

# NEWS RELEASE

## CONTRANS INCOME FUND ANNOUNCES SECOND QUARTER RESULTS

(Woodstock, Ontario—August 6, 2008)

(TSX. Symbol CSS.UN)

### FINANCIAL HIGHLIGHTS

(unaudited)

Periods ended June 30

(in millions except per unit amounts)

|  | Three Months   |                |          |         | Six Months     |                |          |         |
|--|----------------|----------------|----------|---------|----------------|----------------|----------|---------|
|  | 2008           |                | 2007     |         | 2008           |                | 2007     |         |
| <b>Revenue - as stated</b>                                     | <b>129.7</b>   |                | 125.8    |         | <b>250.3</b>   |                | 245.2    |         |
| <b>Revenue - fuel surcharges</b>                               | <b>(23.9)</b>  |                | (14.6)   |         | <b>(42.2)</b>  |                | (27.6)   |         |
| <b>Revenue - transportation services</b>                       | <b>\$105.8</b> | <b>100.0 %</b> | \$ 111.2 | 100.0 % | <b>\$208.1</b> | <b>100.0 %</b> | \$ 217.6 | 100.0 % |
| Operating expenses - net of fuel surcharges                    | <b>78.4</b>    | <b>74.1</b>    | 84.6     | 76.1    | <b>160.0</b>   | <b>76.9</b>    | 167.3    | 76.9    |
| Selling, general and administration expenses                   | <b>11.1</b>    | <b>10.5</b>    | 10.7     | 9.6     | <b>22.0</b>    | <b>10.6</b>    | 21.3     | 9.8     |
| Foreign exchange loss (gain)                                   | -              | -              | 1.3      | 1.2     | <b>(0.5)</b>   | <b>(0.2)</b>   | 1.0      | 0.4     |
| <b>Earnings before amortization, interest and income taxes</b> | <b>16.3</b>    | <b>15.4</b>    | 14.6     | 13.1    | <b>26.6</b>    | <b>12.7</b>    | 28.0     | 12.9    |
| Amortization of property and equipment                         | <b>3.0</b>     | <b>2.8</b>     | 3.3      | 3.0     | <b>6.1</b>     | <b>2.9</b>     | 6.6      | 3.0     |
| Amortization of intangible assets                              | <b>1.0</b>     | <b>1.0</b>     | 1.0      | 0.9     | <b>1.9</b>     | <b>0.9</b>     | 2.0      | 1.0     |
| Net interest expense   | <b>1.5</b>     | <b>1.4</b>     | 1.3      | 1.2     | <b>2.8</b>     | <b>1.3</b>     | 2.6      | 1.2     |
| <b>Earnings before income taxes</b>                            | <b>10.8</b>    | <b>10.2</b>    | 9.0      | 8.0     | <b>15.8</b>    | <b>7.6</b>     | 16.8     | 7.7     |
| Income tax provision:  |                |                |          |         |                |                |          |         |
| Current  | -              | -              | 0.4      | 0.3     | <b>0.3</b>     | <b>0.2</b>     | 0.6      | 0.3     |
| Future   | <b>0.6</b>     | <b>0.6</b>     | 7.1      | 6.4     | <b>0.3</b>     | <b>0.1</b>     | 6.6      | 3.0     |
|  | <b>0.6</b>     | <b>0.6</b>     | 7.5      | 6.7     | <b>0.6</b>     | <b>0.3</b>     | 7.2      | 3.3     |
| <b>Net earnings</b>  | <b>\$ 10.2</b> | <b>9.6 %</b>   | \$ 1.5   | 1.3 %   | <b>\$ 15.2</b> | <b>7.3 %</b>   | \$ 9.6   | 4.4 %   |
| Earnings per unit - basic and diluted                          | <b>\$ 0.35</b> |                | \$ 0.05  |         | <b>\$ 0.52</b> |                | \$ 0.33  |         |

“Contrans’ solid second quarter results are largely attributable to management’s ability to react quickly and effectively to changing market conditions,” stated Stan Dunford, Chairman and Chief Executive Officer of Contrans Income Fund. “New sources of revenue have offset the impact of customer plant closures and reduced manufacturing output. Contrans’ reputation for delivering high service levels continues to generate internal growth opportunities.”

“In recent years we have acquired companies that have customer bases that are less susceptible to economic downturns,” continued Mr. Dunford. “This has added to an already diverse customer base, something that has always made Contrans unique in the freight transportation industry. Combined with a disciplined and well-seasoned management team, the non-cyclical elements and diverse nature of our business have enabled the Fund to continue to achieve respectable financial results in a challenging business environment. This, in turn, has sustained distributions at the rate established in 2002 when Contrans was converted into a trust. We feel that this record is a testament to Contrans’ stability, a valuable quality to our unitholders and value-seeking investors.”

“The Department of Finance has recently published draft rules concerning the conversion of income trusts to corporations” added Mr. Dunford. “Currently, we see no compelling reason for the Fund to convert back to a corporation before the proposed deadline that would enable trusts to convert on a tax-deferred basis. Even then, there may be as much reason to maintain the status quo as there may be to convert. Much will depend on the market’s reaction to those trusts that choose to convert to a corporation as well as the market’s reaction to those that remain as trusts. Management will continue to carefully monitor developments and their implications for Contrans’ unitholders.”

### ***RESULTS FROM OPERATIONS***

Current adverse economic conditions have had varying effects on the Fund’s operations. Despite these conditions, revenue has actually increased in some of the Fund’s business units primarily as a result of aggressive sales efforts. The Fund’s van operations, however, were adversely affected by the current economic downturn. Revenue from van operations was \$6.3 million lower in the second quarter of 2008 compared to 2007 and \$11.5 million lower in the first six months compared to 2007. UPM, a major east coast van customer, closed down its plant in August 2007. Revenue from this customer in the second quarter of 2007 was \$3.9 million and \$7.7 million for the first six months of 2007. In addition, the Fund’s van operations have been adversely affected by poor market conditions, particularly for southbound freight, due to the continued strength of the Canadian dollar and due to weak American consumer demand. Revenue from fuel surcharges increased in 2008 as a result of higher fuel prices.

Operating expenses, expressed as a percentage of revenue, decreased in the second quarter of 2008 compared to 2007. Internal growth has improved equipment utilization and overall revenue quality. In addition, the profitability of certain laneways has improved as a result of the realignment of our east coast operations. Offsetting these improvements were accident claim costs which increased \$0.1 million in the second quarter of 2008 compared to 2007 (\$0.5 million increase year-to-date).

Selling, general and administration expenses increased in 2008 compared to 2007 due to \$0.6 million of costs resulting from the early termination of equipment leases related to the Fund’s east coast realignment. Approximately \$0.3 million of severance costs were incurred in the first quarter of 2008 that were also related to this realignment.

Net interest expense increased as a result of the average long-term debt, net of cash, being higher in 2008 compared to 2007.

**DISTRIBUTABLE CASH***(unaudited)*

| Periods ended June 30<br>(in thousands except per unit amounts)                  | <i>Three months</i> |             | <i>Six months</i> |             |
|--|---------------------|-------------|-------------------|-------------|
|  | <i>2008</i>         | <i>2007</i> | <i>2008</i>       | <i>2007</i> |
| Cash flow provided by operating activities                                       | \$ 12,136           | \$ 7,159    | \$ 11,924         | \$ 14,380   |
| Net change in non-cash working capital   | 2,637               | 5,543       | 11,512            | 10,121      |
| Proceeds on sale of equipment  | 538                 | 1,121       | 1,663             | 2,775       |
| Asset retirement obligations - settlements                                       | (19)                | (28)        | (23)              | (50)        |
| Long-term debt repayments where no financing available                           | (464)               | -           | (700)             | -           |
| Maintenance capital expenditures   | (369)               | (821)       | (2,343)           | (2,929)     |
| Distributable cash earned  | 14,459              | 12,974      | 22,033            | 24,297      |
| Regular distributions declared   | 9,074               | 9,043       | 18,082            | 18,036      |
| Surplus of distributable cash earned vs. regular distributions declared          | \$ 5,385            | \$ 3,931    | \$ 3,951          | \$ 6,261    |
| Distributable cash earned per unit   | \$ 0.50             | \$ 0.45     | \$ 0.76           | \$ 0.84     |
| Distributions declared per unit - regular  | 0.31                | 0.31        | 0.63              | 0.63        |
| Surplus of distributable cash earned vs. regular distributions declared per unit | \$ 0.19             | \$ 0.14     | \$ 0.13           | \$ 0.21     |
| Weighted average number of units outstanding                                     | 28,993              | 28,899      | 28,894            | 28,823      |
| <i>Purchase of property and equipment</i>  |                     |             |                   |             |
| Maintenance capital expenditures   | \$ 369              | \$ 821      | \$ 2,343          | \$ 2,929    |
| Growth capital expenditures  | 644                 | 1,194       | 2,436             | 2,753       |
| Total  | \$ 1,013            | \$ 2,015    | \$ 4,779          | \$ 5,682    |
| <i>Repayment of long-term debt</i>   |                     |             |                   |             |
| Long-term debt repayments funded out of surplus cash                             | \$ -                | \$ 108      | \$ -              | \$ 299      |
| Long-term debt repayments where no financing available                           | 464                 | -           | 700               | -           |
| Total  | \$ 464              | \$ 108      | \$ 700            | \$ 299      |

**DISTRIBUTABLE CASH EARNED – RECONCILIATION**

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

## ***USE OF NON-GAAP FINANCIAL MEASURES***

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

*Distributable cash flow, maintenance capital expenditures, growth capital expenditures, long-term debt repayments funded out of surplus cash, long-term debt repayments where no financing available:*

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

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

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

## ***FORWARD-LOOKING STATEMENTS***

Management's discussion and analysis contains certain forward-looking statements that involve a number of risks and uncertainties. Forward-looking statements relate to future events or future performance and include, but are not limited to, changes in government regulations regarding weights and dimensions of highway equipment, the age and condition of the transportation fleet and the growth of the Fund's business. Often, but not always, forward-looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology. Such statements reflect the current views and estimates of management of the Fund with respect to future events, as of the date such statements are made, and they involve known and unknown risks and uncertainties which may cause actual events or results to differ materially from those expressed or implied by forward-looking statements. In evaluating these statements, readers should specifically consider factors such as the risks outlined under "Risk Factors" in the Fund's Annual Information Form, which is available at [www.sedar.com](http://www.sedar.com). Although the Fund has attempted to identify important factors that could cause actual events, actions or results to differ materially from those described in the forward-looking statements, there may be other factors that cause such events, actions or results to differ.

**CONTRANS INCOME FUND**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands except for per unit amounts)  
(unaudited)

| For the periods ended June 30                                    | Three Months     |                 | Six Months       |                 |
|--|------------------|-----------------|------------------|-----------------|
|  | 2008             | 2007            | 2008             | 2007            |
| <b>Revenue</b>   | \$ 129,743       | \$ 125,850      | \$ 250,271       | \$ 245,253      |
| Operating expenses   | 102,319          | 99,288          | 202,231          | 194,940         |
| Selling, general and administration expenses                     | 11,145           | 10,689          | 21,968           | 21,270          |
| Foreign exchange loss (gain)                                     | (25)             | 1,310           | (519)            | 1,039           |
| Amortization of property and equipment                           | 3,045            | 3,299           | 6,076            | 6,634           |
| Amortization of intangible assets                                | 945              | 954             | 1,889            | 1,991           |
|  | 12,314           | 10,310          | 18,626           | 19,379          |
| Net interest expense (income) - long-term                        | 1,557            | 1,242           | 3,086            | 2,499           |
| - short-term   | (79)             | 60              | (242)            | 51              |
| <b>Earnings before Income Taxes</b>                              | <b>10,836</b>    | <b>9,008</b>    | <b>15,782</b>    | <b>16,829</b>   |
| <b>Income tax provision:</b>                                     |                  |                 |                  |                 |
| Current  | 32               | 356             | 294              | 588             |
| Future   | 620              | 7,106           | 340              | 6,630           |
|  | 652              | 7,462           | 634              | 7,218           |
| <b>Net Earnings and Comprehensive Income</b>                     | <b>\$ 10,184</b> | <b>\$ 1,546</b> | <b>\$ 15,148</b> | <b>\$ 9,611</b> |
|  |                  |                 |                  |                 |
| Earnings per unit - basic and diluted                            | \$ 0.35          | \$ 0.05         | \$ 0.52          | \$ 0.33         |
| Weighted average number of units outstanding - basic and diluted | 28,993           | 28,899          | 28,894           | 28,823          |

**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**

(in thousands)  
(unaudited)

| For the periods ended June 30                  | Three Months    |                  | Six Months      |                  |
|--|-----------------|------------------|-----------------|------------------|
|  | 2008            | 2007             | 2008            | 2007             |
| <b>Retained Earnings</b> – Beginning of Period | \$ 3,336        | \$ 17,999        | \$ 7,380        | \$ 18,975        |
| Net earnings                                   | 10,184          | 1,546            | 15,148          | 9,611            |
| Premium paid on units repurchased              | -               | -                | -               | (48)             |
| Distributions declared                         | (9,074)         | (9,043)          | (18,082)        | (18,036)         |
| <b>Retained Earnings</b> – End of Period       | <b>\$ 4,446</b> | <b>\$ 10,502</b> | <b>\$ 4,446</b> | <b>\$ 10,502</b> |

The accompanying notes are an integral part of these statements

**CONTRANS INCOME FUND**  
**CONSOLIDATED BALANCE SHEETS**

(in thousands)

| As at                                      | June 30<br>2008    | December 31<br>2007 |
|--|--------------------|---------------------|
| <b>Assets</b>                              | <i>(unaudited)</i> | <i>(audited)</i>    |
| <b>Current Assets</b>                      |                    |                     |
| Cash and cash equivalents                  | \$ 16,358          | \$ 18,301           |
| Accounts receivable                        | 62,972             | 54,599              |
| Income taxes recoverable                   | 589                | -                   |
| Other current assets                       | 7,396              | 6,021               |
|  | <b>87,315</b>      | 78,921              |
| <b>Property and Equipment</b>              | <b>111,084</b>     | 107,295             |
| <b>Intangible Assets</b>                   | <b>21,016</b>      | 22,905              |
| <b>Goodwill</b>                            | <b>61,478</b>      | 61,478              |
|  | <b>\$ 280,893</b>  | \$ 270,599          |
| <b>Liabilities and Unitholders' Equity</b> |                    |                     |
| <b>Current Liabilities</b>                 |                    |                     |
| Operating loan                             | \$ 4,851           | \$ -                |
| Accounts payable and accrued liabilities   | 30,359             | 31,191              |
| Distributions payable                      | 3,033              | 2,996               |
| Income taxes payable                       | -                  | 417                 |
| Current portion of long-term debt          | 8,812              | 7,806               |
|  | <b>47,055</b>      | 42,410              |
| <b>Long-term Debt</b>                      | <b>87,832</b>      | 82,553              |
| <b>Asset Retirement Obligations</b>        | <b>1,198</b>       | 1,192               |
| <b>Future Income Taxes</b>                 | <b>16,000</b>      | 15,660              |
|  | <b>152,085</b>     | 141,815             |
| <b>Unitholders' Equity (Note 3)</b>        |                    |                     |
| Contributed surplus                        | 789                | 744                 |
| Trust units                                | 123,573            | 120,660             |
| Retained earnings                          | 4,446              | 7,380               |
|  | <b>128,808</b>     | 128,784             |
|  | <b>\$ 280,893</b>  | \$ 270,599          |

*The accompanying notes are an integral part of these statements*

**CONTRANS INCOME FUND**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**

(in thousands)

(unaudited)

For the periods ended June 30

|  | Three Months |            | Six Months |            |
|--|--------------|------------|------------|------------|
|  | 2008         | 2007       | 2008       | 2007       |
| <b>Cash Provided by (Used in)</b>                      |              |            |            |            |
| <b>Operating Activities</b>                            |              |            |            |            |
| Net earnings   | \$ 10,184    | \$ 1,546   | \$ 15,148  | \$ 9,611   |
| Items not affecting cash:                              |              |            |            |            |
| Unrealized foreign exchange gain                       | (112)        | (99)       | (57)       | (80)       |
| Unit-based compensation expense (Note 5)               | 23           | 22         | 45         | 59         |
| Long-term debt – accretion                             | 37           | 29         | 74         | 64         |
| Asset retirement obligations - accretion               | 13           | 14         | 26         | 27         |
| Amortization of property and equipment                 | 3,045        | 3,299      | 6,076      | 6,634      |
| Amortization of intangible assets                      | 945          | 954        | 1,889      | 1,991      |
| Future income taxes                                    | 620          | 7,106      | 340        | 6,630      |
| Loss (gain) on sale of equipment                       | 18           | (169)      | (105)      | (435)      |
|  | 14,773       | 12,702     | 23,436     | 24,501     |
| Change in non-cash working capital (Note 6)            | (2,637)      | (5,543)    | (11,512)   | (10,121)   |
|  | 12,136       | 7,159      | 11,924     | 14,380     |
| <b>Investing Activities</b>                            |              |            |            |            |
| Expended on acquisitions                               | -            | -          | -          | (3,256)    |
| Asset retirement obligations - settlements             | (19)         | (28)       | (23)       | (50)       |
| Proceeds on sale of equipment                          | 538          | 1,121      | 1,663      | 2,775      |
| Purchase of property and equipment                     | (1,013)      | (2,015)    | (4,779)    | (5,682)    |
|  | (494)        | (922)      | (3,139)    | (6,213)    |
| <b>Financing Activities</b>                            |              |            |            |            |
| Distributions paid                                     | (9,051)      | (9,026)    | (18,045)   | (18,118)   |
| Net change in operating loan                           | (3,997)      | -          | 4,851      | -          |
| Proceeds from long-term debt                           | 209          | 65         | 253        | 80         |
| Repayment of long-term debt                            | (464)        | (108)      | (700)      | (299)      |
| Repurchase of trust units                              | -            | -          | -          | (91)       |
| Issuance of trust units (Note 3)                       | 1,788        | 1,759      | 2,913      | 3,194      |
|  | (11,515)     | (7,310)    | (10,728)   | (15,234)   |
| <b>Increase (Decrease) in Cash and Cash</b>            |              |            |            |            |
| <b>Equivalents</b>                                     | 127          | (1,073)    | (1,943)    | (7,067)    |
| <b>Cash and Cash Equivalents – Beginning of Period</b> | 16,231       | (3,150)    | 18,301     | 2,844      |
| <b>Cash and Cash Equivalents – End of Period</b>       | \$ 16,358    | \$ (4,223) | \$ 16,358  | \$ (4,223) |

The accompanying notes are an integral part of these statements

## CONTRANS INCOME FUND

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the periods ended June 30, 2008 and 2007

(Unaudited, tabular amounts in thousands except for per unit amounts)

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#### 1. Basis of Presentation

These unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements using the same accounting policies as were applied in the audited consolidated financial statements for the year ended December 31, 2007 except as described in note 2. These interim financial statements do not conform in all respects with disclosure required for annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Fund for the year ended December 31, 2007.

#### 2. Adoption of Accounting Standards

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

Handbook section 1535 requires the Fund to disclose information that enables users of its financial statements to evaluate the Fund's objectives, policies and processes for managing capital. This includes disclosures of any externally imposed covenants and the consequences for non-compliance. These new disclosures are included in note 3.

Handbook section 3862 requires the Fund to revise and enhance disclosure requirements to provide additional information on the nature and extent of risks arising from financial instruments to which the entity is exposed and how it manages those risks. The new disclosures, pursuant to this new Handbook section, are included in note 4. Handbook section 3863 carries forward the presentation standards which previously existed under Handbook section 3861.

#### 3. Unitholders' Equity

|                                    | Contributed<br>Surplus | Trust Units | Retained<br>Earnings | Total      |
|------------------------------------|------------------------|-------------|----------------------|------------|
| <b>Balance</b> - December 31, 2007 | \$ 744                 | \$ 120,660  | \$ 7,380             | \$ 128,784 |
| Net earnings for the period        | -                      | -           | 15,148               | 15,148     |
| Distributions declared             | -                      | -           | (18,082)             | (18,082)   |
| Unit-based compensation            | 45                     | -           | -                    | 45         |
| Issuance of units                  | -                      | 2,913       | -                    | 2,913      |
| <b>Balance</b> - June 30, 2008     | \$ 789                 | \$ 123,573  | \$ 4,446             | \$ 128,808 |

#### Capital Management

The Fund's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of internal and acquisitive growth and to provide returns to its unitholders.

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

### ***Capital under management***

| As at                     |    | <b>June 30</b>  |    | December 31 |
|---------------------------|----|-----------------|----|-------------|
|                           |    | <b>2008</b>     |    | 2007        |
| Long-term debt            | \$ | <b>96,644</b>   | \$ | 90,359      |
| Operating loan            |    | <b>4,851</b>    |    | -           |
| Cash and cash equivalents |    | <b>(16,358)</b> |    | (18,301)    |
| Net debt                  |    | <b>85,137</b>   |    | 72,058      |
| Unitholders' equity       |    | <b>128,808</b>  |    | 128,784     |
| Total capital             | \$ | <b>213,945</b>  | \$ | 200,842     |

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

The Fund's debt covenants are based on cash flow, leverage and asset cover ratios. If the Fund exceeds these covenant limits the lenders can restrict the Fund from paying distributions. The Fund monitors its compliance with all covenants and the factors affecting their calculation. At June 30, 2008 the Fund was in compliance with all its covenants. The Fund's lenders have a security interest in all of the assets of the Fund.

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

#### **4. *Financial Instruments***

Cash and cash equivalents are designated as held for trading and are measured at fair value with all gains and losses included in net earnings in the period in which they arise. Accounts receivable are classified as loans and receivables. Operating loan, accounts payable and accrued liabilities, distributions payable and long-term debt are classified as other financial liabilities and, along with loans and receivables, are measured at amortized cost using the effective interest method.

##### **a) Fair values**

The carrying value of cash and cash equivalents, accounts receivable, operating loan, accounts payable and accrued liabilities and distributions payable approximate their fair values due to the relatively short period to maturity of these instruments. The fair value of foreign exchange contracts is disclosed in note 4 (b).

Long-term debt with a carrying value of \$96.6 million (December 31, 2007 - \$90.4 million) has a fair value of \$98.1 million at June 30, 2008 (December 31, 2007 - \$90.1 million). The fair value is calculated using discounted cash flows at current market rates.

##### **b) Derivative financial instruments**

The Fund from time to time enters into foreign exchange contracts to manage its net exposure to currency fluctuations. As at June 30, 2008, the Fund had contracts to sell \$4.0 million of US funds per month from July to September 2008. These contracts settle at exchange rates between \$1.0000 and \$1.0553. As at June 30, 2008, the fair value of these contracts was recorded as an asset of \$0.1 million and included in accounts receivable on the balance sheet. The value of the contracts was provided by the counter-party on an open market basis.

### c) Risk Management

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

#### *i) Credit risk:*

Credit risk is the risk that a counterparty to a financial instrument will fail to meet their contractual obligations as they fall due and is primarily attributable to accounts receivable. The Fund manages its credit risk by having a diverse range of customers. The fund has service offerings in the van, tank, bulk, flatbed and logistics transportation businesses. Credit checks are carried out on new customers and credit limits monitored. General provisions for bad debts are made based on past experience. Specific provisions are made against trade receivables for any customer that is known to be in poor financial condition. The bad debt expense, both specific and general, for the second quarter of 2008 was \$nil (2007 – \$nil) and an expense of \$0.3 million year-to-date in 2008 (2007 – \$0.1 million).

The movement in allowance for doubtful accounts is as follows:

| <b>Allowance for doubtful accounts</b> |                 |
|--|-----------------|
| Allowance at December 31, 2007         | \$ 2,081        |
| Accounts written off                   | (47)            |
| Increase in allowance                  | 339             |
| <b>Allowance at June 30, 2008</b>      | <b>\$ 2,373</b> |

The Fund has made full provision (\$ 1.7 million) against accounts receivable that were considered to be impaired as at June 30, 2008. Management considers the financial health of the customer as well as the aging of the account when considering whether an account is impaired. At June 30, 2008, approximately \$12.7 million of receivables are overdue but are not considered impaired.

Movements in allowances for bad debts are included in selling, general and administration expenses in the consolidated statements of comprehensive income. An allowance of \$2.4 million (December 31, 2007 - \$2.1 million) is netted against accounts receivable on the consolidated balance sheets.

#### *ii) Foreign exchange risk:*

Foreign exchange risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. Approximately 25% of the Fund's revenue is billed in US dollars and accordingly is subject to foreign exchange risk. Management manages this risk through foreign exchange contracts, denominating equipment leases in US dollars and through customer negotiations. The impact of a 1% strengthening (weakening) of the Canadian dollar against the US dollar would result in a decrease (increase) in net earnings of \$0.1 million as at June 30, 2008, all other things being equal.

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

#### *iii) Interest rate risk:*

Interest rate risk is the risk that the value of a financial instrument will change with market interest rates. Changes in interest rates affect both interest paid on floating rate debt and interest received on surplus cash and cash equivalents. As at June 30, 2008, approximately 97% of the Fund's long-term debt had fixed interest rates. A 1% change in the interest rate on the floating rate debt and on the cash and cash equivalents would have a nominal impact on net earnings, all other things being equal.

*iv) Liquidity risk:*

Liquidity risk is the risk that the Fund will not be able to meet its obligations as they fall due. The Fund ensures that it has sufficient cash or credit lines to meet these obligations. The Fund has a demand operating line of \$30 million to meet seasonal fluctuations in working capital requirements. At June 30, 2008 the Fund had utilized \$5.8 million of this facility (December 31, 2007 – \$nil), including letters of credit amounting to \$0.9 million that were issued in the ordinary course of business.

The Fund had \$16.4 million of cash and cash equivalents at June 30, 2008 that may only be used to fund future growth or to repay long-term debt.

The Fund has contractual maturities of financial liabilities as follows:

| <i>(in millions)</i>                     | 2008           | 2009           | 2010          | 2011          | 2012          | 2013          | Thereafter     | Total           |
|--|----------------|----------------|---------------|---------------|---------------|---------------|----------------|-----------------|
| Long-term debt                           | \$ 8.2         | \$ 1.4         | \$ 1.2        | \$ 1.2        | \$ 1.0        | \$ 0.7        | \$ 82.9        | \$ 96.6         |
| Operating leases                         | 9.3            | 11.0           | 7.2           | 2.1           | 0.4           | -             | -              | 30.0            |
| Operating loan                           | 4.9            | -              | -             | -             | -             | -             | -              | 4.9             |
| Accounts payable and accrued liabilities | 30.4           | -              | -             | -             | -             | -             | -              | 30.4            |
| Distributions payable                    | 3.0            | -              | -             | -             | -             | -             | -              | 3.0             |
| Equipment purchase commitments           | 1.3            | -              | -             | -             | -             | -             | -              | 1.3             |
| <b>Total</b>                             | <b>\$ 57.1</b> | <b>\$ 12.4</b> | <b>\$ 8.4</b> | <b>\$ 3.3</b> | <b>\$ 1.4</b> | <b>\$ 0.7</b> | <b>\$ 82.9</b> | <b>\$ 166.2</b> |

On February 27, 2008, the Fund entered into an agreement, under substantially the same terms and conditions, to renew \$30.0 million of its existing \$37.5 million credit facility, due on December 15, 2008, for another term of seven years, at a rate to be set at closing, under substantially the same terms and conditions.

**5. Unit-based Compensation**

|  | <b>Units</b> | <b>Weighted Average Exercise Price</b> |
|--|--------------|--|
| Unit options outstanding, December 31, 2007    | <b>2,029</b> | <b>\$ 12.23</b>                        |
| Granted  | -            | -                                      |
| Exercised                                      | -            | -                                      |
| <b>Unit options outstanding, June 30, 2008</b> | <b>2,029</b> | <b>\$ 12.23</b>                        |
| <b>Unit options exercisable, end of period</b> | <b>1,654</b> | <b>\$ 12.05</b>                        |

The amount charged to unit-based compensation expense for the three month period to June 30, 2008 was \$23,000 (2007 - \$22,000) and year-to-date was \$45,000 (2007 - \$59,000).

## 6. Cash Flow

Change in non-cash working capital:

| For the periods ended June 30                                   | Three Months |            | Six Months  |             |
|---|--------------|------------|-------------|-------------|
|   | 2008         | 2007       | 2008        | 2007        |
| Increase in accounts receivable                                 | \$ (3,252)   | \$ (826)   | \$ (8,299)  | \$ (3,290)  |
| Decrease (increase) in other current assets                     | 322          | (559)      | (1,375)     | (1,794)     |
| Increase (decrease) in accounts payable and accrued liabilities | 447          | (4,439)    | (832)       | (4,836)     |
| Increase (decrease) in income taxes payable (recoverable)       | (154)        | 281        | (1,006)     | (201)       |
| Net change in non-cash working capital                          | \$ (2,637)   | \$ (5,543) | \$ (11,512) | \$ (10,121) |
| Cash paid in respect of:  |              |            |             |             |
| Interest  | \$ 1,562     | \$ 1,292   | \$ 3,086    | \$ 2,503    |
| Income taxes  | 233          | 102        | 1,437       | 816         |
| Non-cash transactions   |              |            |             |             |
| Value of equipment financed through capital leases              | 6,006        | -          | 6,641       | -           |

## 7. Related Party Transactions

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

| As at               | June 30,<br>2008 | December 31,<br>2007 |
|---------------------|------------------|----------------------|
| Accounts payable    | 149              | 231                  |
| Accounts receivable | 18               | 11                   |

  

| For the periods ended June 30   | Three Months |       | Six Months |       |
|---------------------------------|--------------|-------|------------|-------|
|                                 | 2008         | 2007  | 2008       | 2007  |
| Repairs, maintenance and leases | 1,632        | 1,589 | 3,261      | 3,126 |
| Rental income                   | 46           | 47    | 97         | 98    |

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

## 8. Seasonality

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

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