47 per unit	\$0.89 per unit
Exercise price	\$11.50	\$14.90

## 6. Unit-based Compensation Plans – cont'd

Options outstanding:

	<b>Plan 1</b>			
	<b>Three Months</b>		<b>Six Months</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
Options outstanding, beginning of period	<b>1,517</b>	1,575	<b>1,540</b>	—
Granted	<b>—</b>	—	<b>—</b>	1,575
Exercised	<b>(19)</b>	—	<b>(42)</b>	—
Options outstanding, end of period	<b>1,498</b>	1,575	<b>1,498</b>	1,575
Options exercisable, end of period	<b>574</b>	308	<b>574</b>	308
Amount charged to compensation expense and contributed surplus	<b>\$ (30)</b>	\$ —	<b>\$ 153</b>	\$ 330

	<b>Plan 2</b>			
	<b>Three Months</b>		<b>Six Months</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
Options outstanding, beginning of period	<b>25</b>	—	<b>—</b>	—
Granted	<b>—</b>	—	<b>25</b>	—
Options outstanding, end of period	<b>25</b>	—	<b>25</b>	—
Options exercisable, end of period	<b>5</b>	—	<b>5</b>	—
Amount charged to compensation expense and contributed surplus	<b>\$ 10</b>	\$ —	<b>\$ 10</b>	\$ —

## 7. Cash Flow

Change in non-cash working capital:

	<b>Three Months</b>		<b>Six Months</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
Decrease (increase) in accounts receivable	<b>\$ 201</b>	\$ (2,769)	<b>\$ (1,167)</b>	\$ (8,367)
Increase in other current assets	<b>(367)</b>	(38)	<b>(1,211)</b>	(1,375)
Decrease in accounts payable and accrued liabilities	<b>(1,593)</b>	(3,046)	<b>(1,427)</b>	(1,906)
Increase (decrease) in income taxes payable	<b>264</b>	603	<b>(637)</b>	(312)
Net change in non-cash working capital	<b>\$ (1,495)</b>	\$ (5,250)	<b>\$ (4,442)</b>	\$ (11,960)
Cash paid in respect of:				
Interest	<b>\$ 265</b>	\$ 314	<b>\$ 526</b>	\$ 732
Income taxes (net of refunds received)	<b>(129)</b>	(443)	<b>777</b>	579

## **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 \$8,878,000 for the six months ended June 30, 2004 and by \$5,255,000 for the three months ended June 30, 2004.

## **9. Seasonality**

The Fund is subject to seasonal influences. Freight transportation volumes have historically peaked in the second and third quarters 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.

## **10. Subsequent Event**

On August 4, 2005, the Fund sold its school bus segment for consideration of approximately \$56 million, subject to adjustment. The effective closing date of this transaction was July 31, 2005. Results from operations of this segment will be included in the Fund's consolidated financial statements up to and including this date.



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