

# MESSAGE TO UNITHOLDERS

**ALAIN BÉDARD**  
Chairman of the Board,  
President and  
Chief Executive Officer



Dear Fellow Unitholders,

In 2007, Canada's transportation and logistics industry experienced its most difficult year in decades. Despite this, TransForce Income Fund produced record revenues, continued to complete selective strategic acquisitions, and delivered attractive cash distributions to unitholders.

Our ability to prevail over challenging business conditions is the result of two things: First, our consistent focus on generating long-term value for unitholders and, second, our disciplined approach to management of our operations that allows us to respond effectively to trends in our industry. Our focus on value and our discipline are both core operating principles at TransForce; our ability to withstand and overcome the negative trends in the marketplace is evidence of how firmly we hold to these principles – from the Board of Trustees and our management team, to our drivers, dispatchers and maintenance staff.

All our operations were confronted with rising fuel costs and the relative strength of the Canadian dollar, which dampened the economy, slowed manufacturing activity and reduced shipping volumes. Like the previous year, this was felt more in Eastern Canada than in the robust energy-based economy of the West. However, at least partly as a result of our diversification by business lines, the regional differences were not as distinct in 2007. A number of operations based primarily in the East performed well, notably Canpar, our parcel delivery business, and Matrec, our waste management subsidiary, as well as our logistics and dedicated fleet operations. Those operations with a focus on clients in the retail industry did better than those who

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depend on manufacturing but, even in the hard-hit automotive sector, we have niche operations whose specialization allowed them to prosper.

Long-haul transport volumes between Canada and the United States and between the East and the West of Canada declined in 2007 but, within the western region, the biggest challenge was not generating volume but a very competitive labour market that made it difficult to find drivers and other staff to deal with volume growth. The exception was in the Oilfield Services division which was negatively affected by lower-than-expected natural gas prices and rising drilling costs. This was compounded by the Alberta government's changes to the royalty regime for the oil and gas industry. Together, these factors cut drilling activity significantly, reduced business volumes and put pressure on pricing. We remain confident in the longer-term outlook for the energy industry and the Oilfield Services division that serves it.

### Continued Growth

Acquisitions continue to be central to our strategy. Our financial results have benefited from the contribution from companies acquired in 2006 and during the past year. In 2007, we announced a number of significant acquisitions. Some were important because they took us into new and very promising business areas such as personnel services. Others added to existing strength. The Thibodeau Group, acquired in early 2008, is a successful Eastern Canada-based less-than-truckload carrier with additional truckload operations. We also acquired Century II Holdings, which owns Information Communication Services – ICS – a structured route courier similar in many ways to Canpar. The acquisition of ICS, combined with the existing strength of Canpar, means our parcel and courier businesses are large enough to stand on their own. Beginning in the first quarter of 2008, these companies will begin to report their results as TransForce's fifth business segment, distinct from the Less-Than-Truckload companies.

### Financial Results and Distributions

Even in a challenging economic environment, TransForce continued to produce solid financial results in 2007, including record revenues which increased to \$1.9 billion from \$1.8 billion in 2006. Significant acquisitions added \$124.1 million in revenue over 2006.

The results from the Fund's four operating segments reflect the benefits of TransForce's diversified approach. In 2007, the Less-Than-Truckload and Parcel segment increased revenues to \$732.7 million or 38% of total revenues. The Specialized Services segment also grew its revenues to \$519.1 million or 27% of the total. The Specialized Truckload segment accounted for \$315.9 million in revenues, another increase and equivalent to 16% of total revenues. The Truckload segment was most affected by the slower economy and saw its revenues decline to \$372.5 million or 19% of TransForce's revenues.

The Fund's earnings before interest, income taxes, depreciation and amortization (EBITDA), equivalent to operating income, increased by 1% in 2007 to \$243.0 million from \$241.7 million a year earlier.

TransForce has consistently maintained a conservative approach to calculating cash available for distribution by deducting both sustaining capital expenditures and scheduled debt repayment from operating cash flow. In 2007, TransForce generated \$134.0 million in distributable cash from ongoing operations, compared with \$150.3 million in 2006.

Cash flow before net change in non-cash balances was reduced from \$208.2 million in 2006 to \$199.2 million.

The Fund continued to deliver steady distributions in 2007. In the first two months of the year, TransForce made monthly cash distributions of \$0.1275 per unit and increased this to \$0.1325 per unit during each of the remaining 10 months of 2007. For the year, the Fund paid a total of \$128.7 million in regular distributions to tracking shareholders and unitholders. Regular distributions

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**In a harsh business environment, the successful companies are those with the confidence and commitment to pursue their longer-term strategy and the discipline to manage through the shorter-term challenges. The people of TransForce have both.**

declared as a percentage of cash available for distribution was 97.0% in 2007, compared with 81.9% in 2006. The Trustees continuously monitor distributions in order to maintain an attractive cash return balanced with prudent consideration of the Fund's future financial situation.

### Looking Ahead

For the balance of 2008, we expect our industry will continue to be challenged by the economic conditions that are affecting most of our clients, primarily the value of the Canadian dollar. However, we also expect that TransForce will perform better than most and will emerge in an even stronger leadership position when conditions improve. In part, this is because of the wide diversity of our operating companies which protects us from too great a dependence on a single client, industry or region. Some of our companies will actually benefit from the current business environment. Client companies seeking solutions to their own challenges are turning increasingly to outsourcing where TransForce is well positioned with our new personnel services division as well as our dedicated fleet and logistics subsidiaries.

Equally important over the next year will be the discipline we apply to everything we do. We will continue to use our strict criteria to complete acquisitions of well-managed companies that add value for unitholders. We will adjust our operations to suit volumes rather than reducing margins just to keep trucks on the road. Our commitment to investments in cost-saving technology remains strong.

### The People of TransForce

Our employees are central to our success and we will continue to encourage them to use and share their experience to increase

revenues through highly competitive service, and to minimize costs. The discipline they bring to work that makes us more efficient in many small ways adds up to the difference that makes TransForce a leader.

During the course of the year, two of our Trustees, Sheila O'Brien and Katherine Rethy, left the Board for personal reasons after making valuable contributions. We are pleased to have been joined during 2007 by Lucien Bouchard, whose strategic and business experience will be most welcome. Subsequent to year end, Emanuele (Lino) Saputo also joined the Board. The addition of Mr. Saputo is particularly fitting since he is both a proven builder of successful businesses and a long-time supporter of TransForce, having been instrumental in the creation of the enterprise more than 15 years ago.

TransForce has a strong Board of Trustees guiding the continued generation of unitholder value. However, it is the people across all our operating companies who deliver that value every day through their experience, their discipline and their innovations. We have simply the best people in the industry working for TransForce. Their execution of our carefully developed strategy is why unitholders can be confident in the future of our Fund.



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