

2004 and 2003 U.S. Tax Information

Summary of U.S. Tax Information

The information that follows is being provided to assist U.S. individual Unitholders of Contrans Income Fund ("Contrans") in reporting distributions received from Contrans on their Internal Revenue Service ("IRS") Form 1040 – U.S. Individual Income Tax Return ("Form 1040") for the calendar years 2004 and 2003.

Contrans Units held outside of a Qualified Retirement Plan

In consultation with its U.S. tax advisors, Contrans believes that it should be treated as a corporation and its units as equity under U.S. tax law. Therefore, the portion of the trust's distributions paid during the year that is considered a dividend should be considered a "qualified dividend" for U.S. federal income tax purposes and should be reported on Line 9(b) of the IRS Form 1040, unless the fact situation of the U.S. individual Unitholder determines otherwise. Page 20 of the IRS 2004 Form 1040 instruction booklet provides examples of individual situations where the dividends would not be "Qualified Dividends". Where the dividends are not considered "Qualified Dividends", due to an individual's situation, the amount should be reported on Schedule B, Part II – Ordinary Dividends and Line 9(a) of your IRS Form 1040.

For 2004, dividends received by U.S. individual Unitholders are 54.4% non-taxable with the remaining 45.6% being taxable as a "qualified dividend". For 2003, dividends received by U.S. individual Unitholders are 56.8% non-taxable with the remaining 43.2% being taxable as a "qualified dividend". For the non-taxable portion of distributions, you must reduce your cost (or other tax basis) by this amount for calculating your gain or loss on sale of your Contrans units. If the amount of "Non-Taxable Return of Capital" exceeds your cost (or other basis), report the excess as a capital gain.

U.S. Unitholders are encouraged to utilize the Qualified Dividends and Capital Gain Tax Worksheet provided by the IRS to determine the amount of tax applicable.

Foreign taxes which have been withheld from your distributions (Canadian withholding tax) should be reported on Form 1116 "Foreign Tax Credit (Individual, Estate or Trust)". Information regarding the amount of Canadian tax withheld in 2004 and 2003 should be available through your broker or other intermediary and is not provided by Contrans. Canadian tax withheld on the non-taxable portion of the distribution (as computed under Canadian tax principles) should be claimed as a refund from the Canada Revenue Agency no later than two years after the calendar year in which the distribution was paid and should not be claimed as a deduction or credit against your U.S. tax liability.

Contrans Units held within a Qualified Retirement Plan

There should be no amount that is required to be reported on an IRS Form 1040 where the Contrans units are held in a Qualified Retirement Plan.

Conflicting or Incomplete Advice

If you are a U.S. resident individual who holds units of Contrans, you may have received conflicting advice about the U.S. tax treatment of dividends received from the income trust, and specifically whether the dividends qualify to be taxed in the U.S. at the reduced rates applying to long-term capital gains (i.e., up to 15%). Even if a brokerage firm or other entity has reported that the dividends should be treated as ordinary dividends, you should confirm with your tax adviser to see if the distributions nevertheless qualify for the reduced tax rate on "qualifying dividends" for U.S. tax purposes.

Background

Under U.S. tax rules enacted on May 28, 2003, "qualified dividends" paid to U.S.-resident individual shareholders may be taxed at the reduced long-term capital gains tax rates if the dividends are received from either domestic (U.S.) corporations or corporations that meet the definition of "qualified foreign corporation" in the U.S. Internal Revenue Code (IRC).

The IRS subsequently issued two notices (2003-79 and 2004-71) setting out guidelines and simplified procedures for brokerage firms and other intermediaries to assist them in reporting to their clients on Forms 1099-DIV as to whether foreign entities are "qualified foreign corporations" for these purposes. The simplified procedures are general rules of thumb: they are not sufficiently comprehensive to cover all situations and entities that meet the IRC's detailed definition of "qualifying foreign corporation".

Form 1099-DIV treatment of dividend not necessarily the same for investors

In its two notices, the IRS clearly states that there may be differences in how brokers and other intermediaries must report the distributions on Forms 1099-DIV under the simplified procedures and how investors are allowed to treat the distributions for U.S. individual income tax purposes.

So even though a brokerage firm or other intermediary following the IRS's simplified procedures may have had to report distributions from a Canadian income trust as ordinary dividends, the income trust may in fact satisfy the tests in the U.S. law to be considered a "qualified foreign corporation" (and thus its distributions may well be "qualified dividends").

Database of "qualifying foreign corporations" based on simplified procedures

In addition to confusion caused by the Form 1099-DIV reporting, there is a common misperception that all "qualifying foreign corporations" must be listed as such on an unofficial database of foreign entities established by several U.S. brokerage firms.

Securities firms and mutual funds subscribing to the database have been advised that the determination of "qualified foreign corporation" status for purposes of the database listing is based solely on the IRS's simplified procedures. Foreign entities not currently listed in the database may still be "qualified foreign corporations" if they meet the detailed requirements set out in the IRC.

The information in this release is not meant to be an exhaustive discussion of all possible U.S. income tax considerations, but a general guideline and is not intended to be legal or tax advice to any particular holder or potential holder of Contrans units. Holders or potential holders of Contrans units should consult their own tax advisors as to their particular tax consequences of holding Contrans units. Contrans has not obtained a legal or tax opinion, nor has it requested a ruling from the IRS, on these matters.

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