

# **CONTRANS INCOME FUND**

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INITIAL ANNUAL INFORMATION FORM

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## GLOSSARY OF TERMS

"**Act**" means the *Business Corporations Act*, R.S.O. 1990, c.B.16, as amended, including the regulations promulgated thereunder.

"**Administration Agreement**" means the agreement between Contrans and the Fund dated April 16, 2002 pursuant to which Contrans agreed to provide certain administrative and support services to the Fund.

"**affiliate**" or "**associate**" when used to indicate a relationship with a person or company, has the same meaning as set forth in the *Securities Act* (Ontario) (but applied as if each relevant entity is a corporation).

"**Arrangement Agreement**" means the agreement dated May 21, 2002, as amended July 10, 2002, among Pre-Amalgamated Contrans, Newco, the Operating Trust and the Fund pursuant to which such parties implemented the Plan of Arrangement.

"**Board of Directors**" or "**Board**" means the board of directors of Contrans.

"**Business Day**" means any day other than a Saturday, Sunday or statutory holiday in the City of Toronto, Ontario.

"**Class A LP Units**" means Class A limited partnership units of the Partnership, which are indirectly exchangeable under the Exchange Agreements for Subordinate Voting Trust Units at any time at the option of the holder and, in certain other circumstances, at the option of the Operating Trust.

"**Class B LP Units**" means Class B limited partnership units of the Partnership, which are indirectly exchangeable under the Exchange Agreements for Subordinate Voting Trust Units at any time at the option of the holder and, in certain other circumstances, at the option of the Operating Trust.

"**Class C LP Units**" means Class C limited partnership units of the Partnership, all of which are held by Contrans or the Operating Trust.

"**Contrans**" means Contrans Corp. and, as the context requires, its predecessor Pre-Amalgamation Contrans and its direct and indirect wholly-owned subsidiaries and interests in partnerships.

"**Contrans Shares**" means common shares in the capital of Contrans.

"**Contrans Notes**" means unsecured subordinated notes of Contrans.

"**COT Declaration of Trust**" means the declaration of trust dated as of April 16, 2002 pursuant to which the Operating Trust was created.

"**Declaration of Trust**" means the declaration of trust dated as of April 16, 2002 pursuant to which the Fund was created.

"**Distributable Cash**" means all amounts to be distributed to Unitholders in accordance with the Declaration of Trust during any applicable period. Distributable Cash is not an earnings measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, Distributable Cash may not be comparable to similar measures presented by other issuers.

"**Distribution Date**" means, in respect of a Distribution Record Date, the date on which the Trustees of the Fund are required to make the distribution of Distributable Cash, declared as of such Distribution Record Date, which date will be on or about the 15th of the month immediately following such Distribution Record Date (but in respect of distributions for the month of December in each year, on or about December 31 of such year) or such other date or dates as may be selected or determined from time to time by the Trustees of the Fund or otherwise in accordance with the Declaration of Trust, with the first distribution in respect of the period from July 23, 2002 to August 31, 2002 made on September 15, 2002 to Unitholders of record on August 30, 2002.

**"Distribution Record Date"** means, until otherwise determined by the Trustees of the Fund, the last Business Day of each month.

**"EBITDA"** means earnings before interest expense, income taxes, depreciation and amortization and extraordinary items. EBITDA is not a recognized measure under GAAP. Management believes that in addition to net income (loss), EBITDA is a useful supplemental measure as it provides readers with an indication of cash available for distribution prior to debt service, capital expenditures and income taxes. Readers should be cautioned, however, that EBITDA should not be construed as an alternative to net income (loss) determined in accordance with GAAP as an indicator of the Fund's performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. The Fund's method of calculating EBITDA may differ from other issuers and, accordingly, EBITDA may not be comparable to measures used by other issuers.

**"Exchange Agreements"** means the exchange agreements entered into between the Operating Trust and the holders of Partnership Units pursuant to which, among other things, the Operating Trust granted the Exchange Right to each of the holders of Partnership Units and the holders of Partnership Units agreed to effect such exchange at the option of the Operating Trust in certain circumstances.

**"Exchange Right"** means the exchange right granted to the holders of Partnership Units to require the Operating Trust to exchange, and the right granted to the Operating Trust to require the exchange of, all or any part of the Partnership Units held by such holders for Subordinate Voting Trust Units on a one-for-one basis or, in certain circumstances, the automatic exchange of Multiple Voting Rights for Subordinate Voting Rights.

**"Fund"** means Contrans Income Fund, a trust established under the laws of Ontario pursuant to the Declaration of Trust.

**"Fund Assets"**, at any time, means the monies, property and other assets that are at such time held by the Fund or by the Trustees on behalf of the Fund under the Declaration of Trust, including, without limitation:

- (a) the amount paid by the settlor of the Fund to the Trustees for the purpose of settling the Fund;
- (b) all funds or property realized from the issuance or sale of Subordinate Voting Trust Units from time to time or other cash received by the Fund;
- (c) any Permitted Investments in which funds may from time to time be invested;
- (d) the Operating Trust Units and the Operating Trust Notes owned by the Fund;
- (e) any proceeds of disposition of any of the foregoing property; and
- (f) all income, interest, dividends, return of capital, profit, gains and accretions and all substituted assets, rights and benefits of any kind or nature whatsoever arising directly or indirectly from or in connection with or accruing to such foregoing property or such proceeds of disposition.

**"GAAP"** means Canadian generally accepted accounting principles.

**"Maximum Redemption Amount"**, in respect of a calendar month, means \$250,000 or such greater amount as the Trustees of the Fund, in their discretion, may permit, all as described under the heading "The Fund — Redemption Right".

**"Multiple Voting Rights"** means the non-transferable Series B special voting rights in the Fund issued to the holders of Class B LP Units under the Plan of Arrangement, which are evidenced only by the Class B LP Unit certificates to which such Multiple Voting Rights relate and which entitle the holders thereof to ten votes per Multiple Voting Right held.

**"Multiple Voting Shares"** means the Class B multiple voting shares in the capital of Pre-Amalgamated Contrans.

**"Newco"** means Contrans Holding Company Corp., a corporation incorporated under the Act, which was amalgamated with Pre-Amalgamated Contrans to form Contrans.

**"Newco Common Shares"** means common shares in the capital of Newco.

**"Newco Notes"** means unsecured subordinated notes of Newco.

**"New Credit Facility"** means the \$50 million of credit facilities obtained by the Partnership, on a syndicated basis, from a Canadian chartered bank as lead banking agent.

**"Non-Resident"** means a non-resident of Canada within the meaning of the Tax Act.

**"Operating Entities"** means the entities which, taken together, carry on Contrans' transportation business, being Laidlaw Carriers Van LP; Laidlaw Carriers Tank LP; Laidlaw Carriers Bulk LP; Laidlaw Carriers Flatbed LP; Laidlaw Carriers PCS LP; Brookville Carriers Van Limited Partnership; Brookville Carriers Flatbed Limited Partnership; Fillion Transport Inc.; Glen Tay Transportation LP; Optitrans Solution LP; Northstar Passenger Services LP; and Tri-Line Freight Systems LP.

**"Operating Trust"** means Contrans Operating Trust, a trust established under the laws of Ontario pursuant to the COT Declaration of Trust and which is wholly-owned by the Fund.

**"Operating Trust Notes"** means the unsecured subordinated notes of the Operating Trust.

**"Operating Trust Units"** means trust units of the Operating Trust, each such unit representing an equal undivided beneficial interest therein.

**"Partnership"** means Contrans Holding Limited Partnership, a limited partnership formed under the laws of the Province of Ontario.

**"Partnership Notes"** means unsecured subordinated notes of the Partnership issued or to be issued, from time to time, by the Partnership.

**"Partnership Units"** means Class A LP Units and/or Class B LP Units, as the context so requires.

**"Permitted Investments"** means, with respect to the Fund (unless otherwise approved by the Trustees from time to time):

- (a) obligations issued or guaranteed by the government of Canada or any province of Canada or any agency or instrumentality thereof;
- (b) term deposits, guaranteed investment certificates, certificates of deposit or bankers' acceptances of or guaranteed by any Canadian chartered bank or other financial institutions the short-term debt or deposits of which have been rated at least A or the equivalent by Standard & Poor's Corporation, Moody's Investors Service, Inc. or Dominion Bond Rating Service Limited;
- (c) commercial paper rated at least A or the equivalent by Dominion Bond Rating Service Limited, in each case maturing within 180 days after the date of acquisition; and
- (d) obligations issued by the Operating Trust and other operating entities carrying on businesses acquired by the Fund.

**"person"** means any individual, partnership, association, body corporate, trust, trustee, executor, administrator, legal representative, government, regulatory authority or other entity.

**"Plan of Arrangement"** means the plan of arrangement under Section 182 of the Act which involved, among other things, the indirect exchange of outstanding Pre-Amalgamation Contrans Shares for Subordinate Voting Trust Units and/or Partnership Units.

**"Public Offering"** means the initial public offering of the Fund which was completed on July 23, 2002.

**"Pre-Amalgamated Contrans"** means Contrans Corp., the corporation which existed under the Act immediately prior to its amalgamation with Newco.

**"Pre-Amalgamation Contrans Shares"** means the Multiple Voting Shares and the Subordinate Voting Shares.

**"Redemption Price"** means the price at which Subordinate Voting Trust Units are to be redeemed.

**"Special Voting Rights"** means, together, the Subordinate Voting Rights and the Multiple Voting Rights.

**"Subordinate Voting Rights"** means the non-transferable Series A special voting rights in the Fund issued to the holders of Class A LP Units under the Plan of Arrangement, which are evidenced only by the Class A LP Unit certificates to which such Subordinate Voting Rights relate and which entitle the holders thereof to one vote per Subordinate Voting Right held.

**"Subordinate Voting Shares"** means the Class A subordinate voting shares in the capital of Pre-Amalgamated Contrans.

**"Subordinate Voting Trust Unit"** means a trust unit (other than a Special Voting Right) of the Fund, each such trust unit representing an equal undivided beneficial interest therein.

**"Tax Act"** means the *Income Tax Act* (Canada) and the regulations enacted thereunder.

**"Trustees"** means the trustees from time to time of the Fund or the Operating Trust, as the context requires.

**"Unitholders"** means the holders from time to time of the Subordinate Voting Trust Units.

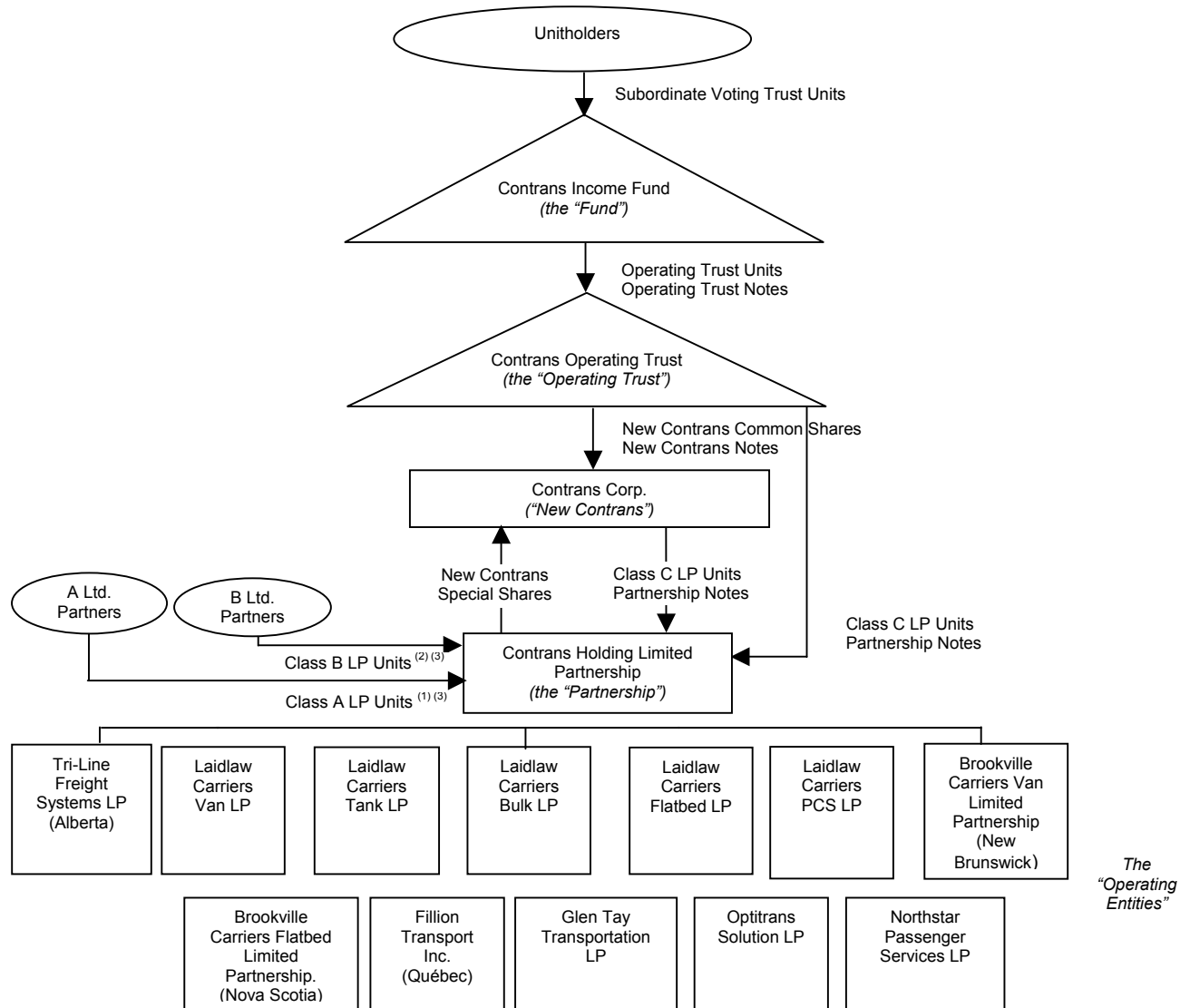
Unless otherwise indicated in this prospectus, all references to "dollars" and "\$" are to Canadian dollars.

## STRUCTURE OF THE FUND

The Fund is an unincorporated, open-ended limited purpose trust established under the laws of the Province of Ontario pursuant to the Declaration of Trust. The Fund was created for the purpose of acquiring and holding certain investments, initially through the effective acquisition by the Fund of Contrans and its direct and indirect operating entities.

The head office of the Fund is located at 1179 Ridgeway Road, Woodstock, Ontario, N4S 8P6.

The following chart sets forth the organizational structure of the Fund, including each of the material entities directly and indirectly owned by the Fund. Unless otherwise indicated, each of the entities identified on the chart has been incorporated or formed pursuant to the laws of the Province of Ontario:



- (1) The Fund has issued to the holders of Class A LP Units one Subordinate Voting Right for each Class A LP Unit held. Each Subordinate Voting Right entitles the holder to one vote at all meetings of Unitholders.
- (2) The Fund has issued to the holders of Class B LP Units one Multiple Voting Right for each Class B LP Unit held. Each Multiple Voting Right entitles the holder to ten votes at all meetings of Unitholders.
- (3) Pursuant to the Exchange Agreements, Class A LP Units and Class B LP Units are indirectly exchangeable on a one-for-one basis for Subordinate Voting Trust Units at the option of the holders at any time and, in certain circumstances, at the option of the Operating Trust.

## RECENT DEVELOPMENTS

Contrans commenced operations as a provider of freight transportation services in the truckload and less than truckload market in 1985. In 1989, Contrans disposed of its less than truckload operations in order to focus its operations on providing freight transportation services in the truckload market. From 1991 to 1993, Contrans disposed of its non-core assets, and in 1995, management of Contrans determined that it would be advisable to expand its freight transportation services by embarking upon a growth strategy designed to achieve growth through acquisitions. From 1995 to 1999, Contrans expanded its freight transportation services by completing a number of acquisitions.

In 2002, management of Contrans determined that it would be advisable to continue to expand its truckload freight transportation services through acquisitions and to expand its presence in the transportation industry outside of truckload freight transportation services. Accordingly, in March, 2002, Contrans acquired Northstar Passenger Services Ltd. ("Northstar"), based in Barrie, Ontario and, simultaneously, Northstar acquired Edutran Transportation Inc. ("Edutran") for cash consideration of approximately \$18.6 million, a promissory note of \$1 million bearing interest at prime plus one percent and assumed liabilities of \$10.3 million. Northstar and Edutran operate in the school bus market of the transportation industry as providers of transportation for school children attending public and private schools. This acquisition represents the first time that Contrans has provided services in the transportation industry outside of freight transportation services. In April, 2002, Contrans acquired all of the business and assets relating to the trucking operations of Tri-Line for a purchase price of \$9.2 million. Tri-Line is based in Calgary, Alberta, and provides flatbed and dry van transportation services in North America. In August 2002, Contrans acquired substantially all of the bus assets of Ludlow Bus Lines which include the school buses used in the business, real property located in Alliston, Ontario, related fixed assets, equipment, inventory and machinery.

During 2001 and early 2002, management of Contrans conducted an extensive review of Contrans' performance, asset base and future growth prospects and considered various strategic alternatives for enhancing shareholder value and ensuring that the basis for funding the continued growth of Contrans would be available at reasonable cost to Contrans. In February 2002, management of Contrans began to evaluate the benefits that might accrue to the Shareholders if Contrans were reorganized into an income trust.

### The Plan of Arrangement

On May 21, 2002, Contrans, Newco, the Operating Trust and the Fund entered into the Arrangement Agreement, which provided for the implementation of the Plan of Arrangement pursuant to section 182 of the Act. The purpose of the Plan of Arrangement was to convert Contrans from a share corporation to an income fund trust. The Plan of Arrangement was completed on July 23, 2002 and involved the following steps which were deemed to occur sequentially:

- (a) all of the right, title and interest in each Pre-Amalgamation Contrans Share (other than Pre-Amalgamation Contrans Shares held by shareholders who properly elected to receive Partnership Units or a combination of Partnership Units and notes under the Plan of Arrangement) were transferred to Newco in exchange for one unit consisting of one Newco Common Share and one Newco Note;
- (b) all of the right, title and interest in each unit consisting of one Newco Common Share and one Newco Note were transferred to the Fund in exchange for four Subordinate Voting Trust Units and were subsequently sold by the Fund to the Operating Trust in consideration of one unit consisting of four Operating Trust Units and one Operating Trust Note;
- (c) Pre-Amalgamated Contrans and Newco amalgamated pursuant to the Act to form Contrans and:
  - (i) each unit consisting of one Newco Common Share and one Newco Note held by the Operating Trust was exchanged for one unit consisting of one Contrans Share and one Contrans Note;
  - (ii) each issued and outstanding Subordinate Voting Share held directly or indirectly by holders of Pre-Amalgamated Contrans Shares who properly elected to receive Class A LP Units under the Plan of Arrangement was exchanged for one Contrans Series A special share; and

- (iii) each issued and outstanding Multiple Voting Share held directly or indirectly by holders of Pre-Amalgamated Contrans Shares who properly elected to receive Class B LP Units under the Plan of Arrangement was exchanged for one Contrans Series B special share;
- (d) all of the right, title and interest in each Contrans Series A special share held by holders of Subordinate Voting Shares was transferred to the Partnership in exchange for Class A LP Units on the basis of four Class A LP Units for each Contrans Series A special share;
- (e) all of the right, title and interest in each Contrans Series B special share held by holders of Multiple Voting Shares was transferred to the Partnership in exchange for Class B LP Units on the basis of four Class B LP Units for each Contrans Series B special share;
- (f) all of the right, title and interest of shareholders in shares of certain eligible holding companies which owned Pre-Amalgamated Contrans Shares was transferred to the Partnership in exchange for Partnership Units on the basis of four Class A LP Units for each Subordinate Voting Share held by the eligible holding company and four Class B LP Units for each Multiple Voting Share held by the eligible holding company;
- (g) each holder of Subordinate Voting Shares, Multiple Voting Shares or shares of an eligible holding company which owned Pre-Amalgamated Contrans Shares electing to receive Partnership Units under (d), (e) or (f) above could elect to receive, in exchange for their Contrans Series A special shares, Contrans Series B special shares or the shares of an eligible holding company, a percentage in notes, which notes were automatically and immediately exchanged for Subordinate Voting Trust Units, and a percentage in Partnership Units, such that the electing shareholders under (d), (e) or (f) could elect to receive a combination of Partnership Units and, after the automatic exchange, Subordinate Voting Trust Units, but without duplication, such that all shares that were exchanged, in combination, did not exceed the number of Partnership Units the holder would have been entitled to if exchanged only for Partnership Units;
- (h) the Fund issued to the holders of Class A LP Units one Subordinate Voting Right for each Class A LP Unit held;
- (i) the Fund issued to the holders of Class B LP Units one Multiple Voting Right for each Class B LP Unit held; and
- (j) Contrans issued one Contrans Share to the Operating Trust for each Subordinate Voting Right and Multiple Voting Right issued.

In connection with the Plan of Arrangement, all stock options outstanding under Contrans' stock option plan immediately vested and became exercisable prior to the Plan of Arrangement becoming effective.

#### **Initial Public Offering of the Fund**

Concurrently with the completion of the Plan of Arrangement, the Fund completed the Public Offering pursuant to an underwriting agreement among Contrans, the Fund and the underwriters of the offering, consisting of RBC Dominion Securities Inc., TD Securities Inc., National Bank Financial Inc., Standard Securities Capital Corporation and Haywood Securities Inc. The Public Offering, including an exercise of an over-allotment option, consisted of 4,887,500 Subordinate Voting Trust Units and raised aggregate gross proceeds of \$46,431,250 for the Fund. The proceeds of the Public Offering were used by the Fund to purchase Operating Trust Notes and Operating Trust Units. The Operating Trust used such proceeds to purchase debt and equity of the Partnership which in turn used the proceeds to repay advances made to Contrans under its operating line of credit and to reduce existing long-term debt.

#### **New Credit Facility**

On July 23, 2002, the Partnership entered into a credit agreement with a Canadian chartered bank, on a syndicated basis, for the New Credit Facility in the amount of \$50 million. The New Credit Facility closed concurrently with the Plan of Arrangement and the Public Offering on July 23, 2002. The Fund has periodically

drawn upon the New Credit Facility for operating purposes and for the issuance of Letters of Credit. The undrawn amounts may be used for certain future capital expenditure requirements and operating purposes.

## DESCRIPTION OF THE BUSINESS

### **The Fund**

The only assets of the Fund consist of the Operating Trust Units and Operating Trust Notes. The Fund distributes amounts received from the return of capital and dividends received on the Operating Trust Units and the interest income from and principal repayments, if any, on the Operating Trust Notes after expenses and any cash redemptions on Subordinate Voting Trust Units. To date, two distributions have been declared, each in the amount of \$.1042 per Subordinate Voting Trust Unit paid or payable on September 13, 2002 and October 15, 2002 to securityholders of record as of the close of business on August 30, 2002 and September 30, 2002, respectively.

### **The Operating Trust**

The Operating Trust is an unincorporated open-ended trust established under the laws of the Province of Ontario pursuant to the COT Declaration of Trust. The initial holder of all of the Operating Trust Units is the Fund. The Operating Trust has been formed to further the investment and business purposes of the Fund by providing a vehicle for investment in units and debt.

### **Contrans**

#### ***Business Overview***

Contrans operates in the transportation industry, principally in the truckload market as a provider of freight transportation services with 1,145 power units and 2,178 trailers under management as at October 31, 2002. In March, 2002, Contrans commenced operations in the school bus market, operating 470 school buses serving 15 school boards in Ontario, by acquiring the existing businesses of Northstar and Edutran. In August 2002, Contrans acquired substantially all of the bus assets of Ludlow Bus Lines Limited.

#### *Freight Transportation Services*

Contrans is one of Canada's leading providers of freight transportation services and offers a wide range of services to the van, flatbed, tank, dump and liquid areas of the truckload market primarily in Canada and the eastern, midwestern and southern United States. Contrans transports a wide range of general freight as well as specialized commodities, such as steel, lumber, drywall, cement and aggregates, paper products and various specialty liquid products. Contrans transports freight using both its own equipment and the services and equipment of owner-operators. Utilizing owner-operators helps to minimize Contrans' fixed operating costs and capital requirements and capital expenses associated with the purchase and maintenance of power units, which are the vehicles used to pull the trailers. As of October 31, 2002, Contrans owned or leased approximately 311 power units and has access to an additional 834 power units under contract with owner-operators. As at October 31, 2002, Contrans employed 283 drivers and utilized the services of 828 owner-operators. As of October 31, 2002, Contrans owned or leased approximately 2,178 trailers (the vast majority of which are owned by Contrans), which include approximately 1,066 van, 638 flatbed, 265 tank, 143 dump and 66 liquid tank trailers.

#### *School Transportation Services*

In March, 2002, Contrans expanded and diversified its presence in the transportation industry by acquiring the existing businesses of Northstar and Edutran and commencing operations in the school bus market as a provider of transportation for school children attending public and private schools. In August 2002, Contrans acquired substantially all of the bus assets of Ludlow Bus Lines which include the school buses used in the business, real property located in Alliston, Ontario, related fixed assets, equipment, inventory and machinery. Contrans operates approximately 600 school buses serving 16 school boards in Ontario. As at October 31, 2002, Contrans employed 540 school bus drivers and did not utilize the services of any non-employee school bus drivers. Contrans enhances

its revenue base by offering charter services to school boards for extracurricular school activities and to the private sector for various transportation needs.

### ***History***

Contrans commenced operations as a provider of freight transportation services in the truckload and less than truckload market in 1985. In 1989, Contrans disposed of its less than truckload operations in order to focus its operations on providing freight transportation services in the truckload market. From 1991 to 1993, Contrans disposed of its non-core assets, and in 1995, management of Contrans determined that it would be advisable to expand its freight transportation services by embarking upon a growth strategy designed to achieve growth through acquisitions. From 1995 to 1999, Contrans expanded its freight transportation services by completing a number of acquisitions.

In 2002, management of Contrans determined that it would be advisable to continue to expand its truckload freight transportation services through acquisitions and to expand its presence in the transportation industry outside of truckload freight transportation services. Accordingly, in March, 2002, Contrans acquired Northstar, based in Barrie, Ontario and, simultaneously, Northstar acquired Edutran for cash consideration of approximately \$18.6 million, a promissory note of \$1 million bearing interest at prime plus one percent and assumed liabilities of \$10.3 million. Northstar and Edutran operate in the school bus market of the transportation industry as providers of transportation for school children attending public and private schools. This acquisition represents the first time that Contrans has provided services in the transportation industry outside of freight transportation services. In April, 2002, Contrans acquired all of the business and assets relating to the trucking operations of Tri-Line for a purchase price of \$9.2 million. Tri-Line is based in Calgary, Alberta, and provides flatbed and dry van transportation services in North America. In August 2002, Contrans acquired substantially all of the bus assets of Ludlow Bus Lines which include the school buses used in the business, real property located in Alliston, Ontario, related fixed assets, equipment, inventory and machinery.

### ***Freight Transportation Operations***

Contrans operates in the truckload market of the freight transportation industry, where a customer has exclusive use of a trailer that is generally filled to capacity by volume or weight as opposed to the less than a truckload market of the freight transportation industry, where a trailer may carry freight from various customers or a load that is under capacity with freight from a single customer.

Contrans provides freight transportation in five service areas of the truckload transportation market, each of which is more fully described under separate headings below:

1. Van operation — provides shipments in closed vans primarily throughout Ontario, Québec, the Atlantic provinces, Western Canada and the midwest and southern areas of the United States.
2. Flatbed operation — provides shipments on open trailers primarily throughout Ontario, Québec, the Atlantic provinces, Western Canada and the eastern and midwest areas of the United States.
3. Tank operation — provides shipments in closed tank trailers primarily throughout Ontario, Québec, Michigan and New York.
4. Dump operation — provides shipments in dump trailers primarily throughout Ontario, Québec and the northeast area of the United States.
5. Liquid operation — provides shipments in stainless steel tank trailers primarily throughout Ontario, Québec, Michigan and New York.

The five freight transportation operations of Contrans are differentiated by the type of equipment utilized within each of the service areas. Contrans' five service areas operate on a decentralized basis with essentially all functions such as driver dispatch, marketing, driver recruitment and training and equipment management performed separately within each service area of Contrans' operating divisions. The principal office located in Woodstock,

Ontario provides administrative support services in the areas of insurance, human resources, financial resources, information technology and financial reporting.

Contrans operates through terminals owned or leased by Contrans where terminal staff are responsible for taking orders and arranging for carriage by an employee driver or owner-operator. Contrans has attempted to strategically locate its terminals close to each of the geographic areas serviced by Contrans' operations. The terminals provide a base from which power units and trailers are dispatched. Currently, Contrans has nine terminals located in Ontario, two terminals located in New Brunswick, two terminals located in Nova Scotia and four terminals located in Québec.

In certain circumstances, Contrans generates revenue by acting as a broker for the movement of freight with partner carriers.

#### *Van Operation*

Contrans' van operation transports general merchandise in closed vans. During Contrans' fiscal year ended August 31, 2001, gross revenue from the van operation was approximately \$91 million, representing approximately 35% of its total revenue. Contrans carries out its van operations from terminals located near Guelph, Ontario and in Saint John, New Brunswick. The van operation predominantly services customers located in Ontario, Québec, the Atlantic provinces and the midwestern and southern areas of the United States.

Approximately 60% of the van operation's drivers are owner-operators. Owner-operators within the van operation are paid on a mileage basis.

The van service area is highly competitive, primarily due to the ease of entry. Drivers within this service area do not require the type of specialized training and costly equipment that is required in the other service areas of the freight transportation market. In addition, the van service area services a more extensive customer base than the other freight transportation markets. Within the van service area, Contrans faces competition from Canadian carriers such as XTL Transport Inc., Highland Transport, Challenger Motor Freight Inc. and Bruce R. Smith Limited in Ontario and Sunbury Transport Limited and Global Forwarding Company Limited in the Atlantic provinces.

Contrans' customer service strategy within the van operation area has been to focus on customers that demand high levels of service and reliability. Management of Contrans believes that over the last decade, customers within the van market have reduced the number of carriers used and placed more reliance on either a few core carriers or a dedicated carrier in order to reduce freight costs and achieve higher service levels.

#### *Flatbed Operation*

The flatbed operation of Contrans transports goods which can be hauled on an open trailer including steel, drywall and lumber. During Contrans' fiscal year ended August 31, 2001, gross revenue from the flatbed operation was approximately \$75 million, representing approximately 29% of its total revenue. Operating from terminals located in North Bay, Ontario, Hagersville, Ontario, Truro, Nova Scotia, Woodstock, New Brunswick, Montreal, Québec, Vancouver, British Columbia, Edmonton and Calgary, Alberta, Regina, Saskatchewan and Winnipeg, Manitoba, the flatbed operation services customers situated in a large geographic area throughout Ontario, Québec, the Atlantic provinces and the eastern and midwest areas of the United States.

Approximately 87% of the flatbed operation's drivers are owner-operators. Owner-operators within the flatbed operation are paid primarily on a mileage basis, with the mileage rate varying depending on whether the owner-operators provide their own trailers in addition to their own power units.

Management of Contrans believes that the demand for flatbed services within the freight transportation industry exceeds capacity and Contrans' growth in this service area is limited primarily by its ability to attract qualified owner-operators. Demand in this service area is primarily dependent on factors such as housing starts, large scale construction projects, heavy equipment sales, farm machinery sales and oil exploration activity, all of which tend to fluctuate significantly with the strength of the economy. Contrans faces competition in the flatbed service area primarily from regional carriers such as McBurney Transport Ltd., Bruce R. Smith Limited and

McKinnon Transport in Ontario, Robert Transport Ltee. and Transforce Inc. in Québec and Sunbury Transport Limited, Fastrax and Global Forwarding Company Limited in the Atlantic provinces.

The flatbed operation's customer service strategy is based on providing customers with a choice of equipment to satisfy their particular needs. Multi-axle freight service, which carries greater weight than tandem service, is provided within Ontario, Québec and Michigan while tandem service is provided throughout Canada and the United States, which allows Contrans to satisfy both large customers with complex needs as well as smaller customers who have their own special needs.

#### *Tank Operation*

Contrans' tank operation transports dry granulated bulk materials such as lime, sand, cement as well as ash products for metals recovery, plastics and fertilizers in closed tank trailers. During Contrans' fiscal year ended August 31, 2001, gross revenue from the tank operation was approximately \$41 million, representing approximately 16% of its total revenue. Contrans' tank operation is based from its main terminals in Woodstock, Ontario and Perth, Ontario close to three of Contrans' largest customers with satellite facilities in Cardinal, Ontario, Sudbury, Ontario and Bedford, Québec. The tank operation primarily services customers located in Ontario, Québec, Michigan and New York.

Approximately 63% of the tank operation's drivers are owner-operators. Owner-operators within the tank operation are compensated on either a flat rate basis or a mileage basis.

Competition within the tank service area is limited due to a combination of the cost of new tank trailers, which vary from approximately \$100,000 to \$150,000 each, and the high level of service required by customers within the tank service area. As a result, freight transportation within the tank service area commands higher rates than those charged in the flatbed and van service areas. Contrans' primary competitors in its market areas in the tank service area are Trimac Transportation System Ltd., Tank Truck Transport Inc. and Kinsdale Carriers Limited.

Customers within the tank service area require versatile trailers to transport various types of dry granulated bulk materials. Contrans' tank operation seeks to provide versatility by offering two to six axle trailers, different tank sizes and unloading equipment.

As a result of the durability and long life of the tank units, Contrans focuses on a comprehensive refurbishment program in addition to purchasing new tank units to take advantage of growth opportunities. Contrans has modern facilities that enable it to carry out preventative maintenance as well as complete tank refurbishment.

#### *Dump Operation*

Contrans' dump operation transports bulk materials, including agricultural, aggregate, general and industrial bulk commodities in dump trailers. During Contrans' fiscal year ended August 31, 2001, gross revenue from the dump operation was approximately \$45 million, representing approximately 18% of its total revenue. The main dump operation of Contrans is located at a terminal in Woodstock, Ontario with satellite terminals situated in Chicoutimi and Montreal, Québec. Contrans' dump operation primarily services customers located in Ontario, Québec and the northeast area of the United States.

Approximately 95% of the dump operation's drivers are owner-operators. Owner-operators within the dump operation are paid on either a percentage of revenue basis or a mileage basis.

The dump service area is highly competitive, in part due to the seasonality of certain of the materials transported, thus allowing smaller operators to enter on a part-time basis and place downward pressure on rates. In addition, competition in its market areas also exists from carriers such as Frederick Stone Transport, Preferred Transport Limited, Peter Hodge Transport Ltd. and D. Donnelly Inc.

Contrans' dump operation focuses on customers requiring large volumes of heavier industrial products and, to a lesser extent, aggregates and grain products. Contrans' customer service strategy within its dump operation includes contracting out the carriage of freight to other carriers, which is necessitated by the seasonality or volume

of the materials which are to be transported. This strategy allows Contrans to service and retain customers yet not bear the costs of unutilized equipment during the slower seasons.

*Liquid Operation*

Contrans' liquid operation transports liquid material, including food-stuffs such as liquid sugar, or volatile materials such as paint solvent, acid and chemicals in stainless steel tank trailers. During Contrans' fiscal year ended August 31, 2001, gross revenue from the liquid operation was approximately \$5 million, representing approximately 2% of its total revenue. The liquid operation is based in Woodstock, Ontario and primarily services customers situated in Ontario, Québec, Michigan and New York.

Approximately 63% of the liquid operation's drivers are owner-operators. As the liquid operation generally involves short distance hauls, owner-operators within the liquid operation are paid on a percentage of revenue basis.

Customers within the liquid service area require a high level of service and specialized equipment due to the special care required in transporting certain liquid products. As a result, equipment within Contrans' liquid operation is designed for and assigned to a particular customer's exclusive use.

Similar to the tank service area, competition in the liquid service area is limited due to a combination of the cost of new liquid trailers and the high level of service required by customers within the liquid service area. Contrans faces competition in the liquid service area from carriers such as Trimac Transportation Systems Ltd., Tank Truck Transport Inc. and Keith Hall & Sons Transport Ltd., located in Ontario.

*Properties*

The following table sets forth Contrans' principal properties for its freight transportation services, all of which are owned by Contrans. All principal properties are terminals, other than Contrans' corporate office located in Woodstock, Ontario.

<u>Location</u>	<u>Approximate Acreage</u>	<u>Buildings in Square Feet</u>
Hagersville, Ontario .....	25.3	86,940
Woodstock, Ontario (corporate office) .....	9.0	14,000
Woodstock, Ontario (2 terminals) .....	17.6	31,200
Guelph, Ontario .....	8.8	25,000
North Bay, Ontario .....	22.5	6,500
Saint John, New Brunswick .....	20.0	28,200
Woodstock, New Brunswick .....	10.0	4,200
St. Mathieu-de-Beloeil, Québec (2 terminals) .....	13.7	21,100
Truro, Nova Scotia .....	5.0	9,000
Perth, Ontario .....	8.4	11,400
Bedford, Québec .....	8.0	6,700
Calgary, Alberta .....	18.8	55,700
Regina, Saskatchewan .....	6.0	21,500
Houston, Texas .....	4.0	2,000

Contrans also leases properties to conduct its freight transportation operations.

*Equipment*

As at October 31, 2002, Contrans owned or leased approximately 311 power units and has access to an additional 834 power units under contract with owner-operators. As at October 31, 2002, Contrans owned or leased approximately 2,178 trailers (the majority of which are owned by Contrans), which include approximately 1,066 van, 638 flatbed, 265 tank, 143 dump and 66 liquid tank trailers. The average fleet age approximates three

years for power units and five years for trailers. Management of Contrans believes that power units have an approximate life of eight years and trailers have an approximate life of ten to 20 years.

Contrans is committed to the use of owner-operators as they allow Contrans to offer its customers equipment availability without requiring Contrans to commit capital to acquiring power units and hiring employee drivers. The use of owner-operators also allows Contrans to increase or decrease its complement of power units quickly in response to changes in economic conditions. The owner-operators purchase and maintain their own power units and drive exclusively for Contrans under contract.

#### *Drivers*

Contrans transports freight using both its own equipment and drivers and the services of independent contractors who own and operate their own power units and are under contract with Contrans. While under contract with Contrans, an independent contractor must work exclusively for Contrans, however, the contract may be terminated by either party at any time. The use of independent contractors helps to minimize Contrans' overall operating costs and capital requirements by reducing labour costs and capital expenses for new equipment and maintenance. As at October 31, 2002, Contrans employed 283 drivers and utilized the services of 828 owner-operators.

Most of the drivers employed by Contrans are compensated on an hourly and/or mileage basis in accordance with applicable contractor agreements. Independent contractors pay the costs relating to the acquisition, maintenance and operation of their equipment. Contrans makes its maintenance facilities available to the independent contractors at competitive prices.

All drivers for Contrans, including independent contractors, are selected in accordance with its guidelines relating primarily to safety records and driving experience.

#### *Competition*

The freight transportation industry is fragmented and consists of relatively few large companies and many small companies serving target markets. The target markets are defined by geographical location, point-to-point service location, target customer industries and the type of service provided, such as van, flatbed, tank, dump and liquid. The smaller operators typically operate in a highly specialized yet competitive environment in which the customer may have several substitutes available. Many of the large carriers are independent subsidiaries of larger transportation companies and offer a wide variety of freight services on a national basis.

Carriers compete primarily on price and ability to provide a reliable, efficient and safe transportation service. Contrans has grown steadily and believes that its operational systems, safety standards and policies, equipment strategies, dedication to service and meeting of customers' specialized needs are the primary reasons for its ability to compete with both small and large carriers from both Canada and the United States.

#### ***School Transportation Operations***

In March, 2002, Contrans expanded and diversified its presence in the transportation industry by acquiring the existing businesses of Northstar and Edutran and commencing operations in the school bus market as a provider of transportation for school children attending public and private schools. Contrans' school bus operation is based in Barrie, Ontario with operations in Ottawa, Perth, Pickering, Brampton, Newmarket, and New Lowell, Ontario. Management of Contrans considered a number of factors prior to expanding into the school bus market and determined that the school bus market provides for strong profit margins, lower cyclicity, an opportunity for consolidation within the market and an opportunity for synergies with existing operations. In August 2002, Contrans acquired substantially all of the bus assets of Ludlow Bus Lines which include the school buses used in the business, real property located in Alliston, Ontario, related fixed assets, equipment, inventory and machinery.

Contrans' school bus operation primarily transports school children on behalf of local school boards to and from school. Contrans has contracts with 16 school boards in Canada providing transportation for approximately 27,000 students each day. Contrans has a fleet of approximately 600 school buses and employed 540 school bus

drivers. Contracts are generally negotiated and reviewed annually. Rates are usually established on a per-diem basis and vary with the number of buses and students and the length of each route. Many school boards award such contracts on the basis of "lowest responsible bid", allowing the school board to consider qualitative factors such as safety records and programs, driver training programs, community involvement and past performance. Contrans attempts to differentiate itself from its competitors based on these factors in addition to price. Contrans expands its customer base through the award of additional routes in markets currently serviced by Contrans and by winning contracts via negotiation or bidding on private transportation contracts that are up for renewal. Contrans maintains a customer services strategy of providing customers with a safe and reliable mode of student transportation.

Contrans provides a wide range of services in a variety of academic settings, including daily school bus transportation, special needs student transportation, management services, routing, athletic team transportation, field trips and extracurricular activities. Contrans also uses its school bus fleet for charter purposes.

*Properties*

The following table sets forth Contrans' principal properties for its school bus transportation services, the majority of which are leased by Contrans.

<u>Location</u>	<u>Approximate Acreage</u>	<u>Buildings in Square Feet</u>	<u>Lease Expiry Date</u>
Ottawa, Ontario.....	3.4	10,400	April 3, 2009
Greely, Ontario .....	3.9	6,400	April 3, 2009
(sub location to Ottawa)			
Perth, Ontario .....	1.0	800	February 28, 2003
Pickering, Ontario .....	Nil	900	July 31, 2003
Brampton, Ontario .....	Nil	1,400	June 30, 2003
Newmarket, Ontario.....	Nil	3,600	February 28, 2005
New Lowell, Ontario .....	3.4	6,000	Owned
Alliston, Ontario .....	2.0	5,500	Owned
Barrie, Ontario .....	Nil	2,000	December 30, 2004
(Corporate Office)			

*Competition*

The school bus transportation industry is highly fragmented and consists of relatively few large companies and many small companies servicing the market. Contrans faces competition in the school bus transportation industry from national carriers such as Laidlaw Transit Ltd. and Stock Transportation Ltd. and regional carriers such as M.L. Bradley Ltd., Langdon's Coach Lines Co. Ltd., Parkview Transit and Sinton Bus Lines. Demand for school bus transportation services is primarily dependent on factors such as school age population growth. Demand does not tend to fluctuate significantly with the strength or decline of the economy.

*Customer Diversification*

Contrans has a diverse customer base consisting of approximately 3,000 customers and, accordingly, would be well positioned to withstand a downturn in the activities of individual customers or a specific industry in which customers operate. Contrans' ten largest customers accounted for approximately 35% of total revenue for the year ended August 31, 2001, with no single customer accounting for greater than 11% of total revenue. Contrans' customers include Lafarge Canada Inc., Abitibi-Consolidated Inc., Noranda Inc., Falconbridge Limited, Alcan Inc., Domtar Inc., UPM-Kymmene Miramichi Inc., CGC Inc., Casco Inc. and Georgia Pacific Canada Inc.

*Employees*

As at October 31, 2002, Contrans had 657 full-time employees including 283 drivers, 211 operations personnel and 163 administrative personnel. Upon completion of the acquisition of Northstar, Edutran and Ludlow, Contrans had 540 part-time drivers and 39 full-time employees in its school bus operations. Contrans contributes to group life insurance, hospital and benefits for substantially all employees. Thirty-nine of the full-time employee drivers of Fillion Transport Inc. are unionized.

### ***Driver Training***

The recruiting, hiring and retention of employee drivers and owner-operators is critical to the success of Contrans. As a result, Contrans has instituted a program to ensure that all employee drivers and owner-operators are interviewed, screened, tested and trained by qualified Contrans staff. Driver applicants are required to attend a pre-screening interview and road test, the results of which determine whether they meet Contrans' standards and the length of any additional "on the road" training. All new employee drivers and owner-operators are required to attend an orientation and training session which covers all documentation, safety and compliance and accident procedures.

### ***Safety***

Contrans is committed to ensuring the safety of its operations, employees and school bus passengers. Contrans exercises care in the selection of drivers and in the implementation of high standards and ongoing training for employee drivers and owner-operators.

### ***Insurance***

Contrans carries a wide variety of insurance and surety coverage for its operations, including liability insurance for claims arising out of the use, ownership and operations of power units and trailers, broad form cargo insurance, commercial general liability insurance, environmental liability insurance arising out of the normal operations of Contrans and umbrella coverage responding to claims in excess of Contrans' primary insurance policies. Contrans also carries director and officer liability insurance. In order to protect against liability claims from Contrans' employees, Contrans is also covered under local worker compensation plans.

### ***Fuel Costs***

Volatility in the price of fuel over the past year has exerted serious cost pressure on the trucking industry. Contrans has been able to limit its exposure and the exposure of its owner-operators by implementing fuel surcharge programs with its customers.

### ***Regulation***

Contrans operates in the transportation industry within Canada and between Canada and the United States and is subject to the transportation laws and regulations of federal, provincial and state governments. Contrans is required to hold operating licences, permits and registrations issued by the governing jurisdictions in which it operates. It is also required to comply with the laws of each jurisdiction which governs the safety of vehicles and equipment and the manner in which they are operated.

Contrans holds all necessary licences, permits and registrations required by the governing jurisdictions in which it operates to conduct its transportation business. All jurisdictions in which Contrans operates monitor compliance with licensing and safety regulations, and may initiate disciplinary proceedings against non-compliant drivers or carriers resulting in the possible suspension or cancellation of licences or permits.

### ***Environmental Matters***

Contrans, its operations and properties are subject to extensive federal, provincial, state, municipal and local environmental laws and requirements in both Canada and the United States relating to, among other things, air emissions, the management of contaminants, including hazardous materials (including the generation, handling, storage, transportation and disposal of such contaminations), discharges and the remediation of environmental impacts (such as the contamination of soil and water, including groundwater). A risk of environmental liabilities is

inherent in transportation operations, historic activities associated with such operations and the ownership, management or control of real estate.

The cargo transported by Contrans in its freight transportation operations can be classified as either non-regulated freight or regulated freight such as hazardous material or environmentally regulated waste. Contrans does not specialize in or carry significant volumes of regulated freight. Strict parameters must be met before Contrans and the individual drivers are permitted to carry regulated freight. These requirements involve specific insurance requirements, training programs and registration permits with the various provinces and states in which it operates. Contrans' drivers must pass written tests and demonstrate on a graduated scale that they meet the requirements to carry regulated freight. Shipping documents are reviewed on a regular basis to ensure that Contrans drivers and operations staff are following the correct procedures.

Certain of Contrans' terminals provide full maintenance service and fuel facilities. Each terminal has a series of operational systems that have been implemented to control environmental impacts relating to the operation of that terminal. Each of the maintenance facilities has a waste generator registration certificate issued by the applicable ministry, which stipulates the manner in which Contrans must have its regulated waste materials removed. The fuel facilities are registered and licensed by provincial authorities. Each facility has a preventative maintenance program and is upgraded as required.

Contrans employs an individual whose primary responsibility is to monitor environmental legislation and standards and to advise management of Contrans with respect to its responsibilities in connection with its underground fuel storage tanks and the transportation of hazardous goods.

## **DESCRIPTION OF THE FUND**

### **Declaration of Trust**

The Fund is an unincorporated, open-ended limited purpose trust established under the laws of the Province of Ontario pursuant to the Declaration of Trust. The Fund is a mutual fund trust for the purposes of the Tax Act. The following is a summary of the material attributes and characteristics of the Subordinate Voting Trust Units and Special Voting Rights and certain provisions of the Declaration of Trust. The following summary does not purport to be complete and reference is made to the Declaration of Trust for a complete description of the Subordinate Voting Trust Units and Special Voting Rights and the full text of its provisions.

### **Activities of the Fund**

The Declaration of Trust provides that the activities of the Fund are restricted to:

- (a) acquiring, holding, transferring, disposing of and otherwise dealing with investments, including the debt or equity securities of the Operating Trust and investments in other corporations, limited partnerships, trusts or other persons involved in the transportation business or other businesses as may be approved from time to time by the Trustees;
- (b) borrowing funds for the foregoing purposes;
- (c) temporarily holding cash and other Permitted Investments in connection with and for the purposes of the Fund's activities, including paying administration and trust expenses, paying any amounts required in connection with the redemption or repurchase of Subordinate Voting Trust Units and making distributions to Unitholders;
- (d) issuing Subordinate Voting Trust Units and other securities of the Fund (including securities convertible into or exchangeable for Subordinate Voting Trust Units or other securities of the Fund, Subordinate Voting Rights or warrants, options or other rights to acquire Subordinate Voting Trust Units or other securities of the Fund), for the purposes of:

- (i) obtaining funds to conduct the activities described in (a) above, including raising funds for further acquisitions,
  - (ii) repayment of any indebtedness or borrowings of the Fund,
  - (iii) implementing Unitholder rights plans or incentive option or other compensation plans, if any, established by the Fund, and
  - (iv) making non-cash distributions to Unitholders as contemplated by the Declaration of Trust, including pursuant to distribution reinvestment plans, if any, established by the Fund; and
- (e) repurchasing or redeeming Subordinate Voting Trust Units or other securities of the Fund, subject to the provisions of the Declaration of Trust and applicable law,

provided that the Fund shall not undertake any activity, take any action, omit to take any action or make an investment that would result in (i) the Fund not being considered a "mutual fund trust" for the purposes of the Tax Act or (ii) Subordinate Voting Trust Units being considered "foreign property" for the purposes of the Tax Act.

### **Subordinate Voting Trust Units and Special Voting Rights**

The beneficial interests in the Fund are divided into interests of three classes designated as Subordinate Voting Trust Units, Subordinate Voting Rights and Multiple Voting Rights which are entitled to the rights and subject to the limitations, restrictions and conditions set out in the Declaration of Trust, summarized as follows:

#### ***Subordinate Voting Trust Units***

An unlimited number of Subordinate Voting Trust Units may be created and issued pursuant to the Declaration of Trust. Each Subordinate Voting Trust Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains or other amounts, and in any net assets of the Fund in the event of the termination or winding-up of the Fund.

All Subordinate Voting Trust Units have equal rights and privileges and are not subject to future calls for payment or assessments. Each Subordinate Voting Trust Unit is fully paid and non-assessable and entitles the holder thereof to one vote at all meetings of Unitholders for each Subordinate Voting Trust Unit held. Except as set out under "Redemption Right" and "Take-Over Bid", below, the Subordinate Voting Trust Units have no conversion, retraction, redemption or pre-emptive rights.

#### ***Special Voting Rights***

An unlimited number of Subordinate Voting Rights and a limited number of Multiple Voting Rights (being limited to that number of Multiple Voting Rights issued under the Plan of Arrangement) may be created and issued pursuant to the Declaration of Trust. Holders of Subordinate Voting Rights and Multiple Voting Rights are not entitled as such to any distributions from the Fund or any net assets of the Fund.

Each Subordinate Voting Right entitles the holder thereof to a number of votes at meetings of Unitholders equal to the Subordinate Voting Trust Units into which the securities to which such Subordinate Voting Rights relate are exchangeable. Subordinate Voting Rights have been issued to holders of Class A LP Units on the basis of one Subordinate Voting Right for each Class A LP Unit held and entitle the holders thereof to one vote at all meetings of Unitholders per Subordinate Voting Right. Multiple Voting Rights have been issued to holders of Class B LP Units on the basis of one Multiple Voting Right for each Class B LP Unit held and entitle the holders thereof to ten votes at all meetings of Unitholders per Multiple Voting Right. Partnership Units will be automatically converted into Subordinate Voting Trust Units in certain circumstances, including: (i) any transfer or assignment by the holder; (ii) any change of control of a holding company holding the Partnership Units; and (iii) July 23, 2022. Upon such automatic conversion, all Special Voting Rights attached to the Partnership Units, including any Multiple Voting

Rights, will be cancelled and the holder will thereafter be entitled to one vote for each Subordinate Voting Trust Unit obtained upon conversion.

The Subordinate Voting Rights give the Fund the flexibility to directly or indirectly acquire the securities of another issuer in consideration for securities which are ultimately exchangeable for Subordinate Voting Trust Units, while giving the holders of such securities the ability to vote as holders of Subordinate Voting Trust Units. The Subordinate Voting Rights will be subject to such other rights and limitations as may be determined by the Trustees at the time of issuance of any such Subordinate Voting Rights provided that in no event will the holders of such securities be entitled to receive any distributions from the Fund. The Subordinate Voting Rights and Multiple Voting Rights issued to the holders of Partnership Units must be transferred with any transfer of the related Partnership Units, will be evidenced only by the certificates representing such Partnership Units and will be redeemed for nominal consideration and cancelled upon the exchange of Partnership Units for Subordinate Voting Trust Units.

Under the terms of the Exchange Agreement, Stanley G. Dunford and corporations controlled by him, as the holder of substantially all of the outstanding Class B LP Units and, accordingly, substantially all of the Multiple Voting Rights, will be required to exchange the Multiple Voting Rights attached to his Class B LP Units for Subordinate Voting Rights in the event that he and his spouse cease to beneficially own, directly or indirectly, such number of Subordinate Voting Trust Units and Partnership Units as represent at least 33% of the aggregate voting rights attached to all outstanding Subordinate Voting Trust Units and Special Voting Rights (and, in any event, on July 23, 2022, as described above). In addition, in the event that Mr. Dunford and/or his spouse ceases to control any holding company through which they hold Class B LP Units, the Multiple Voting Rights attached to the Class B LP Units held by such holding company are required to be exchanged for Subordinate Voting Rights.

#### **Issuance of Subordinate Voting Trust Units**

The Declaration of Trust provides that Subordinate Voting Trust Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustees determine. Subordinate Voting Trust Units may be issued in satisfaction of any non-cash distribution of the Fund to Unitholders on a pro rata basis and if so determined, by installment receipts.

#### **Cash Distributions**

The amount of cash to be distributed monthly per Subordinate Voting Trust Unit will be equal to a pro rata share of all amounts received by the Fund in each month, including without limitation, interest payments and principal repayments on the Operating Trust Notes and distributions on or in respect of Operating Trust Units received by the Fund, less:

- (a) costs and expenses of the Fund;
- (b) all amounts which have become payable in cash by the Fund relating to the redemption of Subordinate Voting Trust Units;
- (c) any additional amounts determined by the Trustees to be required by the Fund as reserves for capital expenditures; and
- (d) all amounts which relate to the repayment of the principal amount of any indebtedness of the Fund.

If, on any Distribution Record Date, the Trustees determine that the Fund will not have an amount sufficient to pay the full distribution payable on the related Distribution Date in cash, the distribution payable to Unitholders on such Distribution Date may, at the option of the Trustees, subject to any necessary regulatory approvals, include a distribution of additional Subordinate Voting Trust Units having an equal value to the cash shortfall.

The Fund derives interest income from its holdings of Operating Trust Notes. The Operating Trust Notes bear interest at 8% per annum, calculated and paid monthly on the last Business Day of each month and mature on July 23, 2032. Currently, the Fund's income is limited to:

- (a) the interest received on the principal amount of Operating Trust Notes; and
- (b) distributions (if any) received on the Operating Trust Units.

The Fund may make additional distributions in excess of the monthly distributions during the year as the Trustees may determine. Distributions are to be paid by the Fund on each Distribution Date to Unitholders of record on the immediately preceding Distribution Record Date.

Unitholders who are Non-Residents will be subject to all withholding taxes in respect of any distributions of income by the Fund, whether such distributions are in the form of cash or additional Subordinate Voting Trust Units.

### **The Trustees**

The Declaration of Trust establishes a board of trustees comprised of a minimum of three Trustees and a maximum of ten Trustees with the number of Trustees initially set at five. Trustees will be appointed at each annual meeting of Unitholders to hold office for a term expiring at the close of the next annual meeting of Unitholders. The Declaration of Trust provides that a majority of the Trustees must not be Non-Residents, a majority of the Trustees must be independent, such that they are not officers or employees of Contrans or the Operating Entities, the Trustees must have an audit committee and a compensation and governance committee, each of which must consist of not less than three Trustees, a majority of which are independent. Other committees may be formed from time to time as deemed necessary or advisable.

### ***Trustee Rights and Duties***

The Declaration of Trust provides that, subject to the terms and conditions thereof, the Trustees may, in respect of the Fund Assets, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner thereof and are to supervise the investments and conduct the affairs of the Fund. The Trustees will have and may exercise, from time to time, the following powers and authorities, which may or may not be exercised by them in their sole judgment and discretion:

- (a) to open, operate and close accounts and other similar credit, deposit and banking arrangements and to negotiate and sign banking and financing contracts and agreements;
- (b) to borrow money upon the credit of the Fund and the Fund Assets;
- (c) to issue, reissue, sell or pledge debt obligations of the Fund and to make, accept, endorse, negotiate or otherwise deal with bonds, debentures, cheques, drafts, notes, orders for the payment of money, bills of exchange, bills of lading, acceptances and other similar instruments and obligations as may be necessary or useful to carry out the purpose of the Fund;
- (d) to give a guarantee on behalf of the Fund to secure performance of an obligation of another person;
- (e) to mortgage, hypothecate, pledge or otherwise create a security interest in all or any movable or personal, immovable or real or other property of the Fund, owned or subsequently acquired, to secure any obligation of the Fund;
- (f) to obtain security, including encumbrances on assets, to secure the full payment of monies owed to the Fund and the performance of obligations in favour of the Fund, and to exercise all of the rights of the Fund, and to perform all of the obligations of the Fund, under such security;

- (g) to exercise and enforce any and all rights of foreclosure, to bid on property on sale or foreclosure, to take a conveyance in lieu of foreclosure with or without paying a consideration therefor and in connection therewith to revive the obligation on the covenants secured by such security and to exercise and enforce in any action, suit or proceeding at law or in equity any rights or remedies with respect to any such security or guarantee;
- (h) to establish places of business of the Fund;
- (i) to manage the Fund Assets;
- (j) to invest, hold shares, trust units, beneficial interests, limited partnership interests, joint venture interests or other interests in any person necessary or useful to carry out the purpose of the Fund;
- (k) to cause title to any of the Fund Assets to be drawn up in the name of the Trustees or, to the extent permitted by applicable law, in the name of the Fund;
- (l) to determine conclusively the allocation to capital, income or other appropriate accounts of all receipts, expenses and disbursements;
- (m) to enter into any agreement or instrument to create or provide for the issue of Subordinate Voting Trust Units, to cause such Subordinate Voting Trust Units to be issued for such consideration as the Trustees, in their discretion, may deem appropriate and to do such things and prepare and sign such documents, including offering documents and any registration rights agreement, to qualify such Subordinate Voting Trust Units for sale in whatever jurisdictions they will be sold or offered for sale;
- (n) to enter into any agreement in connection with, or to facilitate, the issuance of Subordinate Voting Trust Units on exercise of the Exchange Right;
- (o) to make or cause to be made application for the listing or quotation on any stock exchange or market of any Subordinate Voting Trust Units or other securities of the Fund, and to do all things which in the opinion of the Trustees may be necessary or desirable to effect or maintain any such listing or quotation;
- (p) to determine conclusively the value of any or all of the Fund Assets from time to time and, in determining such value, to consider such information and advice as the Trustees, in their judgment, may deem material and reliable;
- (q) subject to voting at the direction of the Unitholders on certain matters, to possess and exercise all the rights, powers and privileges pertaining to the ownership of investments held by the Fund, including Operating Trust Units and Operating Trust Notes, to the same extent that an individual might, unless otherwise limited in the Declaration of Trust and, without limiting the generality of the foregoing, to vote or give any consent, request or notice, or waive any notice, either in person or by proxy or power of attorney, with or without power of substitution, to one or more persons with respect to securities held, including voting Operating Trust Units held by the Fund, which proxies and powers of attorney may be for meetings or actions generally or for any particular meeting or action and may include the exercise of discretionary power but provided that such rights shall be exercised only as directed by a vote of the Unitholders and holders of Special Voting Rights where the matter would be one requiring a vote or approval of shareholders of a publicly held corporation or involve the election of trustees or directors of entities in which the Fund holds an investment;
- (r) where reasonably required, to engage or employ on behalf of the Fund any persons as an administrator, agents, advisors, representatives, employees, independent contractors or subcontractors (including, without limitation, investment advisors, registrars, underwriters, accountants, lawyers, appraisers, brokers or otherwise) in one or more capacities;

- (s) to delegate, including to an administrator, any of the powers and duties of the Trustees to any one or more agents, representatives, employees, independent contractors, subcontractors or other persons without liability to the Trustees, except as provided in the Declaration of Trust;
- (t) to appear and respond to all orders issued by a court, arbitral body or administrative authority or claims made by another person, to make all affidavits, sworn declarations and solemn affirmations with respect to such matters, to put in default, sue for and receive all sums of money or obligations due to the Fund, and to engage in, intervene in, prosecute, join, defend, compromise, abandon or adjust, by arbitration or otherwise, any actions, suits, disputes, claims, demands or other litigation or proceedings, regulatory or judicial, relating to the Fund, the Fund Assets or the Fund's affairs, to enter into agreements therefor, whether or not any suit or proceeding is commenced or claim asserted and to enter into agreements regarding the arbitration, adjudication or settlement thereof;
- (u) to arrange for insurance contracts and policies insuring the Fund, the Fund Assets, and/or the Trustees, the Unitholders or holders of Special Voting Rights, including against any and all claims and liabilities of any nature asserted by any person arising by reason of any action alleged to have been taken or omitted by the Fund or by the Trustees, Unitholders or holders of Special Voting Rights or otherwise, and to perform all of the obligations of the Fund under such insurance policies and contracts;
- (v) to negotiate, make, execute, acknowledge and deliver any and all deeds, instruments, contracts, waivers, releases or other documents necessary or useful for the accomplishment of any of the powers granted under the Declaration of Trust, the purpose of the Fund or its assets or affairs, including, without limitation, the Administration Agreement, agreements in connection with the Fund's acquisition of Operating Trust Units and Operating Trust Notes, the administration of the Fund, the Public Offering, the secondary offering and future offerings of securities and the issuance of Subordinate Voting Trust Units, and to perform all of the obligations of the Fund thereunder;
- (w) to use its best efforts to ensure that the Fund complies at all times with the requirements of the Tax Act; and
- (x) to do all such other acts and things as are necessary, useful, incidental or ancillary to the foregoing and to exercise all powers and authorities which are necessary, useful, incidental or ancillary to carry on the affairs of the Fund, to promote the purpose for which the Fund is formed and to carry out the provisions of the Declaration of Trust.

Except as expressly prohibited by law, the Trustees may grant or delegate certain of the Trustees' authority to effect the actual administration of the duties of the Trustees under the Declaration of Trust. The Trustees may grant broad discretion to a third party to administer and manage the day-to-day operations of the Fund, and to make executive decisions which conform to the general policies and general principles set forth in the Declaration of Trust or otherwise established by the Trustees. See "Administration Agreement", below.

#### ***Administration Agreement***

Under the Administration Agreement, Contrans provides certain administrative and support services to the Fund, including without limitation, those necessary to: (i) ensure compliance by the Fund with all applicable securities legislation, including continuous disclosure obligations; (ii) provide investor relations services; (iii) provide or cause to be provided to Unitholders all information to which Unitholders are entitled under the Declaration of Trust, including relevant information with respect to financial reports and income taxes; (iv) administer the calling and holding of all meetings of Unitholders and holders of Special Voting Rights and distribute required materials, including notices of meetings and information circulars, in respect of all such meetings; (v) compute, determine and make distributions to Unitholders of distributions properly payable by the Fund; (vi) attend to all administrative and other matters arising in connection with any redemptions of Subordinate Voting Trust Units; (vii) ensure compliance with the Fund's limitations on Non-Resident ownership and ownership

of foreign property; and (viii) generally provide all other services as may be necessary or as requested by the Trustees of the Fund for the administration of the Fund. All reasonable out-of-pocket expenses incurred by Contrans in connection with the provision of these services is for the account of the Fund.

The Administration Agreement has an initial twenty year term and is renewable for subsequent five year terms, unless terminated earlier by the Fund, in its sole discretion, by notice in writing to Contrans given at least 180 days prior to the effective date of termination. The Administration Agreement may be terminated by either party in the event of the insolvency or receivership of the other party, or in the case of default by the other party in the performance of a material obligation under the Administration Agreement (other than as a result of the occurrence of a force majeure event) which is not remedied within 60 days after notice thereof has been delivered. If at the time of termination Contrans is responsible for any debt, guarantee or obligation incurred in the course of administering the business of, or on behalf of, the Fund and properly within the ambit of its duties and authority, the Fund will assume all such obligations and obtain a release and discharge for Contrans.

### ***Compensation of Trustees***

The Trustees are entitled to compensation for services rendered to the Fund in their capacities as trustees, except no compensation will be payable to Trustees, in such capacity, who are directors, officers or employees of Contrans or any affiliates or associates thereof. Initial compensation for the Trustees that are not directors, officers or employees of Contrans or any affiliates or associates thereof shall be \$10,000 per year plus an additional \$1,000 for each meeting of Trustees attended. The Trustees are also entitled to be reimbursed for reasonable travel and other expenses properly incurred by them in attending meetings of the Trustees or any committee thereof in connection with their services as Trustees.

### ***Liability of the Trustees***

The Trustees shall not be liable to any Unitholder or holder of Special Voting Rights or holder of Partnership Units or any other person, in tort, contract or otherwise, in connection with any matter pertaining to the Fund or the Fund Assets, arising from the exercise by the Trustees of any powers, authorities or discretion conferred under the Declaration of Trust, including, without limitation, any action taken or not taken in good faith in reliance on any documents that are, *prima facie*, properly executed, any depreciation of, or loss to, the Fund Assets incurred by reason of the sale of any asset, for the loss or disposition of money or securities or for any action or failure to act of Contrans, or any other person to whom the Trustees have delegated any of their duties, or any other action or failure to act (including failure to compel in any way any former Trustee to redress any breach of trust or any failure by any person to perform its duties under or delegated to it under the Declaration of Trust), unless such liabilities arise out of a breach of the Trustee's standard of care, diligence and skill or a breach of the restrictions on the Trustees' powers as set out in the Declaration of Trust. If the Trustees have retained an appropriate expert, advisor or legal counsel with respect to any matter connected with their duties under the Declaration of Trust, the Trustees may act or refuse to act based on the advice of such expert, advisor or legal counsel, and the Trustees shall not be liable for and shall be fully protected from any loss or liability occasioned by any action or refusal to act based on the advice of any such expert, advisor or legal counsel. In the exercise of the powers, authorities or discretion conferred upon the Trustees under the Declaration of Trust, the Trustees are and shall be conclusively deemed to be acting as Trustees of the Fund Assets and shall not be subject to any personal liability for any debts, liabilities, obligations, claims, demands, judgments, costs, charges or expenses against or with respect to the Fund or the Fund Assets. In addition, the Declaration of Trust contains other customary provisions limiting the liability of the Trustees. The existing directors and officers insurance of Contrans has been extended to provide coverage to the Trustees.

### **Redemption Right**

Subordinate Voting Trust Units are redeemable by the Fund at any time on demand by the holders thereof. Upon receipt of a written redemption notice by the Fund, together with any certificates representing the Subordinate Voting Trust Units to be redeemed and written instructions as to the number of Subordinate Voting Trust Units to be redeemed, all rights to and under the Subordinate Voting Trust Units tendered for redemption will be surrendered, and the holder thereof will be entitled to receive a price per Subordinate Voting Trust Unit (the "Redemption Price") equal to the lesser of:

- (a) 90% of the "market price" of the Subordinate Voting Trust Units on the principal market on which the Subordinate Voting Trust Units are listed or quoted for trading during the five trading day period commencing immediately after the date on which the Subordinate Voting Trust Units were surrendered to the Fund for redemption (the "Redemption Date"); and
- (b) 100% of the "closing market price" of the Subordinate Voting Trust Units on the principal market on which the Subordinate Voting Trust Units are quoted for trading on the Redemption Date.

For the purposes of this calculation, "market price" shall be an amount equal to the weighted average price per Subordinate Voting Trust Unit at which the Subordinate Voting Trust Units trade on the principal exchange on which the Subordinate Voting Trust Units are listed (or, if the Subordinate Voting Trust Units are not listed on any exchange, on the principal market through which the Subordinate Voting Trust Units are quoted for trading) during the period of the following five days during which the Subordinate Voting Trust Units trade on such exchange or market immediately following the date on which the Subordinate Voting Trust Units were tendered for redemption. The "closing market price" shall be: (i) an amount equal to the closing price of the Subordinate Voting Trust Units on the principal exchange through which the Subordinate Voting Trust Units are listed (or, if the Subordinate Voting Trust Units are not listed on any exchange, on the principal market through which the Subordinate Voting Trust Units are quoted for trading) if there was a trade on the date on which the Subordinate Voting Trust Units were tendered for redemption and the exchange or market provides a closing price; (ii) an amount equal to the average of the highest and lowest price of the Subordinate Voting Trust Units on the principal exchange on which such units are listed (or, if the Subordinate Voting Trust Units are not listed on any exchange, on the principal market through which the Subordinate Voting Trust Units are quoted for trading) if there was trading on the date on which the Subordinate Voting Trust Units were tendered for redemption and the exchange or other market provides only the highest and lowest trading prices of the Subordinate Voting Trust Units traded on a particular day; or (iii) the average of the last bid and last ask prices on the principal exchange on which Subordinate Voting Trust Units are listed (or, if the Subordinate Voting Trust Units are not listed on any exchange, on the principal market through which the Subordinate Voting Trust Units are quoted for trading) if there was no trading on the date which the Subordinate Voting Trust Units were tendered for redemption.

The principal exchange or principal market through which the Subordinate Voting Trust Units are listed or quoted for trading shall be the exchange or market through which the greatest volume of Subordinate Voting Trust Units were traded during the relevant period or, if such is not determinable, the exchange or market designated by the Trustees in their absolute discretion. If the principal exchange or market through which the Subordinate Voting Trust Units are listed or quoted for trading was not open for trading on the date on which the Subordinate Voting Trust Units were tendered for redemption, then the reference date shall be the last day on which such principal exchange or market was open for trading.

Except as described below, the Redemption Price payable in respect of the Subordinate Voting Trust Units tendered for redemption during any month is to be paid by cheque, drawn on a Canadian chartered bank or trust company in lawful money of Canada, payable to or to the order of the holder who exercised the right of redemption within five Business Days after the end of the calendar month in which the Subordinate Voting Trust Units were tendered for redemption. Payments made by the Fund of the Redemption Price will conclusively be deemed to have been made upon the mailing of a cheque in a postage pre-paid envelope addressed to the former holder and/or any party having a security interest unless such cheque is dishonoured upon presentment. Upon such payment, the Fund will be discharged from all liability to the former holder in respect of the Subordinate Voting Trust Units redeemed.

Unitholders will not be entitled to receive a cash payment for the Redemption Price upon the redemption of their Subordinate Voting Trust Units if:

- (a) the total amount payable by the Fund in respect of the Subordinate Voting Trust Units and all other Subordinate Voting Trust Units tendered for redemption prior thereto in the same calendar month exceeds \$250,000, or such higher amount as the Trustees may, in their sole discretion, permit in respect of any calendar month (such amount being the "Maximum Redemption Amount"). The Redemption Price for Subordinate Voting Trust Units tendered for redemption in any calendar month in excess of the Maximum Redemption Amount will be deemed withdrawn

and re-submitted automatically for the next month unless the Unitholder specifically elects to receive a distribution *in specie* as set out below;

- (b) at the time the Subordinate Voting Trust Units are tendered for redemption, the outstanding Subordinate Voting Trust Units are not listed for trading on the TSX and are not traded or quoted on or through any other stock exchange or market which the Trustees consider, in their opinion, provides representative fair market value prices for the Subordinate Voting Trust Units; or
- (c) the normal trading of the outstanding Subordinate Voting Trust Units is suspended or halted on any stock exchange on which the Subordinate Voting Trust Units are listed for trading or, if not so listed, on any market through which the Subordinate Voting Trust Units are quoted for trading, on the date that such Subordinate Voting Trust Units were tendered to the Fund for redemption or for more than five trading days during the ten trading-day period immediately prior to the date on which such Subordinate Voting Trust Units were tendered to the Fund for redemption.

With respect to Subordinate Voting Trust Units which are not redeemable for cash payment as a result of the foregoing limitations, the Redemption Price for such Subordinate Voting Trust Units shall, subject to any applicable regulatory approvals, be paid and satisfied by way of a distribution *in specie* of Operating Trust Notes (each Operating Trust Note in the principal amount of \$100) after taking into account all liabilities of the Fund. No Operating Trust Notes in integral multiples of less than \$100 will be distributed and, where the number of Operating Trust Notes to be received by a Unitholder includes a multiple less than \$100, such number shall be rounded to the next lowest whole integral of \$100. The Fund shall be entitled to all interest paid on the Operating Trust Notes on or before the date of the distribution *in specie*. Where the Fund makes a distribution *in specie* of Operating Trust Notes and other assets on the redemption of Subordinate Voting Trust Units of a Unitholder, the Fund may, in its sole discretion, and currently intends to, treat portions of the amount of the fair market value of such securities (i) not exceeding the amount of any capital gains of the Fund as a result of the distribution of such property as an amount payable out of the net realized capital gains of the Fund; and (ii) not exceeding the amount of accrued interest on Operating Trust Notes distributed on such redemption, as an amount payable out of the income of the Fund.

It is anticipated that the redemption right described above will not be the primary mechanism for holders of Subordinate Voting Trust Units to dispose of their Subordinate Voting Trust Units. Operating Trust Notes and other assets of the Fund which may be distributed *in specie* to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop in such Operating Trust Notes and other assets of the Fund. Such Operating Trust Notes and other assets of the Fund may be subject to an indefinite "hold period" or other resale restrictions under applicable securities laws. Operating Trust Notes and other assets of the Fund so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, depending upon the circumstances at the time.

### **Meetings of Unitholders**

Meetings of Unitholders will be called and held annually, commencing in 2003, for the purpose of:

- (a) electing Trustees for the Fund;
- (b) directing and instructing the Trustees as to the manner in which the Trustees are to vote the Operating Trust Units held by the Fund in respect of (i) the appointment of the auditors of the Operating Trust for the ensuing year, and (ii) certain other relevant matters described in the Declaration of Trust which may be on the agenda for such annual meeting of holders of Operating Trust Units (see "Restrictions on Voting Powers of the Trustees" below);
- (c) appointing the auditors of the Fund for the ensuing year;
- (d) directing the Trustees to vote the Operating Trust Units, which will require the Trustees of the Operating Trust to vote for the slate of directors designated by the Unitholders and holders of Special Voting Rights as to Contrans and as to the Trustees of the Operating Trust (which Trustees

shall be the same Trustees of the Fund) and otherwise to vote such Operating Trust Units in the same manner and proportion as the corresponding votes of the Subordinate Voting Trust Units and Special Voting Rights; and

- (e) transacting such other business as the Trustees may determine or as may properly be brought before the meeting.

Meetings of Unitholders will be held after delivery to the Unitholders of the annual financial statements of the Fund and, in any event, within 180 days after the end of each fiscal year of the Fund. The annual meeting of Unitholders will be held together with the annual meeting of the unitholders of the Operating Trust, Contrans and the Partnership, such to be held on the same date, at the same place, and in sequence, such that the annual meeting of the Unitholders will be held first, that of the Operating Trust next, and then that of Contrans and finally that of the Partnership.

The Declaration of Trust provides that the Unitholders are entitled to pass resolutions that will bind the Fund with respect to the election or removal of Trustees of the Fund or of the Operating Trust, the appointment or removal of the auditors of the Fund, the approval of amendments to the Declaration of Trust (except as described below under "Amendments to the Declaration of Trust"), the termination of the Fund and the dissolution of the Fund prior to the end of its term and certain other matters. A resolution appointing or removing the Trustees of the Fund or the Operating Trust or the auditors of the Fund must be passed by a simple majority of the votes cast by Unitholders and holders of Special Voting Rights voting upon such resolution. Certain other matters must be passed by a vote of at least two-thirds of the votes cast by Unitholders and holders of Special Voting Rights voting upon such resolution at a meeting of the Unitholders called for such purpose, in accordance with the provisions of the Declaration of Trust.

A special meeting of Unitholders may be convened at any time and for any purpose by the Trustees and must be convened by the Trustees, except in certain circumstances, if requisitioned in writing by the holders of Subordinate Voting Trust Units or Special Voting Rights representing not less than 10% of the aggregate votes attached to the Subordinate Voting Trust Units and Special Voting Rights then outstanding. A requisition must state in reasonable detail the business proposed to be transacted at the meeting.

Unitholders of record and holders of Special Voting Rights may attend and vote at all meetings of the Unitholders either in person or by proxy and a proxy-holder need not be a Unitholder or holder of a Special Voting Right. One or more persons present in person or represented by proxy and representing in the aggregate at least 20% of the votes attached to all outstanding Subordinate Voting Trust Units and Special Voting Rights will constitute a quorum for the transaction of business at all such meetings.

The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders.

#### **Limitation on Non-Resident Ownership**

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of Non-Residents. Accordingly, the Declaration of Trust provides that at no time may Non-Residents be the beneficial owners of that number of Subordinate Voting Trust Units and Special Voting Rights entitling the holders to more than 49% of the votes attached to all outstanding Subordinate Voting Trust Units and Special Voting Rights. The Trustees may require declarations as to the jurisdictions in which beneficial owners of Subordinate Voting Trust Units and Special Voting Rights are resident.

If the Trustees become aware that the beneficial owners of Subordinate Voting Trust Units and Special Voting Rights entitling the holders to more than 49% of the votes attached to all outstanding Subordinate Voting Trust Units and Special Voting Rights are, or may be, Non-Residents or that such a situation is or may be imminent, the Transfer Agent may make a public announcement thereof and will not accept a subscription for any Subordinate Voting Trust Units or Partnership Units from or issue or register a transfer of Subordinate Voting Trust Units or Partnership Units to a person unless the person provides a declaration that he or she is not a Non-Resident. If, notwithstanding the foregoing, the Trustees determine that Subordinate Voting Trust Units and Special Voting

Rights entitling the holders to more than 49% of the votes attaching to all outstanding Subordinate Voting Trust Units and Special Voting Rights are held or beneficially owned by Non-Residents, the Transfer Agent may send a notice to Non-Resident holders of Subordinate Voting Trust Units and Partnership Units then outstanding, chosen in inverse order to the order of acquisition or registration or in such manner as the Transfer Agent may consider equitable and practicable, requiring them to sell, within a specified period of not less than 60 days, all or a portion of their Subordinate Voting Trust Units or Partnership Units. If the Unitholders or holders of Partnership Units receiving such notice have not sold the specified number of Subordinate Voting Trust Units and/or Partnership Units then outstanding or provided the Transfer Agent with satisfactory evidence that they are not Non-Residents within such period, the Transfer Agent may, on behalf of such Unitholders or holders of Partnership Units, sell such Subordinate Voting Trust Units and/or cause the Partnership Units to which such Special Voting Rights are attached to be converted into Subordinate Voting Trust Units and so sold and, in the interim, the Transfer Agent shall suspend the voting and distribution rights attached to such Subordinate Voting Trust Units and/or Partnership Units and Special Voting Rights, as applicable. Upon such sale or conversion, the affected holders shall cease to be holders of the Subordinate Voting Trust Units and/or Special Voting Rights or Partnership Units to which such Special Voting Rights are attached and their rights shall be limited to receiving the net proceeds of such sale. Under the Exchange Agreement, if a holder of Partnership Units becomes a Non-Resident, such holder will be required to exchange their Partnership Units for Subordinate Voting Trust Units.

#### **Amendments to the Declaration of Trust**

Except as set out below, the Declaration of Trust may be amended or altered from time to time by a vote of at least two-thirds of the votes cast by holders of Subordinate Voting Trust Units and Special Voting Rights at a meeting of the Unitholders called for such purpose. The Trustees may, without the approval of the Unitholders and holders of Special Voting Rights, amend the Declaration of Trust prior to the Effective Date and, following the Effective Date, may make certain amendments to the Declaration of Trust, including amendments:

- (a) for the purpose of ensuring continuing compliance with applicable laws (including the Tax Act), regulations, requirements or policies of any governmental or other authority having jurisdiction over the Trustees or over the Fund;
- (b) which, in the opinion of the Trustees, provide additional protection for the Unitholders and holders of Special Voting Rights or to preserve or clarify the provision of desirable tax treatments to Unitholders;
- (c) to remove any conflicts or inconsistencies in the Declaration of Trust or to make minor corrections which, in the opinion of the Trustees, are necessary or desirable and not prejudicial to the Unitholders or holders of Special Voting Rights; and
- (d) which, in the opinion of the Trustees, are necessary or desirable and not prejudicial to the rights of the Unitholders or holders of Special Voting Rights.

Amendments may not be made to the Declaration of Trust which would modify the voting rights of the Subordinate Voting Trust Units or the Special Voting Rights, reduce the beneficial interest in the Fund Assets of any Subordinate Voting Trust Unit, affect the rights granted under the Declaration of Trust to the holders of Partnership Units or change the percentage of votes required to approve any matter specified under the Declaration of Trust.

#### **Term of the Fund**

The Fund has been established for a term ending when no Fund Assets are held by the Trustees. At any time prior to the expiry of the term of the Fund, the Unitholders and holders of Special Voting Rights may, by a vote of at least two-thirds of the votes cast at a meeting of Unitholders and holders of Special Voting Rights called for such purpose, require the Trustees to commence to wind-up the affairs of the Fund.

The Declaration of Trust provides that, upon being required to commence to wind-up the affairs of the Fund, the Trustees will be required to give notice thereof to the Unitholders, which notice shall designate the time or times at which Unitholders may surrender their Subordinate Voting Trust Units for cancellation and the date at

which the register of Subordinate Voting Trust Units will be closed. All of the Class A LP Units and Class B LP Units will be deemed exchanged immediately prior to such time. After the date the register is closed, the Trustees shall proceed to wind-up the affairs of the Fund as soon as may be reasonably practicable and for such purpose shall, subject to any direction to the contrary in respect of a termination authorized by a resolution of the Unitholders, sell and convert into cash the Operating Trust Units, Operating Trust Notes and all other Fund Assets in one transaction or in a series of transactions at public or private sales and do all other acts appropriate to liquidate the Fund. After paying, retiring, discharging or making provision for the payment, retirement or discharge of all known liabilities and obligations of the Fund and providing for indemnity against any other outstanding liabilities and obligations, the Trustees shall, subject to obtaining all necessary regulatory approvals, distribute the remaining part of the proceeds of the sale of the Operating Trust Units, Operating Trust Notes and other Fund Assets together with any cash forming part of the Fund Assets among the Unitholders, including those Class A LP Units and Class B LP Units deemed exchanged, in accordance with their pro rata interests. If the Trustees are unable to sell all or any of the Operating Trust Units, Operating Trust Notes or other Fund Assets which comprise part of the Fund by the date set for termination, the Trustees may distribute the remaining Operating Trust Units, Operating Trust Notes or other Fund Assets *in specie* directly to the Unitholders, including those Class A LP Units and Class B LP Units deemed exchanged, in accordance with their pro rata interests, subject to obtaining all required regulatory approvals.

### **Take-Over Bids**

The Declaration of Trust contains provisions to the effect that if a take-over bid is made for the Subordinate Voting Trust Units and not less than 90% of the Subordinate Voting Trust Units (including Subordinate Voting Trust Units issuable upon the exchange of any Partnership Units but excluding any Subordinate Voting Trust Units or Partnership Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror), are taken up and paid for by the offeror, the offeror will be entitled to acquire the Subordinate Voting Trust Units (including Subordinate Voting Trust Units issuable upon exchange of any Partnership Units) held by Unitholders (and holders of Partnership Units) who did not accept the take-over bid on the terms offered by the offeror.

### **Restrictions on the Voting Powers of the Trustees**

The Declaration of Trust provides that the Trustees shall not, without the approval of the Unitholders and holders of Special Voting Rights by resolution requiring the approval of more than 50% of the votes cast thereon, vote the Operating Trust Units held by the Fund to authorize, among other things:

- (a) any matter under which the COT Declaration of Trust requires or permits the approval of the Operating Trust Units by ordinary resolution;
- (b) except in the event of a voluntary resignation by the auditors of the Fund, appoint or change the auditors; or
- (c) vote the Operating Trust Units with regard to the election of the directors of Contrans and any other subsidiary, save as to the slate of directors instructed by the Unitholders and holders of Special Voting Rights.

In addition, the Trustees will not, without the approval of the Unitholders and holders of Special Voting Rights, by resolution requiring the approval of two-thirds of the votes cast thereon, vote any of the Operating Trust Units held by the Fund to authorize any of the following activities:

- (a) any matter under the COT Declaration of Trust that requires or permits the approval of the Operating Trust Units by special resolution of two-thirds of the votes cast thereon;
- (b) amend the Declaration of Trust, except as otherwise provided therein and described previously in the section "Amendments to the Declaration of Trust" above;
- (c) sell, lease or exchange all or substantially all of the property of the Fund or its affiliates, taken as a whole;

- (d) authorize the termination, liquidation or winding up of the Fund, except as otherwise provided in the Declaration of Trust; or
- (e) authorize the combination or merger or similar transaction of the Fund with any other person if following such transaction the holders of equity interest in such other person or the entity resulting from such combination or merger or other transaction would equal more than twenty-five (25) percent of the outstanding Subordinate Voting Trust Units or other securities resulting from such combination, merger or other transaction, provided that nothing in the Declaration of Trust will prevent the Operating Trust, or any direct or indirect subsidiary thereof, or any partnership, controlled, directly or indirectly, thereby, from engaging in any combination, sale, merger or other similar transaction with any other person, without approval.

### **Information and Reports**

Each Unitholder or holder of Special Voting Rights will have the right to obtain, on demand and on payment of reasonable reproduction costs, from the head office of the Fund a copy of the Declaration of Trust, and any amendments thereto, relating to the Subordinate Voting Trust Units held by that Unitholder or Special Voting Rights held by a holder thereof and shall be entitled to inspect and, on payment of a reasonable fee therefor, obtain a list of the Unitholders and holders of Special Voting Rights for purposes connected with the Fund.

The Fund will send to Unitholders, including holders of Special Voting Rights:

- (a) within 140 days after the end of each fiscal year and at least 21 days prior to the date of each annual meeting of Unitholders, the audited annual financial statements of the Fund for the fiscal year ended immediately prior to such annual meeting, together with comparative audited financial statements for the preceding fiscal year, if any, and the report of the auditors thereon; and
- (b) within 60 days after the end of each fiscal quarter of the Fund, unaudited quarterly financial statements of the Fund for such fiscal quarter, together with comparative financial statements for the same fiscal quarter in the preceding fiscal year, if any. Such financial statements will be prepared in accordance with generally accepted accounting principles in Canada as recommended from time to time in the Handbook of the Canadian Institute of Chartered Accountants; provided that such statements may vary from such principles to the extent required to comply with applicable securities laws or securities regulatory requirements or to the extent permitted by applicable securities regulatory authorities. The financial statements shall be signed by the Trustees of the Fund.

Prior to each meeting of Unitholders, including holders of Special Voting Rights, the Trustees will provide to each Unitholder and holder of Special Voting Rights, together with the notice of the meeting:

- (a) a form of proxy which can be used by a Unitholder and a holder of Special Voting Rights to appoint a proxy, who need not be a Unitholder or a holder of Special Voting Rights, to attend and vote at the meeting on behalf of the Unitholder, or a holder of Special Voting Rights, in the manner and to the extent authorized by the proxy; and
- (b) all other information required by applicable law.

On or before March 30 in each year, the Fund will provide to Unitholders who received distributions from the Fund in the prior calendar year, such information and forms as may be needed by such Unitholders in order to complete their tax returns in respect of the prior calendar year under the Tax Act and equivalent provincial and territorial legislation in Canada.

## **SELECTED CONSOLIDATED FINANCIAL INFORMATION**

### **Selected Annual Consolidated Financial Information**

The following table provides a summary of selected consolidated financial information of Contrans for the periods indicated. The selected consolidated financial information in this Annual Information Form should be read in conjunction with Pre-Amalgamated Contrans' audited consolidated financial statements for each of the fiscal years in the three year period ended August 31, 2001, including the notes thereto, filed on www.sedar.com.

	<u>Year Ended August 31</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(in thousands of dollars except per share data)		
Revenue.....	\$257,045	\$270,945	\$258,062
Net income.....	\$13,814	\$10,709	\$8,732
Basic earnings per share.....	\$3.05	\$2.18	\$1.68
Fully diluted earnings per share.....	\$3.04	\$2.17	\$1.66
Total assets	\$124,725	\$124,651	\$115,079
Long term liabilities	\$20,321	\$28,952	\$19,618

### **Distribution Policy**

The Fund makes distributions of its available cash to Unitholders. The Fund intends to make monthly cash distributions of all amounts received by the Fund from the Operating Trust in each month, less estimated amounts required for the payment of costs and expenses and cash redemptions or repurchases of Subordinate Voting Trust Units. Cash distributions will be payable monthly to Unitholders of record on the last Business Day of each month and will be paid on or about the 15th day of the following month (but in respect of distributions for the month of December in each year, on or about December 31 of such year).

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Fund is entirely dependent on the operations of Contrans and its direct and indirect subsidiaries and partnership interests. The following information is derived from the historical records of Contrans and is intended to provide a review of Contrans' results of operations and financial position for the year ended August 31, 2001 in comparison with the year ended August 31, 2000 and should be read in conjunction with the consolidated financial statements and accompanying notes of Contrans for the year ended August 31, 2001.

#### **Year Ended August 31, 2001 compared to Year Ended August 31, 2000**

Revenue for the year ended August 31, 2001 was \$257 million, a decrease of \$14 million or 5.1% as compared to the year ended August 31, 2000. The reductions resulted from the following items:

- economic activity in general was slower during the year ended August 31, 2001;
- shipments from customers in the steel industry were lower early in the year as several customers had temporary plant shut downs due to a lack of demand for their products; and
- unusually severe winter weather conditions hindered freight movements and during 2000, management rationalized less profitable freight in certain of its operations. This affected the level of revenue during all twelve months of 2001. These factors were offset to a degree by increased volumes from its customers in the construction industry.

Management recognized signs of a slowing economy during the year ended August 31, 2000 and responded by increasing its emphasis on cost control. Redundant leased equipment was bought out and sold late in 2000. Overhead costs were reduced and operating efficiencies were realized when three underperforming operations were closed between the months of March 2000 and September 2000. These efforts resulted in an improvement of profit measured as a percentage of revenue. EBITDA increased in the year ended August 31, 2001 to 12.4% (\$31.8 million) from 11.6% (\$31.3 million) achieved in the year ended August 31, 2000.

During 2001, legislation was passed that reduced income tax rates over the next several years. Canadian generally accepted accounting principles require future income tax assets and liabilities to be measured using substantively enacted income tax rates that are expected to apply when the assets are realized or the liabilities are settled. As a result, Contrans' net income was favourably affected by \$2.7 million or \$0.60 per share (basic).

### **Cash Flow from Operations**

Contrans' cash flow from operating activities before changes in non-cash working capital balances amounted to \$21.9 million for the year ended August 31, 2001 as compared to \$21.9 million for the year ended August 31, 2000. In the fourth quarter of 2001, Contrans sold its terminal facility in Mississauga, Ontario for cash proceeds of \$2.7 million.

In the year ended August 31, 2002, the Company spent \$3.6 million on rolling stock compared to \$15.2 million and \$18.3 million in the years ended August 31, 2000 and 1999, respectively. Expenditures on rolling stock in 2000 and 1999 were made primarily to replace leased trailing equipment and to upgrade the fleets of the companies acquired in 1997 and 1998. Contrans' other significant capital expenditure in the year ended August 31, 2001 was \$1.7 million spent on a new terminal in Truro, Nova Scotia. Contrans now owns all of its major operating facilities.

Since October, 1995, Contrans has had a program to repurchase its own shares in order to enhance the value of remaining shareholders. During 2001, Contrans repurchased 310,000 Subordinate Voting Shares, the maximum number of shares under its normal course issuer bid at a cost of \$4.0 million.

### **Liquidity and Capital Resources**

Contrans' solid operating results have strengthened its balance sheet. The following highlights summarize the improvement in Contrans' balance sheet as at August 31, 2001 compared to August 31, 2000.

- The current ratio has improved to 1.4 compared to 1.2.
- Cash amounted to \$13.3 million compared to \$3.9 million.
- The debt to equity ratio was 0.9 compared to 1.3.

As at August 31, 2001, Contrans had unutilized long-terms debt facilities of \$10 million and another \$26 million available in its operating line. In addition, Contrans' real estate holdings are unencumbered and available for use as collateral.

Contrans uses working capital to fund operating activities, repurchase shares and acquire real estate. In the past, Contrans has also generally funded 30% of its equipment purchases with working capital.

In 2002, leases expired on approximately 170 of Contrans' tractors. In consideration of the current business environment and a preference to engage the services of owner-operators, management does not anticipate replacing all of these units.

### **Business Risks**

Contrans is affected by economic cycles. Contrans services a large customer base in various industries with its fleet of dry van, flatbed, dump, dry bulk and liquid tank trailers. Some of Contrans' largest customers are in industries where demand for their goods is relatively inelastic.

The diversity of Contrans' customer base also limits concentration of credit risk. Contrans undertakes credit checks on new accounts and closely monitors the credit performance of all its customers.

Contrans is subject to certain foreign exchange risks. Contrans has positive U.S. dollar cash flow. Operationally, the relative weakness of the Canadian dollar against the U.S. dollar affects the flow of goods between Canada and the U.S. as well as the competition for this freight.

Contrans competes effectively by providing high levels of service to service-sensitive customers.

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

Contrans relies primarily on the services of owner-operators and professional drivers to transport goods for its customers. Besides offering competitive rates of pay, management is conscientious of the quality of its working environment. When its own resources are unavailable, however, Contrans has partner carriers that provide hauling capacity.

Changes in interest rates affect both interest paid on floating rate debt and interest received on surplus cash. Approximately 80% of Contrans' long-term debt has a fixed interest rate. See also "Risk Factors".

### **Changes in Accounting Policy**

During the year ended August 31, 2001, Contrans adopted the new recommendations of the Canadian Institute of Chartered Accountants handbook section 3500, "Earnings Per Share". The impact of adopting this new recommendation is described in Note 1(i) of the financial statements of Contrans for the year ended August 31, 2001.

### **MARKET FOR SECURITIES**

The Subordinate Voting Trust Units are listed on the TSX under the symbol "CSS.UN".

### **MANAGEMENT**

#### **Trustees of the Fund**

The following table outlines the names and municipalities of residence of the current Trustees, together with their principal occupations. Trustees are appointed at each annual meeting of Unitholders to hold office for a term expiring at the close of the next annual meeting of Unitholders.

<b><u>Name and Municipality of Residence</u></b>	<b><u>Year First Became a Trustee</u></b>	<b><u>Principal Occupation</u></b>
Stanley George Dunford Woodstock, Ontario	2002	Chairman of the Board and President of Contrans
Gregory W. Rumble <sup>(2)</sup> Dorchester, Ontario	2002	Executive Vice-President of Contrans
Robert Burnside Burgess <sup>(1)(2)(3)</sup>	2002	Barrister and Solicitor
Archie Murray Leach <sup>(1)(2)(3)</sup> London, Ontario	2002	President and Chief Executive Officer of Carroll Healthcare Inc. (manufacturer of healthcare products)
G. Ross Amos <sup>(1)(3)</sup> Mississauga, Ontario	2002	President of Everest Canadian Property Company, a real estate investment bank

- (1) Member of the Audit Committee.
- (2) Member of the Compensation Committee.
- (3) Member of the Corporate Governance Committee.

### ***Profiles of Trustees of the Fund***

Set forth below are brief profiles of each of the Trustees of the Fund. Other than as set forth below, each Trustee has held the same or similar principal occupation with the organization indicated or a predecessor thereof for the last five years.

**Stanley George Dunford.** Mr. Dunford became a director of Contrans in 1988 and is currently the Chairman of the Board and President of Contrans. Mr. Dunford has also been President of Floyd Dunford Limited since January 1977. From 1985 to 1987, Mr. Dunford was also President and Chief Executive Officer of King Equipment Manufacturing Corporation.

**Gregory W. Rumble.** Mr. Rumble became a director of Contrans in 1991 and has been Executive Vice-President of Contrans since September 1988. Prior thereto, from January 1988 to September 1988, he was Vice-President, Administration of King Equipment Manufacturing Corporation; from September 1985 to December 1987, he was General Manager of Floyd Dunford Limited; and, from September 1976 to September 1985, he was a manager with the national auditing firm of Clarkson Gordon (now Ernst & Young LLP). Mr. Rumble obtained an honours degree in Business Administration from the Ivey School of Business at the University of Western Ontario in 1976 and qualified as a Chartered Accountant in 1979.

**Robert Burnside Burgess, Q.C.** Mr. Burgess became a director of Contrans in 1984. For the past ten years, Mr. Burgess has been practicing law as a sole practitioner. Prior thereto, from 1963 to 1972, he practiced law with Campbell, Godfrey & Lewtas, Toronto; and, from 1973 to 1992, he was a partner with Burgess, MacDonald and predecessor law firms in Toronto. Mr. Burgess received a Bachelor of Commerce from McGill University in 1957, his L.L.B. from Osgoode Hall Law School in 1961 and his designation as Queens Counsel in 1981.

**Archie Murray Leach.** Mr. Leach became a director of Contrans in 1992. Since 1996, he has been the President and Chief Executive Officer of Carroll Healthcare Inc., a manufacturer of long-term health care products. Prior thereto, from 1995 to 1996, he was the Chairman and Chief Executive Officer of Diamond Aircraft, an aircraft manufacturer; from 1993 to 1995, he was the President and Chief Executive Officer of Agra Developers, a manufacturer of agricultural products; from 1982 to 1993, he was the Managing Partner of Deloitte & Touche's London, Ontario office; and, from 1979 to 1982, he was a partner at the accounting firm Atkinson, Innes, Leach & Neill. Mr. Leach received an honours degree in Business Administration from the Ivey School of Business at the University of Western Ontario in 1976 and qualified as a Chartered Accountant in 1979.

**G. Ross Amos.** Since December 2000, Mr. Amos has been President of Everest Canadian Property Company, a real estate investment bank. From 1996 to 2000, Mr. Amos was President of the General Partner company for 65 hotel limited partnerships. From 1991 to 1996, Mr. Amos was President of Standard Rollins Development Corporation, "In Liquidation". From 1988 to 1990, Mr. Amos was Chief Financial Officer of Pagecorp Multiholdings Partnership, a publicly traded real estate company. Prior thereto Mr. Amos was based in Alberta, in the financial services and real estate industry. Mr. Amos received an honours degree in Business Administration from the Ivey School of business at the University of Western Ontario in 1965 and an MBA from York University in 1968.

### **Directors and Executive Officers of Contrans**

The following table sets forth, for each of the directors and executive officers of Contrans, the person's name, municipality of residence, position held with Contrans and principal occupation of each person who is a director or executive officer of Contrans:

<u>Name and Municipality of Residence</u>	<u>Position with Contrans</u>	<u>Principal Occupation</u>
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Stanley George Dunford Woodstock, Ontario	Chairman of the Board, President and Director	Chairman of the Board and President of Contrans
Gregory W. Rumble, C.A. <sup>(2)</sup> Dorchester, Ontario	Executive Vice-President and Director	Executive Vice-President of Contrans
Robert Burnside Burgess, Q.C. <sup>(1)(2)</sup> Campbellville, Ontario	Director	Barrister and Solicitor
P. Anthony Ennis <sup>(1)</sup> Oakville, Ontario	Director	President of Round Oak Management Ltd. (management consulting)
Archie Murray Leach, C.A. <sup>(1)(2)</sup> London, Ontario	Director	President and Chief Executive Officer of Carroll Healthcare Inc. (manufacturer of long-term health care products)
James S. Clark, C.A. Dorchester, Ontario	Vice President, Finance	Vice-President, Finance of Contrans
D. Jamieson Miller Cambridge, Ontario	Secretary-Treasurer	Secretary-Treasurer of Contrans

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) From 1993 to 2000, Mr. Ennis was Executive Vice-President of The Commercial Capital Corporation, a full service finance/advisory firm.

***Profiles of Directors and Executive Officers of Contrans who are not also Trustees of the Fund***

Set forth below are brief profiles of each of the directors and executive officers of Contrans who are not also Trustees of the Fund. Other than as set forth below, each director or executive officer has held the same or similar principal occupation with the organization indicated or a predecessor thereof for the last five years.

**P. Anthony Ennis**, Director. Mr. Ennis became a director of Contrans in 2001. Since 2001, he has been the President of Round Oak Management Ltd., a management consulting firm. Prior thereto, from 1993 to 2000, Mr. Ennis was Executive Vice-President of The Commercial Capital Corporation, a full service corporate finance/advisory firm in Toronto.

**James S. Clark**, Vice-President, Finance. Mr. Clark has been Vice-President, Finance of Contrans since 1997. From 1989 to 1997, he was the Corporate Controller of Contrans. Prior thereto, from 1987 to 1989, he was internal auditor and an accounting manager at The Molson Companies Limited; and, from 1984 to 1987, he was an auditor at Collins Barrow Chartered Accountants. Mr. Clark received a Bachelor of Commerce from the University of Toronto in 1984 and qualified as a Chartered Accountant in 1987.

**D. Jamieson Miller**, Secretary-Treasurer. Ms. Miller has been the Secretary-Treasurer of Contrans since 1997. Prior thereto, from 1985 to 1997, she was Vice-President, Finance of Contrans; from 1981 to 1985, she was employed by Laidlaw Transportation Limited (now Laidlaw Inc.); and, from 1976 to 1981, she was employed at Coopers & Lybrand (now PricewaterhouseCoopers LLP). Ms. Miller received a Bachelor of Economics from the University of Guelph in 1975.

As at the date of this Annual Information Form, the Trustees of the Fund and the directors and executive officers of Contrans, as a group, beneficially owned, directly or indirectly, or exercised control or direction over an

aggregate of 4,895,347 Subordinate Voting Trust Units and 1,467,724 Multiple Voting Units (assuming exercise of all Partnership Units held by such persons).

## **RISK FACTORS**

### **Risks Related to the Business and the Industry**

#### ***Competition***

Although Contrans is one of Canada's major freight services organizations, Contrans competes with competitors that are significant and have greater financial and marketing resources than Contrans. There can be no assurance that Contrans will be able to compete successfully against its current or future competitors or that competition will not reflect on Contrans' results of operations and financial condition.

Contrans faces intense competition for freight transportation in Canada and the U.S., including competition from other trucking companies and railways. Contrans will be competing for the passenger school bus business in Central Ontario. There can be no assurance that Contrans will be able to continue with its existing bus routes or to expand by the acquisition of additional bus routes. The application for, and allocation of, school bus passenger bus routes is dependent upon the determination of school board trustees and individuals school districts.

#### ***No Assurance About Growth Strategy***

Contrans may not be able to carry out its strategy of acquisition of other transportation companies, a strategy which depends in part on the availability of suitable candidates. In addition, Contrans may face competition for the acquisition of attractive carriers from other consolidators in the transportation industry who may be larger or better financed than Contrans. Furthermore, there can be no assurance that, if Contrans acquires what it considers to be a suitable candidate in accordance with its growth strategy, Contrans will be able to successfully integrate the operations of the acquired company into Contrans' operations on an accretive basis.

#### ***Regulation***

Notwithstanding the fact that the transportation industry is largely deregulated in the area of operating authorities, each carrier must obtain a licence issued by each provincial transport board in order to carry goods extra-provincially or to transport goods within any province. Licensing from U.S. regulatory authorities is also required for the transportation of goods between Canada and the U.S. Any change in these regulations could impact on the scope of Contrans' activities. Although Contrans is committed to a continuous improvement program in respect of its safety record in compliance with the Ministry of Transportation's policies and guidelines, there is no assurance that Contrans will be in full compliance at all times with such policies and guidelines. As a result, Contrans could be required, at some future date, to incur significant costs in order to maintain or improve its compliance record. The school bus business also requires licensing, which is issued by a provincial transport board. There is no assurance that licensing will be available for Contrans' passenger school bus business.

#### ***Economic Conditions***

The price of fuel, insurance costs, interest rates, the availability of qualified drivers, fluctuations in customers' business cycles and national and regional economic conditions are economic factors over which Contrans has little or no control. Significant increases in fuel prices, interest rates or increases in insurance costs, to the extent not offset by increases in freight rates, or disruptions in fuel supply, would reduce profitability (and therefore reduce income flowing to the Fund) and could adversely affect its ability to service its debts or maintain distributions. Difficulty in attracting and retaining qualified drivers could also have a material adverse effect on the profitability of Contrans or Contrans' ability to service its debts. There is no assurance that the operations of Contrans will continue to be profitable.

#### ***Environmental Matters***

Contrans uses storage tanks at certain of its terminals. Canadian and United States laws generally impose potential liability on the present or former owners or occupants of properties on which contamination has occurred. Although management is not aware of any contamination which, if remediation or clean-up were required, would have a material adverse effect on Contrans, there can be no assurance that Contrans will not be required, at some future date, to incur significant costs to comply with environmental laws, nor that its operations, business or assets will not be materially affected by current or future environmental laws.

Contrans, its operations and properties are subject to extensive federal, provincial, state, municipal and local environmental laws and requirements in both Canada and the United States relating to, among other things, air emissions, the management of contaminants including hazardous materials (including the generation, handling, storage, transportation and disposal of such contaminations), discharges and the remediation of environmental impacts (such as the contamination of soil and water, including ground water). A risk of environmental liabilities is inherent in transportation operations, historic activities associated with such operations and the ownership, management or control of real estate.

### ***Dependence on Key Personnel and Owner-Operators***

Contrans is heavily dependent on certain management personnel for the successful operation of its business, particularly Stanley G. Dunford, the Chairman of the Board and President of Contrans. Furthermore, the success of Contrans is, to a certain extent, dependent upon its ability to recruit and retain key employees and owner-operators. Industry organizations and Contrans have identified a concern that there may be a growing shortage of drivers.

### ***Exchange Rate and Currency Risks***

Contrans prepares its financial statements in Canadian dollars. As certain of the Operating Entities' revenues are incurred in U.S. dollars, Contrans is exposed to exchange rate and currency risks. In preparing its financial statements, Contrans must convert all non-Canadian dollar profits to Canadian dollars at varying rates of exchange. This may ultimately result in a currency gain or loss at the end of each fiscal year, the outcome of which cannot be predicted. Furthermore, as the Operating Entities provide services to U.S. customers, but incur most of their expenses in Canadian dollars, a stronger Canadian dollar would increase the Operating Entities' costs of providing services relative to the costs of U.S. competitors, thereby resulting in increased competition from U.S. freight companies.

### ***Insurance***

Contrans' operations are subject to risks normally inherent in the transportation industry, including potential liability which could result from, among other circumstances, personal injury or property damage arising from accidents or incidents involving trucks or buses operated by Contrans or its agents. Among these risks is a potential crisis in the primary or reinsurance markets as occurred in the 1980s causing the lack of availability of insurance at a reasonable price or sufficient limits for operations, particularly in the United States. The availability of, and ability to collect on, insurance coverage is subject to factors beyond the control of Contrans. In addition, Contrans may become subject to liability for hazards which it cannot or may not elect to insure because of high premium costs or other reasons or for occurrences which exceed maximum coverage under its policies.

### ***Litigation***

Contrans is currently involved in certain legal proceedings, the outcome of which could have an adverse impact on Contrans' financial results.

In September 1994, two actions were filed by separate groups of former employees under the Ontario class proceedings legislation against Laidlaw Carriers Inc., a predecessor to Contrans, and against an Ontario loan and trust company. These actions involved the valuation of the employees' benefit plan in 1988. If the claims of any of the approximately 30 former employees involved in this litigation ultimately prove successful, the damages to be awarded will represent the difference between what is alleged that Laidlaw Carriers Inc. promised to pay and what it actually did pay to the former employees at the time of retirement. The claim was made in the amount of

approximately \$1.5 million. If Contrans is not successful in defending the action, Contrans may be required to pay the claim amount, together with interest on the amounts awarded by the court from April 1988 to the date of trial and legal costs. In reasons dated February 22, 2000, Mr. Justice Cumming granted the plaintiffs' motion for certification as a single class proceeding under the continuing style of *Kenneth R. Schweyer vs. Laidlaw Carriers Inc. and Income Trust Company*. The matter has yet to go to discoveries and a trial date is not anticipated for some time. Management is therefore unable to determine the outcome of these proceedings at this time.

## **Risks Related to the Structure of the Fund**

### ***Dependence Upon Contrans***

The Fund is an unincorporated open-ended, limited purpose trust which will be entirely dependent upon the operations and assets of the Operating Entities through the Fund's ownership of the Operating Trust Units and the Operating Trust Notes. Accordingly, the Fund's ability to make cash distributions to the Unitholders will be dependent upon the ability of the Operating Trust to pay its interest obligations under the Operating Trust Notes and to declare any distributions or other return of capital in respect of the Operating Trust Units which ability is, in turn, dependent upon the operations and assets of Contrans, the Partnership and the Operating Entities. There can be no assurance regarding the amounts of income to be generated by the Operating Entities and therefore funds available to the Fund.

### ***Capital Investment***

The timing and amount of capital expenditures will directly affect the amount of income available for distribution to Unitholders. Distributions may be reduced, or even eliminated, at times when significant capital or other expenditures are made.

### ***Nature of Subordinate Voting Trust Units***

Securities like the Subordinate Voting Trust Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Subordinate Voting Trust Units do not represent a direct investment in Contrans and should not be viewed as shares in Contrans. As holders of Subordinate Voting Trust Units, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions or the right to dissent and appraisal. The Subordinate Voting Trust Units represent a fractional interest in the Fund. The Fund's primary assets will be the Operating Trust Units and the Operating Trust Notes. The price per Subordinate Voting Trust Unit is a function of anticipated Distributable Cash and other market factors.

The Subordinate Voting Trust Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

### ***Potential Unitholder Liability***

The Declaration of Trust provides that no Unitholder will be subject to any liability in connection with the Fund or its obligations and affairs or for any act or omission of the Trustees and, in the event that a court determines Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of, each Unitholder's share of the Fund Assets, as represented by the Subordinate Voting Trust Unit certificates. The Declaration of Trust further provides that all written instruments signed by or on behalf of the Fund will contain a provision or be subject to an acknowledgment to the effect that such obligation will not be binding upon Unitholders personally and that such provision or acknowledgment shall be held in trust and enforced by the Trustees for the benefit of the Unitholders.

However, in conducting its affairs, the Fund will assume certain contractual obligations and may have to assume further obligations in the future. Although the Trustees will use reasonable efforts to have any contractual

obligations modified so as not to have such obligations binding upon any of the Unitholders personally, they may not obtain such a modification in all cases.

Notwithstanding the terms of the Declaration of Trust, Unitholders may not be protected from liabilities of the Fund to the same extent as a shareholder is protected from the liabilities of a corporation. Personal liability may arise in respect of claims against the Fund (to the extent that claims are not satisfied by the Fund Assets) that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The business of the Fund and its subsidiaries, Contrans and its subsidiaries and partnership interests, will be conducted, upon the advice of counsel, in such a way and in such jurisdictions so as to avoid, as far as possible, any material risk of liability to the Unitholders for claims against the Fund including obtaining appropriate insurance, where available, for the operations of Contrans and its subsidiaries and ensuring that all written agreements signed by or on behalf of the Fund include a provision that such obligations are not binding upon Unitholders personally. However, there can be no assurance that a Unitholder will not be subject to liability in the future.

#### ***Distribution of Securities on Redemption or Termination of the Fund***

It is not anticipated that the redemption of the Subordinate Voting Trust Units will be the primary mechanism for Unitholders to liquidate their investments. Upon a redemption of Subordinate Voting Trust Units or termination of the Fund or the Fund and the Operating Trust, Operating Trust Units, Operating Trust Notes, Class C LP Units and/or Partnership Notes, as applicable, distributed to Unitholders may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, depending upon the circumstances at the time, may be subject to resale restrictions under applicable securities laws, may not be listed on any stock exchange and there may be no market for such securities.

#### ***Additional Dilution of Existing Unitholders' Interests***

The Declaration of Trust authorizes the Fund to issue an unlimited number of Subordinate Voting Trust Units and, under the limited partnership agreement governing the Partnership, the general partner is authorized to issue an unlimited number of Class A LP Units. Such securities may be issued on terms and conditions established by the Trustees or the general partner, as applicable, without the approval of Unitholders or holders of Partnership Units. Additional issuances of such securities will result in dilution of the interests of Unitholders.

#### ***Restrictions on Potential Growth***

The payout by the Operating Entities of substantially all of their operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of the Operating Entities and their cash flow.

#### ***Income Tax Matters***

There can be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the holders of Subordinate Voting Trust Units. If the Fund ceases to qualify as a "mutual fund trust" under the Tax Act, the income tax considerations relating to the Fund would be materially and adversely different in certain respects.

Further, interest on the Operating Trust Notes accrues at the Fund level for income tax purposes whether or not actually paid. The Declaration of Trust provides that an amount equal to the taxable income of the Fund will be distributed each year to Unitholders in order to eliminate the Fund's taxable income. Where interest on the Operating Trust Notes has accrued but has not been paid in whole or in part and the Fund is unable to make a cash distribution, the Declaration of Trust provides that additional Subordinate Voting Trust Units must be distributed to Unitholders in lieu of cash distributions. Unitholders will generally be required to include an amount equal to the fair market value of those Subordinate Voting Trust Units in their taxable income, in circumstances when they do not directly receive a cash distribution.

#### ***Investment Eligibility and Foreign Property***

There can be no assurance that the Subordinate Voting Trust Units will continue to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income trusts and registered education savings plans or that the Subordinate Voting Trust Units will not be foreign property under the Tax Act. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments and on excess holdings of foreign property.

### ***Concentration of Ownership***

A Trustee of the Fund and Contrans' Chairman of the Board and President, Stanley G. Dunford, beneficially owns approximately 22.23% of the voting securities of the Fund. As a result, Mr. Dunford has a significant influence over matters requiring the approval of the shareholders of Contrans, including the election of the Board of Directors and significant transactions.

### **ADDITIONAL INFORMATION**

Additional information, including the remuneration and indebtedness of the directors and officers of Contrans and interests of insiders in material transactions, as applicable, is contained in Pre-Amalgamated Contrans' management information circular dated October 9, 2001. Additional financial information is provided in Pre-Amalgamated Contrans' comparative financial statements for the financial year ended August 31, 2001 and the interim financial statements of Contrans and the Fund, as applicable, for any period thereafter.

The Fund will also provide to any person upon request to the Secretary of Contrans:

- (a) when securities of the Fund are in the course of a distribution under a preliminary short form prospectus or a short form prospectus:
  - (i) one copy of this annual information form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this annual information form;
  - (ii) one copy of the comparative financial statements of the Fund for its most recently completed financial year for which financial statements have been filed together with the accompanying report of the auditor and one copy of the most recent interim financial statements of the Fund that have been filed, if any, for any period after the end of its most recently completed financial year;
  - (iii) one copy of the management information circular of the Fund in respect of the Fund's most recent annual meeting of Unitholders that involved the election of Trustees; and
  - (iv) one copy of any other documents that are incorporated by reference in the preliminary short form prospectus or short form prospectus and are not required to be provided under clauses (i), (ii) or (iii).
- (b) at any other time, one copy of any of the documents referred to in clauses (i), (ii) or (iii) provided that the Fund may require the payment of a reasonable charge if the request is made by a person or company who is not a securityholder of the Fund.