

*CONTRANS GROUP INC.*



*VAN*



*FLATBED*



*WASTE*



*TANK/LIQUID*



*DUMP*

*Contrans is a leader in the Canadian transportation industry and has been providing exemplary service to its customers since 1926. With the widest array of trailer configurations available for shippers, Contrans is Canada's most diversified transportation company.*



## FINANCIAL HIGHLIGHTS

(\$ thousands)	2010	2009	2008 <sup>(1)</sup>	2007	2006 <sup>(2)</sup>
Revenue – as stated	\$ 396,277	\$ 373,587	\$ 488,832	\$ 485,865	\$ 455,246
– fuel surcharges <sup>(3)</sup>	(37,747)	(30,443)	(79,158)	(56,682)	(55,317)
Revenue – transportation services <sup>(3)</sup>	\$ 358,530	\$ 343,144	\$ 409,674	\$ 429,183	\$ 399,929
EBITDA <sup>(3)</sup>	\$ 46,786 13.0%	\$ 43,700 12.7%	\$ 52,172 12.7%	\$ 56,007 13.0%	\$ 52,215 13.1%
EBT <sup>(3)</sup>	\$ 24,605 6.9%	\$ 22,202 6.5%	\$ 30,302 7.4%	\$ 34,251 8.0%	\$ 34,222 8.6%

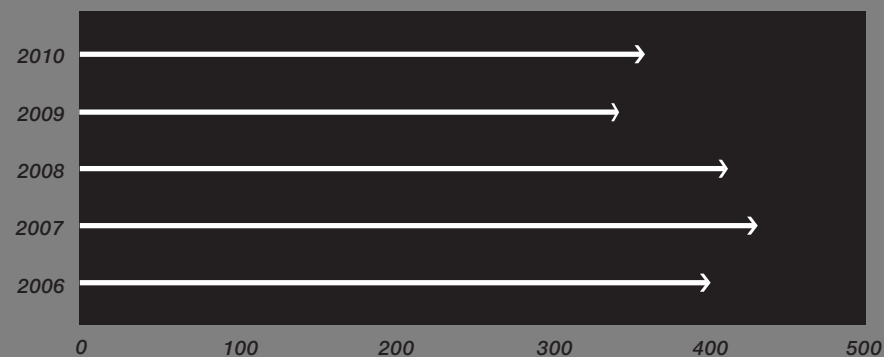
(1) Includes an unrealized foreign exchange loss of \$5.1 million.

(2) Excludes gain on sale of real estate of \$2.9 million.

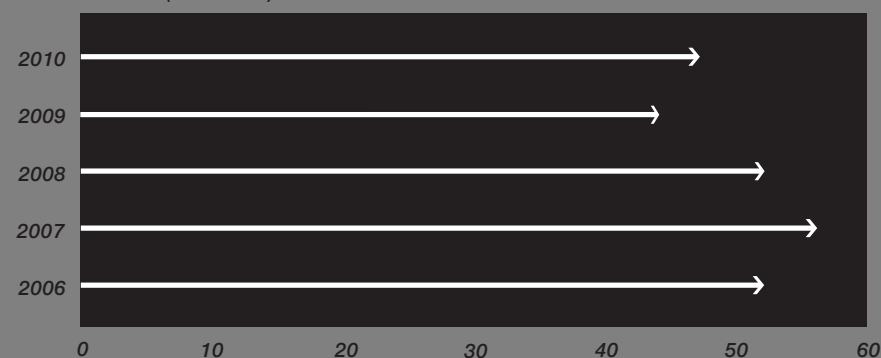
(3) Refer to Management's Discussion and Analysis for reconciliations to nearest GAAP financial measures and a cautionary note, "Use of Non-GAAP Financial Measures."

*Our goal is to be the best, not the biggest*

REVENUE – Transportation Services (\$ millions)



EBITDA (\$ millions)



*I have never been more confident in Contrans' future*

*The strong cash position that Contrans enjoyed at the beginning of 2010 was enhanced during the year by continued improvement in operating profits and margins as well as by the \$53 million equity issue raised in June. We now have a balance sheet that is the envy of our industry. This strength is particularly significant in light of the recent political instability in Africa and the Middle East that is driving oil prices higher and may threaten global economic recovery. It is unusual for a shareholder to be invested in a company that is in a position to benefit from either a deteriorating economy or from continued recovery. In either scenario, Contrans offers great upside potential for its shareholders.*

*Contrans entered the waste collection business in 2010 with the acquisitions of ProWerx Disposal Ltd. and certain contracts and waste collection assets from BFI Canada Inc.'s Edmonton, Alberta operation. We have been very pleased with the contributions that these acquisitions have made to Contrans' profitability to date. Waste collection has many attributes that make it a good fit for Contrans. It is a niche business with relatively few competitors, high barriers to entry, a workforce that possesses specialized skills and demand that is relatively non-cyclical. These two acquisitions have added to Contrans' diversity and have enhanced the sustainability of the Company's earnings. We are looking to enlarge Contrans' footprint in this industry.*

*Recently, after careful analysis of our 2010 results and future opportunities, Contrans' Board of Directors announced that it intended to increase the quarterly dividend rate by 25% to \$0.10 per share per quarter. In the long term, the Board believes that Contrans' shareholders will be best served by delivering to them a significant percentage of the Company's future earnings by way of dividends.*

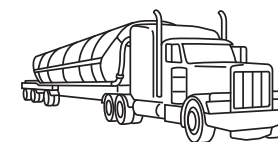
*I have never felt more confident in Contrans' future than I do now. The Company's balance sheet is as strong as it has ever been and the Company is poised to capitalize on growth opportunities.*

*Respectfully submitted,*



*Stan G. Dunford  
Chairman and Chief Executive Officer*

*March 1, 2011*





On December 1, 2009, under a plan of arrangement, Contrans Income Fund ("the Fund") was effectively converted into a corporation, Contrans Group Inc. ("the Company"). This conversion has been recorded using the continuity of interest method of accounting. Accordingly, the consolidated financial statements contained in this annual report, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and reported in Canadian funds, detail the performance and financial position of Contrans Group Inc. and the Fund for the years ended December 31, 2010 and 2009 as if Contrans Group Inc. had always carried on the business carried on by the Fund. Accordingly, the use of "Contrans" hereafter is intended to be understood as a reference to the business carried on by the Fund and, after December 1, 2009, by Contrans Group Inc. The financial statements should be read in conjunction with the analysis that follows. A cautionary note regarding non-GAAP measures and forward-looking statements follows this Management's Discussion and Analysis of Operations and Financial Condition.

### Financial Highlights

Years ended December 31

(\$ millions except per share amounts)

	2010		2009		2008	
Revenue – as stated	\$ 396.3		\$ 373.6		\$ 488.8	
– fuel surcharges <sup>(1)</sup>	(37.8)		(30.4)		(79.2)	
Revenue – transportation services <sup>(1)</sup>	358.5	100.0%	343.2	100.0%	409.6	100.0%
Operating expenses – net of fuel surcharges	275.7	76.9	266.6	77.7	310.4	75.8
Selling, general and administration expenses	35.9	10.0	34.1	9.9	43.0	10.5
Foreign exchange loss (gain)	0.1	—	(1.2)	(0.3)	4.0	1.0
Earnings before amortization, interest and income taxes (EBITDA)	46.8	13.1	43.7	12.7	52.2	12.7
Amortization of property and equipment	12.9	3.6	12.0	3.4	12.3	3.0
Amortization of intangible assets	4.0	1.1	3.8	1.1	3.8	0.9
Net interest expense	5.3	1.5	5.7	1.7	5.8	1.4
Earnings before income taxes (EBT)	24.6	6.9	22.2	6.5	30.3	7.4
Income tax provision (recovery)						
Current	6.8	1.9	0.5	0.1	0.7	0.2
Future	0.2	0.1	(1.3)	(0.3)	0.1	—
	7.0	2.0	(0.8)	(0.2)	0.8	0.2
Net earnings and comprehensive income	\$ 17.6	4.9%	\$ 23.0	6.7%	\$ 29.5	7.2%
Earnings per share – basic and diluted	\$ 0.53		\$ 0.77		\$ 1.01	
Total assets	\$ 344.3		\$ 275.4		\$ 274.6	
Long-term debt and capital lease obligations	98.5		94.4		93.0	
Cash, cash equivalents and restricted cash	85.8		37.6		28.8	
Dividends declared per share	\$ 0.24		\$ 0.80		\$ 1.25	

(1) See "Use of Non-GAAP Financial Measures" below.

**Contrans' strong cash position has been enhanced by continued improvement in operating profits and margins**

#### Fourth Quarter Results

Quarter ended December 31

(\$ millions except per share amounts)

	2010		2009	
Revenue – as stated	\$ 99.8		\$ 99.2	
– fuel surcharges (1)	(9.7)		(9.3)	
Revenue – transportation services (1)	90.1	100.0%	89.9	100.0%
Operating expenses – net of fuel surcharges	69.0	76.6	69.2	77.0
Selling, general and administration expenses	9.4	10.4	8.1	9.0
Foreign exchange loss	0.2	0.2	0.1	0.1
EBITDA	11.5	12.8	12.5	13.9
Amortization of property and equipment	3.5	3.9	3.0	3.3
Amortization of intangible assets	1.1	1.2	1.0	1.1
Net interest expense	1.1	1.2	1.4	1.6
EBT	5.8	6.5	7.1	7.9
Income tax provision:				
Current	0.8	0.9	(1.0)	(1.2)
Future	0.4	0.4	(0.4)	(0.4)
	1.2	1.3	(1.4)	(1.6)
Net earnings and comprehensive income	\$ 4.6	5.2%	\$ 8.5	9.5%
Earnings per share – basic and diluted	\$ 0.14		\$ 0.29	

(1) See "Use of Non-GAAP Financial Measures" below.

#### Results from Operations

##### Revenue

Revenue from transportation services ("revenue") increased in most of Contrans' operations in 2010 compared to 2009. Improved business conditions resulted in increased shipping activity, most notably in the construction and steel industries. Several new major customers contributed approximately \$14.1 million of revenue in 2010 (Q4 – \$5.6 million). However, revenue from project work undertaken by Contrans' bulk operation, involving specialized handling of environmentally sensitive materials, was \$13.0 million lower in 2010 compared to 2009 (Q4 –

\$6.7 million lower). In addition, certain lanes in the Company's van operation were determined to be unprofitable late in 2009 and were rationalized. Revenue from these lanes approximated \$3.4 million in 2009. Fuel surcharge revenue was higher in 2010 compared to 2009 due to higher fuel prices as well as increased shipping activity.

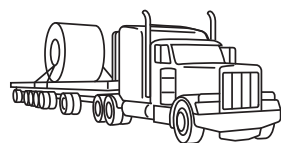
Truboy Freight International Inc. ("Truboy"), a flatbed operation, was acquired on January 29, 2010 and contributed \$2.7 million to current year revenue (Q4 – \$0.8 million). Contrans' acquisitions in the waste collection business contributed \$3.6 million to 2010 revenues. ProWerx Disposal Ltd. ("ProWerx") was acquired on September 20, 2010 and on October 4, 2010, Contrans acquired certain contracts and waste collection assets from BFI Canada Inc.'s Edmonton, Alberta operation. These latter two acquisitions are expected to contribute approximately \$12–\$14 million of revenue annually.

##### Operating expenses

Management reduced Contrans' company-owned tractor fleet in the first half of 2009 in response to the then prevailing poor economic conditions. Since then, utilization of company-owned tractors has improved resulting in lower operating expenses measured as a percentage of revenue. Operating margins in 2010 have also benefited from a slight easing of pricing pressures. These positive effects have been partially offset by a \$1.1 million increase in accident claim costs in 2010 compared to 2009.

##### Selling, general and administration expenses ("SG&A")

SG&A expenses have increased in 2010 primarily due to the cancellation of the salary and wage roll-back program and due to the reinstatement of management bonuses. Compensation expense was \$4.0 million higher in 2010 than in 2009 as a result (Q4 – \$1.1 million higher). In 2009, salaries and wages were rolled back and management bonuses were eliminated as part of Company-wide cost savings initiatives in response to the poor business climate at the time. Management continues to monitor staff levels and to scrutinize discretionary spending.



In 2009, Contrans incurred the following SG&A expenses that did not recur in 2010:

- \$0.8 million (Q4 2009 – \$0.5 million) that related to Contrans' conversion to a corporation
- \$0.3 million related to Q3 write-down in the value of property located in Vermont
- \$0.8 million (Q4 2009 – \$0.2 million) that related to the recognition of increased credit risk associated with a note receivable

#### Foreign exchange loss (gain)

Foreign exchange losses in 2010 amounted to \$0.1 million. These losses arose from the revaluation of receivables, cash balances and equipment debt denominated in US dollars during the year. In 2009, a \$1.2 million gain was recorded and consisted primarily of mark-to-market adjustments on foreign exchange contracts. In both 2009 and 2010, approximately 15% to 20% of Contrans' revenues were billed in

US dollars thereby exposing Contrans to fluctuating foreign exchange rates. Although Contrans has some natural hedges in the form of US dollar expenses, the majority of Contrans' expenses are incurred in Canadian funds. The Company did not have any foreign exchange contracts outstanding as at December 31, 2010.

#### Net interest expense

Net interest expense has decreased in 2010 compared to 2009 due to the additional cash and cash equivalents resulting from the issue of shares in 2010. There has also been a modest increase in interest rates on the cash and cash equivalents held by Contrans.

#### Income tax provision

The income tax provision has increased significantly due to the conversion to a corporation from an income trust on December 1, 2009.

### Summary of Quarterly Results

(\$ millions except per share amounts)	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2010	2009	2010	2009	2010	2009	2010	2009
Revenue – as stated	\$ 93.8	\$ 88.0	\$ 101.0	\$ 87.4	\$ 101.7	\$ 99.0	\$ 99.8	\$ 99.2
– fuel surcharges <sup>(1)</sup>	(9.3)	(7.1)	(9.9)	(6.0)	(8.9)	(8.0)	(9.7)	(9.3)
Revenue – transportation services <sup>(1)</sup>	84.5	80.9	91.1	81.4	92.8	91.0	90.1	89.9
Net earnings	\$ 3.4	\$ 1.5	\$ 5.2	\$ 6.2	\$ 4.4	\$ 6.8	\$ 4.6	\$ 8.5
Earnings per share – basic and diluted	\$ 0.11	\$ 0.05	\$ 0.16	\$ 0.20	\$ 0.12	\$ 0.23	\$ 0.14	\$ 0.29

(1) See "Use of Non-GAAP Financial Measures" below.

The effects of the global recession impacted Contrans the most during the first quarter of 2009. These effects were exacerbated by a \$1.2 million foreign exchange loss that was recorded in that period. On December 1, 2009, Contrans converted from an income trust to a corporation and became subject to corporate income taxes. Net earnings were adversely affected accordingly.

#### Seasonality

Generally, the second quarter is Contrans' strongest period. Volumes from customers in the construction industry typically increase as temperatures warm in the spring, peak in the fall 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. In 2010, the seasonal factors affecting Contrans' business have been less pronounced due to the impact of the recession.

**We have a balance sheet that  
is the envy of our industry**

### **Cash Flow**

Contrans completed a public offering of Class A subordinate voting shares on June 2, 2010. This provided net cash proceeds of \$53.5 million that have been invested in secure, highly liquid, short-term investments bearing low rates of interest.

Contrans had approximately \$24.1 million in capital expenditures in 2010 comprised mainly of purchases of trailers and tractors. Expenditures of approximately \$5.7 million were invested in response to increased demand from customers. Due to favourable buying conditions in mid-year, the Company invested in increasing the number of light-weight, multi-axle trailers in its fleet. As at December 31, 2010, the Company had equipment on order with a value of approximately \$7.9 million that will be delivered in the first quarter of 2011. Management expects to incur a similar level of capital expenditure in 2011 but increased customer demand could result in greater expenditures being made. Contrans enters into equipment financing arrangements to finance the purchase of new tractors and trailers.

Management expects that Contrans' average annual capital expenditure on rolling stock, net of proceeds from the sale of retired equipment, will average \$13 million based on the Company's existing hauling capacity. The actual amount that will be expended in a year will vary depending on factors that include the age and condition of the fleet, business expansion or contraction and changes in government regulations regarding the weights and dimensions of highway equipment. See also "Forward-Looking Statements".

On January 15, 2010, Contrans paid a final distribution of \$4.5 million in connection with the conversion of Contrans Income Fund to Contrans Group Inc. The conversion took effect on December 1, 2009. Dividends of \$0.08 per share were paid on May 14, 2010, August 13, 2010, and November 15, 2010, totalling \$8.1 million. On January 19, 2011, a further dividend of \$0.08 per share, payable on February 15, 2011 and totalling \$2.9 million, was declared by Contrans'

Board of Directors who announced at the same time that it intended to increase the quarterly dividend rate to \$0.10 per share. The payment of dividends is subject to the discretion of Contrans' Board of Directors. Prior to declaring any dividend, the Board of Directors will consider many factors including Contrans' financial condition, its expected future financial performance, its anticipated capital requirements as well as its repayment obligations and covenants that are contained in Contrans' loan agreements.

Proceeds from the sale of property and equipment in 2010 were \$2.9 million (2009 – \$4.4 million). In 2009, Contrans sold a terminal, located in Perth, Ontario, for proceeds of \$0.6 million. In May 2009, Contrans' distribution reinvestment plan ("DRIP") was terminated. The DRIP provided \$1.5 million in 2009.

### **Liquidity and Capital Resources**

As at December 31, 2010  
(\$ millions)

Cash and cash equivalents	\$	85.8
Operating line cash available	\$	23.8
Current ratio		3.4:1
Total debt (including future tax obligations) to equity ratio		0.8:1

Contrans currently has a very strong balance sheet. This is primarily due to measures taken to preserve cash during the recession and due to the raising of share capital through an equity issue by the Company in June 2010. Management is seeking to deploy part or all of this capital by making further acquisitions.

Contrans requires working capital to fund day-to-day operating activities and to pay dividends to its shareholders. These requirements are sourced from operating cash flows which management believes to be sufficient to meet these needs. The Company's operating line, which is secured by and margined with accounts receivable, is believed to be adequate to meet seasonal working capital requirements.



Principal maturities of Contrans' senior secured debt are as follows:

(\$ millions)	
December 15, 2013	\$ 31.9
October 15, 2016	\$ 50.0

#### Tax Attributes of Dividends from Contrans

The tax attributes of the dividends declared and paid to shareholders of Contrans Subordinate Voting Shares and Multiple Voting Shares can be found on Contrans' website at [www.contrans.ca](http://www.contrans.ca) under Investor Relations.

#### Contractual Obligations

As at December 31, 2010

(\$ millions)	2011	2012	2013	2014	2015	Thereafter	Total
Senior secured notes payable	\$ 5.1	\$ 5.1	\$ 36.9	\$ 3.3	\$ 3.3	\$ 55.0	\$108.7
Equipment financing agreements	2.0	1.8	1.8	1.6	0.9	0.1	8.2
Capital leases	2.4	2.2	1.8	1.6	0.5	—	8.5
Operating leases	3.6	2.0	0.9	0.5	—	—	7.0
Accounts payable and accrued liabilities	31.1	—	—	—	—	—	31.1
Equipment purchase commitments	7.9	—	—	—	—	—	7.9
<b>Total</b>	<b>\$ 52.1</b>	<b>\$ 11.1</b>	<b>\$ 41.4</b>	<b>\$ 7.0</b>	<b>\$ 4.7</b>	<b>\$ 55.1</b>	<b>\$171.4</b>

#### Outstanding Shares

As at February 28, 2011

(in thousands)

Class A Subordinate Voting Shares	34,326
Class B Multiple Voting Shares	1,468
<b>Total</b>	<b>35,794</b>

#### Critical Accounting Estimates

Management is required to make significant estimates and assumptions in preparing its financial statements, the most significant of which are as follows:

Financial Statement Item	Methodology, Assumptions
Accounts receivable – provisions for doubtful accounts	Specific account analysis performed and provisions created. A general provision is also established based on past performance.
Note receivable – fair value	Based on expected future payments.
Asset retirement obligations	Based on past experience.
Goodwill and long-lived assets – impairment testing	Based on expected future earnings. Consideration is given to past performance and future conditions that are known or expected to change.
Property, equipment and intangible assets – useful lives	Based on past experience.
Accrued liabilities – matters involving litigation or accident claims	Accruals for settlement established based on information provided by legal counsel or insurance claims professionals.
Purchase price allocations	Values for tangible assets are based on estimates of current market values. Values for customer relationships and non-competition agreements based on discounted expected future cash flows and estimates of impact of competition.
Income tax estimates	Requires estimates of future taxable income and exercise of judgment as to whether it is more likely than not that the future tax assets will be realized.

**It is unusual for a shareholder to be invested in a company that is in a position to benefit from either a deteriorating economy or from continued recovery**

Management does not believe that there are changes that are reasonably likely to occur in the foregoing estimates and assumptions that have been used that will have a material impact on Contrans' financial position, changes in financial condition or results of operations.

#### **International Financial Reporting Standards ("IFRS")**

In February 2008, the Canadian Accounting Standards Board ("AcSB") announced that publicly-listed companies would, for fiscal years beginning on or after January 1, 2011, be required to report their results for 2011 and the comparative figures for 2010 under IFRS.

Contrans' changeover plan consists of several elements including addressing the impact of adopting IFRS on the Company's accounting policies, internal controls over financial reporting, disclosure controls and procedures, IT systems and business activities. The changeover plan will culminate in the production of the Company's first set of IFRS financial statements.

Management will continue to assess the impact of implementing IFRS and will continue to monitor changes to IFRS. Future amendments to IFRS may have a significant impact on Contrans' financial statements prepared under IFRS as any new or amended standards could have retroactive application to January 1, 2010. Accordingly, the final impact of implementing IFRS could be materially different from that which is disclosed here (see Forward-Looking Statements below).

#### **Impact of IFRS**

Management expects the following IFRS standards to have the most pronounced impact on the financial statements of the Company:

#### **IFRS 1 – First-Time Adoption of International Financial Reporting Standards**

##### **Property, plant and equipment**

Contrans has the option to revalue some or all of its assets to their fair value as at January 1, 2010 or to keep them at historical cost net of accumulated depreciation. Any change in carrying value would be debited or credited to the opening deficit. The Board of Directors has approved management's recommendation to revalue the Company's properties. The net impact of the revaluations is expected to be minimal as gains on some properties are countered by losses on others.

##### **Acquisition costs**

Contrans has the option under IFRS 1 to apply IFRS 3 (Business Combinations) retrospectively to past business combinations. IFRS 3 does not permit the capitalization of transaction costs (e.g. legal costs) arising from an acquisition. The Board of Directors has approved management's recommendation to apply IFRS 3 retrospectively. Management expects that approximately \$1.8 million of past acquisition-related costs that are currently included in the Company's goodwill balance will be written off to the opening deficit as at January 1, 2010. Under IFRS, any future acquisition costs will be expensed as incurred.

##### **Contingent consideration**

The option under IFRS 1 to apply IFRS 3 retrospectively will impact the contingent consideration provisions contained in purchase agreements to which the Company is a party. Contingent consideration must be measured at fair value at the date of purchase. Accordingly, approximately \$1 million of earn-out provisions that have been previously paid will be removed from the goodwill balance and be written off to the opening deficit as at January 1, 2010. In addition, Contrans will be required to recognize contingent consideration of approximately \$0.5 million arising from the Q1 2010 acquisition of Truboy as a liability and



additional goodwill. Any difference between the carrying amount of this liability and the final amount paid will be recognized in profit or loss.

#### **IAS 36 – Impairment of Assets**

Under IAS 36, testing for impairment is required to be carried out on the entire group of assets of each cash-generating unit (“CGU”). Testing must be carried out the earlier of once per year or sooner if there is an indication of possible impairment. The entire group of assets is comprised of tangible and intangible assets including goodwill. A CGU is defined to be the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups.

In contrast, Canadian GAAP requires impairment testing for individual assets and not groups of assets. Furthermore, and notwithstanding special rules for goodwill impairment testing, impairment testing for assets is not required to be performed unless circumstances exist that indicate that an impairment in the carrying value of an asset has occurred. Goodwill is, however, required to be tested for impairment annually unless strict criteria are met in which case impairment testing may be postponed. In addition, Canadian GAAP requires impairment testing of goodwill to be carried out on reporting units. A reporting unit consists of a group of independent operating entities (similar to CGU’s under IFRS) that have similar economic characteristics.

Contrans operates on a decentralized basis. For the purpose of annual goodwill impairment testing under Canadian GAAP, Contrans has six reporting units, each aligned with the Company’s service lines. Conversely, under IFRS, annual impairment testing will be carried out on the entire group of assets, including goodwill, of each of the Company’s 13 operating entities. In the past, impairment losses for individual operating entities within Contrans’ reporting units have been more than offset by the total surplus of fair values over carrying values of the other operating entities within the same reporting unit. Upon the implementation of IFRS, however, any impairment arising from an individual operating entity will be recognized and charged to the opening deficit as at January 1, 2010.

Management expects to record an impairment charge between \$10–\$16 million upon the adoption of IFRS. Management’s assessment of this impairment is currently being reviewed by the Company’s auditors and there could be a material change in this write down.

#### **IAS 16 – Property, Plant and Equipment**

Under IAS 16, the Company has the choice to value its assets at historical costs net of accumulated depreciation, at deemed costs (pursuant to IFRS 1) net of accumulated depreciation or at fair value. Contrans owns several thousand individual pieces of equipment. Contrans generally retains its assets until their useful economic lives are consumed. Fluctuations in market values of these assets could confuse financial statement readers and be potentially misleading. Furthermore, management believes that adopting fair value accounting for its property, plant and equipment would necessitate the adoption of procedures and controls that would be burdensome and costly. Accordingly, the Board of Directors has approved management’s recommendation to use historical and deemed costs (pursuant to IFRS 1) as the basis for the valuation of Contrans’ property, plant and equipment.

#### **Impact of IFRS on Internal Controls over Financial Reporting (“ICFR”)**

Contrans is in the freight transportation business. The business is not complex although there is a high volume of relatively low value transactions. Management believes, however, that its system of internal control is currently effective in ensuring that all transactions are recorded completely and accurately and reported in accordance with Canadian GAAP free of material error. Moreover, management believes that Contrans’ information system is sufficiently robust. Accordingly, in many cases, meeting the greater note disclosure standards under IFRS will only require publishing what is currently produced and used internally. In addition, management does not anticipate that the adoption of IFRS identified above will necessitate significant changes in Contrans’ ICFR or its IT systems.

**Recently, Contrans' Board of Directors announced that it intended to increase the quarterly dividend rate by 25%**

#### **Impact of IFRS on Disclosure Controls and Procedures**

The effectiveness of Contrans' disclosure controls and procedures rests essentially upon management's ability to remain informed of the activities of the various accounting standard-setting bodies and market regulators. Management stays informed in many ways including attending educational seminars and webinars, reading relevant literature and through consultation with the Company's advisors.

Contrans' Audit Committee and Board of Directors have been briefed on IFRS by the Company's external auditors. Management has also kept the Audit Committee and Board of Directors informed of alternative accounting policies available under IFRS, changes necessitated by the adoption of IFRS and their potential impacts. In addition, management has been reporting to the Audit Committee and the Board of Directors on its progress in preparing for reporting under IFRS.

Based on investigations and discussions undertaken to date as well as on feedback received from analysts, management believes that its continuous disclosure documents will adequately communicate the impact of adopting IFRS on the Company to all interested parties.

#### **Impact of IFRS on Business Activities**

Management does not expect that the implementation of IFRS will significantly impact its business or operations. The Board of Directors has decided to revalue certain of the Company's properties upon conversion to IFRS. There will not be a material impact on the Company's business activities or on its debt covenants as a result of this change.

#### **First Set of IFRS Financial Statements**

Management has drafted IFRS-based consolidated financial statements and has populated the balance sheet prepared as at January 1, 2010 based upon accounting policies that it has recommended to the Board of Directors. This work is currently being reviewed by the Company's auditors. Once the 2010 fiscal year's reporting obligations have been fulfilled, management will commence the next phase of this project con-

sisting of populating IFRS-based financial statements and notes thereto for the period ended and as at December 31, 2010.

#### **Financial Instruments**

Contrans from time to time enters into foreign exchange contracts to manage its exposure to currency fluctuations. As at December 31, 2010, Contrans had no exchange contracts outstanding.

#### **Business Risks**

Contrans is affected by economic cycles. Contrans provides freight transportation services to many customers in various industries and geographic regions and has recently diversified into the waste collection business. Contrans' freight transportation business has operations that haul freight on van, flatbed, dump, dry bulk and liquid tank trailers. Contrans also provides logistics services independently of its asset-based, freight transportation operations. Some of Contrans' customers are in industries where demand for their goods is relatively inelastic. No single customer accounts for more than 10% of Contrans' revenue. Contrans' diverse customer base limits credit risk.

Cross-border travel is required to service many customers. Approximately 32% of the total distance travelled by Contrans' trucks is travelled in the US. Accordingly, border crossings and customs clearances affect these shipments. Today's political uncertainties and border security concerns affect cross-border traffic. Contrans participates in professional and industry associations designed to protect the transportation industry's interests. In addition, management informs customers about border delays and seeks fair compensation for lost productivity.

Contrans is subject to certain foreign exchange risks as it has positive net US dollar cash flow. Management manages this risk by entering into foreign exchange contracts from time to time, denominating equipment financing in US dollars where practical and through customer negotiations.



Changes in the relative value of the Canadian dollar against the US dollar has an effect on the flow of goods between the two countries as well as on competition for freight. Management competes for trans-border freight by providing high levels of service to service-sensitive customers.

Contrans' operating entities are subject to lawsuits arising from accidents and other insurable risks. Management maintains prudent levels of insurance coverage and high safety standards to minimize this exposure. Furthermore, management 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. Besides offering competitive rates of pay, management is conscious of the quality of the working environment. In addition, when Contrans lacks its own hauling resources, partner carriers can provide additional capacity.

Management has no control over fuel prices. Although Contrans has fuel surcharge programs with most of its customers that offset higher fuel prices, the effectiveness of these programs during times of sudden, significant increases in fuel prices may be diminished.

As at December 31, 2010, approximately 98% of Contrans' long-term debt had fixed interest rates. Accordingly, changes in interest rates will have a limited impact on the Company's interest expense.

#### **Controls and Procedures**

Management is responsible for establishing and maintaining a system of disclosure controls and procedures. This system provides reasonable assurance that all required public disclosures will be made in a timely manner. Management is also responsible for establishing and maintaining adequate internal controls over financial reporting. This provides reasonable assurance that financial reporting is reliable and that financial statements for external purposes are prepared in accordance with GAAP. Contrans' system of internal controls has been documented at all material operating divisions of Contrans. Contrans' management, includ-

ing the Chief Executive Officer and the Chief Financial Officer, have caused the design and operation of Contrans' internal controls to be evaluated as at December 31, 2010 and have concluded that the design and operation of Contrans' disclosure controls and procedures, as well as the internal controls over financial reporting, were effective as at December 31, 2010.

Management is in the process of designing and implementing a system of controls at its newly acquired waste collection business. This operation is expected to generate approximately \$12-\$14 million in revenue in 2011 and has total assets of \$18 million as at December 31, 2010.

No changes were made in Contrans' systems that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the year ended December 31, 2010.

A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including any instances of fraud, have been detected. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under future conditions.

#### **Transactions with Related Parties**

In 2010, Contrans paid \$9.9 million to Peterbilt of Ontario Inc., a company controlled by the Chairman of Contrans, for tractor repairs, vehicle maintenance, equipment purchases and lease costs. In addition, Contrans also leased certain premises to Peterbilt of Ontario Inc. in 2010 for consideration of \$0.2 million. These transactions were carried out in the normal course of business and recorded at the exchange amount, which management has concluded approximates an arm's length arrangement.

**These two acquisitions have added to Contrans' diversity and have enhanced the sustainability of the Company's earnings**

#### **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 may not 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.

#### **EBITDA:**

Management believes that EBITDA is a useful supplement to the information contained in Contrans' statements of cash flow as it facilitates a greater depth of analysis. Accordingly, these measures can enhance the evaluation of Contrans' historical and prospective operating performances.

#### **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 alone as the base. In addition, operating expenses are stated after netting fuel surcharges against fuel expenses in the Financial Highlights table. Management believes that this 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 Contrans' 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 Contrans 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 Contrans' Annual Information Form, which is available at [www.sedar.com](http://www.sedar.com). Although Contrans 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 is under no obligation (and expressly disclaims any such obligation) to update forward-looking statements if circumstances or management's views or estimates change. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements.

#### **Additional Information**

Additional information is available at [www.sedar.com](http://www.sedar.com).

March 1, 2011

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

*The accompanying financial statements of Contrans Group Inc. and all the information in this annual report are the responsibility of management and have been reviewed and approved by the Board of Directors ("Board").*

*Management has prepared the financial statements in accordance with Canadian generally accepted accounting principles. Where alternative accounting methods exist, management has chosen those methods most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgement. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects. Management has ensured that the financial information presented throughout the annual report is consistent with that in the financial statements.*

*Management maintains systems of internal controls designed to provide reasonable assurance that the financial information is accurate and complete and that Contrans' assets are adequately safeguarded.*

*The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.*

*The Board appoints an Audit Committee, which is comprised entirely of outside directors. The Audit Committee meets quarterly with management and regularly with Contrans' external auditors, KPMG LLP, to discuss internal controls, auditing matters and financial reporting issues. KPMG LLP has full and free access to the Audit Committee. The Audit Committee reports its findings to the Board who approve the financial statements for issuance to the shareholders. The Audit Committee also considers, for review by the Board and approval by the shareholders, the engagement or reappointment of the auditors.*



**Stan G. Dunford**  
Chairman and Chief Executive Officer  
March 1, 2011

*To the Shareholders*

*We have audited the accompanying consolidated financial statements of Contrans Group Inc. which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of earnings and comprehensive income, retained earnings (deficit) and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.*

***Management's Responsibility for the Consolidated Financial Statements***

*Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.*

***Auditors' Responsibility***

*Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.*

*An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the*

*assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.*

*We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.*

***Opinion***

*In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Contrans Group Inc. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.*



*Chartered Accountants, Licensed Public Accountants  
London, Canada  
March 1, 2011*

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(in thousands except for per share amounts)

Years ended December 31	2010	2009
<b>Revenue</b>	<b>\$ 396,277</b>	\$ 373,587
Operating expenses	<b>313,493</b>	297,011
Selling, general and administration expenses	<b>35,884</b>	34,060
Foreign exchange loss (gain)	<b>114</b>	(1,184)
Amortization of property and equipment	<b>12,847</b>	12,045
Amortization of intangible assets	<b>4,012</b>	3,770
	<b>29,927</b>	27,885
Net interest expense (income) – long-term	<b>6,011</b>	5,862
– short-term	<b>(689)</b>	(179)
<b>Earnings before Income Taxes</b>	<b>24,605</b>	22,202
Income Tax Provision (Recovery) (Note 11):		
Current	<b>6,772</b>	491
Future	<b>190</b>	(1,242)
	<b>6,962</b>	(751)
<b>Net Earnings and Comprehensive Income</b>	<b>\$ 17,643</b>	\$ 22,953
Earnings per share – basic and diluted	<b>\$ 0.53</b>	\$ 0.77
Weighted average number of shares outstanding – basic and diluted	<b>33,339</b>	29,897

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

(in thousands)

Years ended December 31	2010	2009
<b>Retained Earnings (Deficit) – Beginning of Year</b>	<b>\$ (478)</b>	\$ 435
Net earnings	<b>17,643</b>	22,953
Dividends declared	<b>(8,122)</b>	(23,866)
<b>Retained Earnings (Deficit) – End of Year</b>	<b>\$ 9,043</b>	\$ (478)

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

(in thousands)

As at December 31	2010	2009
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	\$ 85,760	\$ 30,193
Accounts receivable	48,378	48,909
Income taxes recoverable	—	495
Other current assets	5,446	5,089
	<b>139,584</b>	84,686
Restricted Cash (Note 5)	—	7,375
Note Receivable (Note 6)	—	88
Property and Equipment (Note 7)	117,440	104,381
Intangible Assets (Note 8)	17,167	15,135
Goodwill	70,079	63,764
	<b>\$ 344,270</b>	\$ 275,429
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 31,068	\$ 32,057
Distributions payable	—	4,491
Income taxes payable	6,556	—
Current portion of capital lease obligations (Note 9)	2,049	1,921
Current portion of long-term debt (Note 10)	1,632	339
	<b>41,305</b>	38,808
Capital Lease Obligations (Note 9)	5,552	6,978
Long-Term Debt (Note 10)	89,221	85,193
Asset Retirement Obligations	637	720
Future Income Taxes (Note 11)	14,629	14,531
	<b>151,344</b>	146,230
<b>Shareholders' Equity (Note 12)</b>		
Contributed surplus	961	961
Share capital	182,922	128,716
Retained earnings (deficit)	9,043	(478)
	<b>192,926</b>	129,199
	<b>\$ 344,270</b>	\$ 275,429

Contingencies and commitments (Notes 13 and 14 (b) (v)). Subsequent event (Note 18).  
The accompanying notes are an integral part of these statements.

Signed on behalf of the Board of Directors



Stan G. Dunford, Director



Archie M. Leach, C.A., Director

CONSOLIDATED STATEMENTS OF CASH FLOW

(in thousands)

Years ended December 31	<b>2010</b>	<b>2009</b>
<b>Cash Provided by (Used in):</b>		
<b>Operating Activities</b>		
Net earnings	\$ 17,643	\$ 22,953
Items not affecting cash:		
Change in unrealized gain on foreign exchange	(67)	(5,072)
Share-based compensation expense (Note 12)	—	127
Long-term debt – accretion	80	79
Gain on sale of business unit (Note 6)	—	(23)
Fair value adjustment to note receivable (Note 6)	—	767
Asset retirement obligations – accretion	27	38
Amortization of property and equipment	12,847	12,045
Amortization of intangible assets	4,012	3,770
Future income taxes	190	(1,242)
Gain on sale of equipment	(295)	(248)
	<b>34,437</b>	33,194
Change in non-cash working capital (Note 16)	<b>8,501</b>	5,804
	<b>42,938</b>	38,998
<b>Investing Activities</b>		
Expended on acquisitions (Note 3)	(16,966)	(3,075)
Asset retirement obligations – settlements	(153)	(354)
Proceeds on disposal of business unit (Note 6)	—	100
Proceeds from note receivable (Note 6)	120	84
Proceeds on sale of equipment	2,886	4,444
Purchase of property and equipment	(24,106)	(10,435)
	<b>(38,219)</b>	(9,236)
<b>Financing Activities</b>		
Dividends paid	(12,613)	(22,462)
Proceeds from restricted cash	7,375	3,000
Proceeds from long-term debt	5,716	2,276
Repayment of long-term debt	(1,012)	(509)
Repayment of capital lease obligations	(2,123)	(1,856)
Issuance of shares (Note 12)	53,505	1,531
	<b>50,848</b>	(18,020)
<b>Increase in Cash and Cash Equivalents</b>	<b>55,567</b>	11,742
<b>Cash and Cash Equivalents – Beginning of Year</b>	<b>30,193</b>	18,451
<b>Cash and Cash Equivalents – End of Year</b>	<b>\$ 85,760</b>	\$ 30,193

The accompanying notes are an integral part of these statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

(tabular amounts in thousands except for per share amounts)

### 1. Organization

Contrans Group Inc. was incorporated on October 15, 2009 under the laws of the province of Ontario. On December 1, 2009, under a plan of arrangement, trust units of its predecessor entity, Contrans Income Fund, and limited partnership units of three controlled limited partnerships (collectively "the Fund") were exchanged for shares of Contrans Group Inc. The exchange resulted in the conversion of the Fund from an open-ended income trust to a corporation and was recorded using the continuity of interest method of accounting. Accordingly, the consolidated financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and reported in Canadian dollars, detail the performance and financial position of Contrans Group Inc. and the Fund for the years ended December 31, 2010 and 2009, as if Contrans Group Inc. had always carried on the business formerly carried on by the Fund. The use of "Contrans" herein refers to both Contrans Group Inc. and the Fund. References made to distributions declared, distributions payable, distributions paid and distribution reinvestment plan reflect business of the Fund prior to the plan of arrangement.

Contrans is based in Canada and operates in a single reportable industry segment, freight transportation.

### 2. Significant Accounting Policies

These financial statements are prepared in accordance with accounting principles generally accepted in Canada. Significant accounting policies are as follows:

#### PRINCIPLES OF CONSOLIDATION

The purchase method of accounting for business combinations has been used and the accounts of all subsidiaries have been consolidated with those of Contrans. Intercompany balances and transactions have been eliminated upon consolidation.

### FINANCIAL ASSETS AND FINANCIAL LIABILITIES

CICA Handbook Section 3855 establishes standards for recognizing and measuring financial assets and financial liabilities. It requires that financial assets and liabilities be recognized on the balance sheet when Contrans becomes a party to the contractual provisions of a financial instrument. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, loans and receivables, held to maturity, available for sale or financial liabilities. Management determines the classification of financial assets and liabilities at initial recognition.

Contrans designated its cash and cash equivalents, restricted cash and derivative financial instruments, which have not been designated in a hedging relationship, as held for trading, with gains and losses arising from changes in fair value of these instruments recorded in the consolidated statement of earnings and comprehensive income.

Accounts receivable and note receivable are classified as loans and receivables which are measured at amortized cost using the effective interest method. Accounts payable and accrued liabilities, distribution payable, long-term debt and capital lease obligations are classified as other liabilities, which are also measured at amortized cost using the effective interest method.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on deposit and short-term interest-bearing securities with maturities at purchase date of one year or less, with the majority being cashable at face value after 30 days from the purchase date.

**PROPERTY AND EQUIPMENT**

Property and equipment are valued at acquisition cost less accumulated amortization. Amortization is provided over the estimated service lives of the assets as follows:

**Buildings** – Straight-line over 15 to 40 years

**Rolling Stock** – Tractors – Highway tractors 25% declining balance

– Waste trucks – Straight-line over 8 years

– Trailers – Straight-line over 10 to 25 years

– Bins – Straight-line over 10 years

**Service Vehicles and Other Equipment** – 20% to 30% declining balance

Management periodically reviews the estimated service lives of these assets and adjusts future amortization accordingly.

**GOODWILL AND INTANGIBLE ASSETS**

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, net of liabilities assumed, based on fair values. Goodwill is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Management periodically reviews the estimated lives of intangible assets and adjusts amortization accordingly. Intangible assets, with finite lives, are amortized on a straight-line basis over a period of up to ten years.

**IMPAIRMENT OF LONG-LIVED ASSETS**

Long-lived assets, including property and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its esti-

mated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell and would no longer be amortized. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

**ASSET RETIREMENT OBLIGATIONS**

Contrans recognizes the fair value of a future asset retirement obligation as a liability in the period in which it enters into operating leases. The fair value of the asset retirement obligation is determined using the discounted expected cash flow approach and, accordingly, the change in the obligation due to the passage of time is recognized in income as an operating expense. Any change in the obligation due to changes in estimated cash flow is recognized as an adjustment to the carrying amount of the obligation. Contrans concurrently recognizes a corresponding change in the carrying amount of the related long-lived asset. This asset is amortized over the term of the operating lease agreement.

**REVENUE RECOGNITION**

Revenue is recognized upon delivery of goods to customers.

**INCOME TAXES**

The liability method is used to account for future income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated income tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to be in effect when the temporary differences are expected to

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

(tabular amounts in thousands except for per share amounts)

be recovered or settled. The effects of changes in income tax rates are reflected in future income tax assets and liabilities in the period that the rate changes are substantively enacted.

### **FOREIGN CURRENCY**

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet dates and non-monetary items are translated at rates of exchange in effect when the assets are acquired or obligations incurred. Revenues and expenses denominated in foreign currencies are translated at monthly average rates of exchange during the year. Foreign exchange gains and losses are included in earnings and comprehensive income.

### **SHARE-BASED COMPENSATION**

Share based compensation plans that will be settled in cash are accounted for as liabilities based on the intrinsic value of the awards that have been granted. Compensation expense is accrued over the vesting period. Changes in the intrinsic value of the awards, if any, are recognized as compensation expense in the period in which they occur.

### **EARNINGS PER SHARE**

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the year. Diluted earnings per share are similarly computed except that the weighted average shares outstanding are increased to include additional shares from an

assumed exercise of share options, if dilutive. The number of additional shares is calculated by assuming that outstanding share options were exercised and that the proceeds from such exercises were used to acquire shares at average market prices.

### **MEASUREMENT UNCERTAINTY**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts at the date of, and for the period of, the financial statements. Actual results could differ from those estimates. Estimates are reviewed on a regular basis and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. The assets and liabilities which require management to make significant estimates and assumptions in determining carrying values include accounts receivable, note receivable, property and equipment, goodwill, intangible assets, accounts payable and accrued liabilities, future income taxes, asset retirement obligations and purchase price allocations related to acquisitions.

### 3. Acquisitions

Year ended December 31, 2010	Truboy	ProWerx <sup>(1)</sup>	BFI <sup>(1)</sup>	Narum	Total
Accounts receivable	\$ —	\$ 1,611	\$ 497	\$ —	\$ 2,108
Other current assets	—	26	—	—	26
Corporation taxes	—	195	—	—	195
Property and equipment	712	3,630	1,356	—	5,698
Intangible assets					
Customer relationships	160	1,873	3,081	—	5,114
Non-competition agreements	200	730	—	—	930
Goodwill	51	5,458	731	75	6,315
<b>Fair value of assets acquired</b>	<b>1,123</b>	<b>13,523</b>	<b>5,665</b>	<b>75</b>	<b>20,386</b>
Accounts payable and accrued liabilities	5	1,852	302	—	2,159
Capital leases assumed on acquisition	79	—	—	—	79
Debt assumed on acquisition	573	—	—	—	573
Future tax liability (asset)	—	691	(82)	—	609
<b>Fair value of liabilities assumed</b>	<b>657</b>	<b>2,543</b>	<b>220</b>	<b>—</b>	<b>3,420</b>
	\$ 466	\$ 10,980	\$ 5,445	\$ 75	\$ 16,966
Consideration					
Cash	\$ 466	\$ 10,980	\$ 5,445	\$ 75	\$ 16,966

(1) The accounting for ProWerx and BFI purchases are preliminary and may change upon final determination of the fair value of the assets acquired and liabilities assumed.

Entity acquired	Date	% Shares Acquired	Province	Service Area
Truboy Freight International Inc. ("Truboy")	29-Jan-10	Assets acquired	Ontario	Flatbed
ProWerx Disposal Ltd. ("ProWerx")	20-Sep-10	100%	Alberta	Waste
BFI Canada Inc. ("BFI")	4-Oct-10	Assets acquired	Alberta	Waste

These acquisitions have been accounted for using the purchase method. The results of operations from the acquisition dates have been included in these consolidated financial statements.

Additional consideration of \$0.5 million is payable to the vendors of Truboy contingent upon the achievement of certain financial objectives. If earned, the contingent consideration will be payable in three annual instalments and will be recorded as an increase to goodwill.

Due to the achievement of certain performance objectives, additional consideration of \$75,000 was paid in 2010 and also in 2009 to the

former owners of Narum Transport Ltd., an operation acquired by Contrans in 2007. This additional consideration was allocated to goodwill. Also due to the achievement of certain performance objectives, additional consideration of \$3 million was paid, in January 2009, out of restricted cash to the former owners of Tripax Transportation Inc., a company acquired by Contrans in 2006. This additional consideration was accrued and allocated to goodwill in the financial statements at December 31, 2008.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

(tabular amounts in thousands except for per share amounts)

### 4. Cash and Cash Equivalents

As at December 31	2010	2009
Cash	\$ 9,370	\$ 30,193
Cash equivalents <sup>(1)</sup>	76,390	—
	<b>\$ 85,760</b>	<b>\$ 30,193</b>

(1) Due to the short-term nature of cash equivalents held by the Company, these instruments have been valued at cost plus accrued interest, which together approximates fair value.

### 5. Restricted Cash

Under the terms of Contrans' long-term debt facility, Restricted Cash could only be used to repay senior secured notes or to fund growth opportunities. In 2010, Contrans used the remainder of its Restricted Cash to fund acquisitions.

### 6. Disposal of Business Unit

	Veritrans
Date of disposal	March 2009
Net book value of assets disposed:	
Property and Equipment	\$ 53
Goodwill	289
Other current assets	10
Accounts receivable	31
Accounts payable and accrued liabilities	(6)
	<b>\$ 377</b>
Consideration received:	
Cash	\$ 100
Note receivable (fair value):	
Current	137
Long-term	163
	<b>\$ 400</b>
Gain on sale of business unit	\$ (23)

Notes receivable (fair value)	Current	Long-term	Total
As at December 31, 2008	\$ 230	\$ 538	\$ 768
Note received as part consideration for Veritrans	137	163	300
Cash received	(84)	—	(84)
Transfer from long-term to current	75	(75)	—
Fair value adjustment – 2009	(229)	(538)	(767)
As at December 31, 2009	\$ 129	\$ 88	\$ 217
Cash received	(120)	—	(120)
Transfer from long-term to current	88	(88)	—
<b>As at December 31, 2010</b>	<b>\$ 97</b>	<b>\$ —</b>	<b>\$ 97</b>

In March 2009, Contrans disposed of its fuel tax reporting and driver log checking operation (Veritrans). Principal payments on the note receivable taken as part consideration are based on revenues generated and are payable monthly. The note matures in April 2013.

In September 2008, Contrans recognized the disposal of its plant services operation, located in Hamilton, Ontario. The fair value adjustment to the notes receivable was made to reflect increased credit risk related to the sale of the plant services operation.

The current portion of the notes receivable is included in accounts receivable.

### 7. Property and Equipment

2010	Cost	Accumulated Amortization	Net
Land	\$ 8,654	\$ —	\$ 8,654
Buildings	28,208	10,828	17,380
Rolling stock and other – owned	138,416	57,438	80,978
Rolling stock – capital leases	13,527	3,099	10,428
	<b>\$ 188,805</b>	<b>\$ 71,365</b>	<b>\$ 117,440</b>

2009	Cost	Accumulated Amortization	Net
Land	\$ 8,374	\$ —	\$ 8,374
Buildings	25,960	9,765	16,195
Rolling stock and other – owned	125,211	56,251	68,960
Rolling stock – capital leases	12,727	1,875	10,852
	\$ 172,272	\$ 67,891	\$ 104,381

### 8. Intangible Assets

2010	Cost	Accumulated Amortization	Net
Customer relationships	\$ 27,679	\$ 12,755	\$ 14,924
Non-competition agreements	9,924	7,681	2,243
	\$ 37,603	\$ 20,436	\$ 17,167

2009	Cost	Accumulated Amortization	Net
Customer relationships	\$ 22,565	\$ 10,369	\$ 12,196
Non-competition agreements	8,994	6,055	2,939
	\$ 31,559	\$ 16,424	\$ 15,135

### 9. Capital Lease Obligations

As at December 31	2010	2009
2011 and prior	\$ 2,457	\$ 4,701
2012	2,191	2,037
2013	1,829	1,638
2014	1,581	1,373
2015 and thereafter	500	506
Minimum lease payments	8,558	10,255
Less amount representing interest at rates ranging from 4.8% to 8.4% (2009 – 4.8% to 8.9%)	(957)	(1,356)
Present value of net minimum capital lease payments	7,601	8,899
Less current portion	(2,049)	(1,921)
	\$ 5,552	\$ 6,978

Interest of \$0.5 million (2009 – \$0.5 million) relating to capital lease obligations has been included in interest expense – long-term. Contrans has an unrealized gain on its US dollar-denominated capital lease obligations of \$0.05 million as at December 31, 2010 (2009 – gain of \$0.1 million). Approximately \$0.5 million of the capital lease obligations is denominated in US dollars (2009 – \$0.8 million).

### 10. Long-Term Debt

	2010	2009
Senior secured notes payable with fixed interest rates between 5.9% and 6.5% (2009 – 5.9% and 6.5%)	\$ 81,521	\$ 81,443
Equipment financing agreements with fixed interest rates between 5.0% and 6.9% (2009 – 6.5% and 6.9%)	7,200	1,951
Other unsecured loans with varying interest rates and due dates	2,132	2,138
Long-term debt	90,853	85,532
Less current portion	(1,632)	(339)
	\$ 89,221	\$ 85,193

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

(tabular amounts in thousands except for per share amounts)

The senior secured notes payable are stated net of unamortized financing transaction costs of \$0.4 million (2009 – \$0.4 million) and provide for monthly payments of interest only. The principal repayments are due on December 15, 2013 (\$31.9 million) and October 15, 2016 (\$50 million). Liens on rolling stock with a net book value of approximately \$66.5 million (2009 – \$61 million) have been provided as security for the senior secured notes. The lender also holds a second floating charge over receivables and a general security interest in the remaining assets of Contrans. Liens on rolling stock with a net book value of approximately \$8.9 million (2009 – \$2.5 million) have been provided as security for the holders of the equipment financing agreements. Approximately \$1.9 million of the long-term debt is denominated in US dollars (2009 – nil).

Aggregate minimum principal payments required on long-term debt in each of the next five years are as follows:

As at December 31	2010
2011	\$ 1,632
2012	1,500
2013	33,462
2014	1,489
2015	927
Thereafter	52,196
Minimum principal payments	91,206
Less unamortized financing transaction costs	(353)
Long-term debt	\$ 90,853

## 11. Income Taxes

The following table reconciles the provision for income taxes recorded in the consolidated statement of earnings and comprehensive income with a statutory income tax rate of 30.7% (2009 – 32.5%):

	2010	2009
Earnings before income taxes	\$ 24,605	\$ 22,202
Computed income tax expense at Canadian statutory rate	7,554	7,207
Reduction of taxes due to taxable income allocated to unitholders	—	(6,824)
Change to future Canadian statutory tax rate	—	(1,622)
Reduction of taxes on reorganization	—	(108)
Impact of lower rate on deferred income	(657)	(286)
Impact of permanent differences	(186)	193
US state taxes	—	586
Other	251	103
Income tax provision (recovery)	\$ 6,962	\$ (751)

The tax effects of temporary differences that give rise to future tax assets and liabilities are presented below:

	2010	2009
<b>Future tax assets</b>		
Deductible reserves	\$ (715)	\$ (567)
Share issue costs and financing fees	(1,066)	(183)
Other	—	(141)
<b>Future tax liabilities</b>		
Property, equipment and intangible assets	11,614	12,195
Impact of off-calendar year-end of corporate subsidiary	4,614	3,227
Other	182	—
Net future income tax liability	\$ 14,629	\$ 14,531

Contrans recognizes future income tax liabilities and assets where the recovery or settlement of the carrying amount of the liability or asset would result in a future income tax outflow or income tax reduction.

## 12. Shareholders' Equity

### SHARES

#### AUTHORIZED

An unlimited number of Class A Subordinate Voting Shares and 1,467,724 Class B Multiple Voting Shares.

#### ISSUED AND FULLY PAID

Shares	Class A Subordinate Voting Shares		Class B Multiple Voting Shares		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
<i>Shares issued on December 1, 2009, in exchange for:</i>						
Trust Units	23,799	\$ 121,019	—	\$ —	23,799	\$ 121,019
Class A LP Units	4,671	6,399	—	—	4,671	6,399
Class B LP Units	—	—	1,468	1,298	1,468	1,298
Balance at December 31, 2009	28,470	\$ 127,418	1,468	\$ 1,298	29,938	\$ 128,716
Shares issued on June 2, 2010	5,856	54,206	—	—	5,856	54,206
<b>Balance at December 31, 2010</b>	<b>34,326</b>	<b>\$ 181,624</b>	<b>1,468</b>	<b>\$ 1,298</b>	<b>35,794</b>	<b>\$ 182,922</b>

Trust Units	Trust Units		Class A LP Units		Class B LP Units		Total	
	Units	Amount	Units	Amount	Units	Amount	Units	Amount
Balance at December 31, 2008	23,341	\$ 119,297	4,810	\$ 6,590	1,468	\$ 1,298	29,619	\$ 127,185
Distribution reinvestment plan	319	1,531	—	—	—	—	319	1,531
Exchanges	139	191	(139)	(191)	—	—	—	—
Exchanged for shares	(23,799)	(121,019)	(4,671)	(6,399)	(1,468)	(1,298)	(29,938)	(128,716)
Balance at December 31, 2009	—	\$ —	—	\$ —	—	\$ —	—	\$ —

#### VOTING, DIVIDEND AND EXCHANGE RIGHTS AND OBLIGATIONS

The Class A Subordinate Voting Shares are entitled to one vote each.

The Class B Multiple Voting Shares are entitled to ten votes each.

Any dividends that are declared are to be paid equally on a pro rata basis between the two classes of shares.

The holders of Class B Multiple Voting Shares are entitled to convert any or all of the Class B Multiple Voting Shares held at any time into Class A Subordinate Voting Shares on the basis of one Multiple Voting Share for each Subordinate Voting Share held upon written notice to the Corporation. The holders of Class B Multiple Voting Shares are obligated to convert all Class B Multiple Voting Shares held into Class A Subordi-

nate Voting Shares on the basis of one Class A Subordinate Voting Share for each Class B Multiple Voting Share held upon the occurrence of certain events or circumstances, including but not limited to:

(i) if at any time the aggregate number of Class B Multiple Voting Shares outstanding is less than 698,351

(ii) in the event that an offer, bid or similar process is accepted by holders of 90% or more of the aggregate number of Class A Subordinate Voting Shares and Class B Multiple Voting Shares at the time then outstanding

(iii) in the event that the holder, or any pledgee of the holder, purports to transfer or assign the Class B Multiple Voting Shares (unless otherwise

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

(tabular amounts in thousands except for per share amounts)

permitted by the Articles of the Corporation), including any transfer to a pledgee or any person by a pledgee exercising its rights under such pledge

(iv) in the event that Contrans' CEO Stan G. Dunford, together with his spouse and any spousal trust of Stan G. Dunford, cease to beneficially own, directly or indirectly, a number of Class A Subordinate Voting Shares and Class B Multiple Voting Shares, which are entitled to vote at least 33% of the aggregate voting rights attached to all Class A Subordinate Voting Shares and Class B Multiple Voting Shares

(v) on July 23, 2022

The Class B Multiple Voting Shares may be transferred by an individual to a spouse or to a spousal trust, as defined in the Income Tax Act (Canada) but may not otherwise be transferred.

### a) Issue of share capital

On June 2, 2010, Contrans issued 5,856,800 Class A Subordinate Voting Shares, for cash, at a price of \$9.60 per share. The total number of Class A Subordinate Voting Shares in issue at December 31, 2010, was 34,326,474. The impact on share capital was as follows:

Gross proceeds	\$ 56,225
Costs of issue	(2,720)
Net cash proceeds	53,505
Future tax benefit on costs of issue	701
<b>Increase in share capital</b>	<b>\$ 54,206</b>

### b) Normal course issuer bid

On April 20, 2010, Contrans received regulatory approval to proceed with a normal course issuer bid to purchase certain of its outstanding Class A Subordinate Voting Shares to a maximum of 2,349,446 shares. The bid commenced on April 22, 2010 and expires on April 21, 2011. Class A shares purchased pursuant to the bid will be cancelled. There were no repurchases of shares in the period to December 31, 2010.

## SHARE-BASED COMPENSATION

### a) Restricted stock units

Contrans' Board of Directors established a restricted share unit ("RSU") plan in 2010 that will provide cash compensation to certain employees based on the Company's future earnings and share price. Each RSU has a value equal to one Class A Subordinate Voting Share. Additional RSUs will be issued to reflect dividends declared and paid to the Company's shareholders over the award period. The award period spans three years from the date of the granting of the award and cash settlement will occur at the end of the award period. If, however, employment is terminated on account of disability or death, cash settlement will occur at that time and the award will be calculated on a pro rata basis. Awards are forfeited when employment is terminated for cause or by resignation.

In 2010, a total of 174,300 RSUs were awarded. A liability of \$288,000 has been accrued for these awards as at December 31, 2010, and has been charged to selling, general and administrative expenses.

### b) Stock option plan

	2009	
	#	Weighted Average Exercise Price
Options outstanding – beginning of year	2,019	\$ 12.22
Terminated	(2,014)	12.22
Cancelled	(5)	11.50
Options outstanding – end of year	—	\$ —

All outstanding options were returned by employees during 2009 and cancelled by Contrans. Vesting was considered to be accelerated in accordance with GAAP resulting in share-based compensation expense of \$127,000 in 2009.

## SHAREHOLDERS' EQUITY

	Contributed Surplus	Trust Units	Share Capital	Retained Earnings	Total
Balance at December 31, 2008	\$ 834	\$ 127,185	\$ —	\$ 435	\$ 128,454
Share-based compensation expense	127	—	—	—	127
Distribution reinvestment plan	—	1,531	—	—	1,531
Conversion to corporation	—	(128,716)	128,716	—	—
Net earnings	—	—	—	22,953	22,953
Distributions declared	—	—	—	(23,866)	(23,866)
Balance at December 31, 2009	\$ 961	\$ —	\$ 128,716	\$ (478)	\$ 129,199
Issue of share capital	—	—	54,206	—	54,206
Net earnings	—	—	—	17,643	17,643
Dividends declared	—	—	—	(8,122)	(8,122)
<b>Balance at December 31, 2010</b>	<b>\$ 961</b>	<b>\$ —</b>	<b>\$ 182,922</b>	<b>\$ 9,043</b>	<b>\$ 192,926</b>

## CAPITAL MANAGEMENT

Contrans' objectives in managing capital are to ensure sufficient liquidity exists to pursue its strategy of growth, both internally and through accretive acquisitions, and to provide returns to its shareholders.

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

## CAPITAL UNDER MANAGEMENT

As at December 31	2010	2009
Long-term debt	\$ 90,853	\$ 85,532
Capital lease obligations	7,601	8,899
Cash and cash equivalents	(85,760)	(30,193)
Restricted cash	—	(7,375)
Net debt	12,694	56,863
Shareholders' equity	192,926	129,199
Total capital	\$ 205,620	\$ 186,062

The Board of Directors approves dividend payments, annual operating plans and business acquisitions.

Contrans' debt covenants are based on cash flow, leverage and asset coverage ratios. If Contrans breaches any of these covenants, the lenders have remedies including restricting Contrans from paying dividends. Management monitors covenant compliance and the factors affecting their calculation. As at December 31, 2010, Contrans was in compliance with all its covenants.

During 2010, Contrans raised \$53.5 million of cash from the issue of new shares.

## 13. Contingencies

In the ordinary course of business, Contrans had issued letters of credit amounting to \$2.2 million at December 31, 2010 (2009 – \$2.5 million). These letters of credit expire at various dates from January 2011 to October 2011.

In the ordinary course of business, there are claims against the Company. In management's assessment, these claims are provided for adequately and any variation between the provision and the settlement amounts are not expected to have a significant impact on the company's financial position or results from operations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

(tabular amounts in thousands except for per share amounts)

### 14. Financial Instruments

#### a) FAIR VALUES

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of these instruments.

As at December 31, 2010, Contrans had long-term debt with a carrying value of \$90.9 million (December 31, 2009 – \$85.5 million) and a fair value of \$95.6 million as at December 31, 2010 (December 31, 2009 – \$89.8 million). As at December 31, 2010, the fair value of capital lease obligations was \$7.3 million (2009 – \$8.7 million). The fair values are calculated using discounted cash flows at year-end market rates.

The fair value of the notes receivable is \$0.1 million (2009 – \$0.2 million) based on the expected future payments discounted at year-end market rates.

#### b) RISK MANAGEMENT

Contrans 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 payment obligations and arises primarily from Contrans' accounts and notes receivable. Management controls this risk through a diverse customer base, by monitoring the aging of its accounts receivable and by carrying out credit checks on new customers. General provisions for doubtful accounts are based upon past experience and specific provisions are made against trade receivables for any customer that is known to be in poor financial condition. The bad debt expense for 2010 was \$0.3 million (2009 – \$0.4 million).

There is credit risk related to cash and cash equivalents. This risk is minimized by ensuring that these assets are invested in instruments with highly rated financial institutions and by limiting exposure to any one counterparty.

The movement in the provision for doubtful accounts is as follows:

Provision as at December 31, 2009	\$ 1,986
Accounts written off	(338)
Movement in general provision	104
Bad debt expense	310
<b>Provision as at December 31, 2010</b>	<b>\$ 2,062</b>

Contrans has specifically provided for \$1.3 million of accounts receivable that were considered to be impaired as at December 31, 2010 (2009 – \$1.3 million). Management considers the financial health of the customer as well as the aging of the account when considering whether an account is impaired. At December 31, 2010, approximately \$14.5 million (2009 – \$15.4 million) of receivables are overdue but are not considered impaired.

A provision for doubtful accounts of \$2.1 million (December 31, 2009 – \$2.0 million) is netted against accounts receivable on the consolidated balance sheets. In 2009, an allowance of \$0.8 million was provided against the \$1.5 million note receivable to reduce the face value of the note receivable to its estimated fair value of \$Nil. Bad debt expenses and provision for notes receivable impairment are included in selling, general and administration expenses in the consolidated statements of earnings and comprehensive income.

##### 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 15% to 20% (2009 – 15% to 20%) of Contrans' revenue is billed in US dollars and, accordingly, Contrans is subject to foreign exchange risk. Management manages this risk through foreign exchange contracts, denominating certain of its equipment debt 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 December 31, 2010 (2009 – \$0.1 million) all other things being equal.

There were no foreign exchange contracts outstanding as at December 31, 2010 or 2009.

Contrans 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, restricted cash and notes receivable. As at December 31, 2010, approximately 98% (2009 – 97%) of Contrans' long-term debt had fixed interest rates. A 1% change in the interest rate on the floating rate debt, cash and cash equivalents and note receivable would impact net earnings by \$0.2 million (2009 – \$0.1 million).

#### IV) LIQUIDITY RISK

Liquidity risk is the risk that Contrans will not be able to meet its obligations as they fall due. Contrans has systems in place to ensure that it has sufficient cash or credit lines to meet these obligations. Contrans has a demand operating line of up to \$30 million. The amount that can be drawn from this line, however, is limited by a margining formula based on the Company's accounts receivable. As at December 31, 2010, Contrans had \$2.2 million drawn under this operating line through the issue of letters of credit (2009 – \$2.5 million) leaving \$23.8 million available (2009 – \$21.0 million). The use of the operating line is restricted to funding working capital requirements, issuance of letters of credit and funding growth opportunities.

#### V) CONTRACTUAL OBLIGATIONS

Contrans has contractual obligations, including interest payments, to extinguish financial liabilities and fulfill its commitments as follows:

(\$ millions)	2011	2012	2013	2014	2015	Thereafter	Total
Senior secured notes payable	\$ 5.1	\$ 5.1	\$ 36.9	\$ 3.3	\$ 3.3	\$ 55.0	\$108.7
Equipment financing agreements	2.0	1.8	1.8	1.6	0.9	0.1	8.2
Capital leases	2.4	2.2	1.8	1.6	0.5	—	8.5
Operating leases	3.6	2.0	0.9	0.5	—	—	7.0
Accounts payable and accrued liabilities	31.1	—	—	—	—	—	31.1
Equipment purchase commitments	7.9	—	—	—	—	—	7.9
<b>Total</b>	<b>\$ 52.1</b>	<b>\$ 11.1</b>	<b>\$ 41.4</b>	<b>\$ 7.0</b>	<b>\$ 4.7</b>	<b>\$ 55.1</b>	<b>\$171.4</b>

#### 15. Related Party Transactions

Contrans had business transactions with and had balances owing to and from companies controlled by the Chairman of Contrans as follows:

As at December 31	2010	2009
Accounts payable	\$ 430	\$ 395
Accounts receivable	8	4

For the years ended December 31	2010	2009
Repairs and maintenance, equipment purchases and leases	\$ 9,933	\$ 6,335
Rental income	195	190

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

(tabular amounts in thousands except for per share amounts)

### 16. Cash Flow

Change in non-cash working capital:

	2010	2009
Decrease in accounts receivable	\$ 2,607	\$ 48
Decrease (increase) in other current assets	(331)	1,068
Increase (decrease) in accounts payable and accrued liabilities	(1,021)	4,645
Increase in income taxes payable	7,246	43
Net change in non-cash working capital	\$ 8,501	\$ 5,804
Cash paid (received) in respect of:		
Interest expense	\$ 5,834	\$ 5,862
Interest income	(693)	(179)
Income taxes	(78)	545
Non-cash transactions:		
Value of equipment financed through capital leases	\$ 777	\$ 1,561
Accrued value of equipment acquired late in the year	—	2,128

### 17. Future Accounting Changes

#### INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

In February 2008, the Canadian Accounting Standards Board announced that publicly-listed companies would, for fiscal years beginning on or after January 1, 2011, be required to report their results under IFRS. IFRS allows for different accounting treatments on first implementation. Contrans has completed its initial assessment of the possible impacts of implementing IFRS, and the standards which may

have the most significant impact on Contrans upon first adoption of IFRS include IAS 16 – Property, Plant and Equipment, IAS 36 – Impairment of Assets and IFRS 1 – First-time Adoption of International Financial Reporting Standards. The adoption of IFRS will require restatement of Contrans’ consolidated financial statements for comparative purposes for its year ended December 31, 2010 and of the opening balance sheet as at January 1, 2010.

### 18. Subsequent Events

On January 19, 2011, Contrans announced a dividend of \$0.08 per share. As a result, approximately \$2.9 million was paid on February 15, 2011, to shareholders of record as at January 31, 2011.

SELECTED FINANCIAL DATA

<i>(Unaudited)</i>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006<sup>(1)</sup></b>
Return on equity <sup>(2) (3)</sup>	<b>11.0%</b>	17.8%	22.9%	19.7%	24.7%
Operating ratio <sup>(3) (4)</sup>	<b>91.7%</b>	91.9%	91.2%	90.8%	90.9%
Debt to equity <sup>(3) (5)</sup>	<b>0.8</b>	1.1	1.1	1.1	0.9
Earnings before income taxes <sup>(6)</sup>	<b>\$ 24,605</b>	\$ 22,202	\$ 30,302	\$ 34,251	\$ 34,222
Tangible book value per share <sup>(3) (7)</sup>	<b>\$ 2.95</b>	\$ 1.68	\$ 1.54	\$ 1.54	\$ 1.89
Earnings per share – basic <sup>(8)</sup>	<b>\$ 0.53</b>	\$ 0.77	\$ 1.01	\$ 0.91	\$ 1.17
Price-earnings ratio <sup>(3) (9)</sup>	<b>16.9</b>	9.1	5.8	10.4	10.3
Weighted average number of shares outstanding <sup>(6)</sup>	<b>33,339</b>	29,897	29,122	28,826	28,513

- (1) Excludes gain from sale of real estate of \$2.9 million.
- (2) Return on equity was calculated by dividing net income by average shareholders' equity.
- (3) See "Use of Non-GAAP Financial Measures" in Management's Discussion and Analysis.
- (4) Operating ratio was calculated by dividing total expenses before interest and taxes by revenue from transportation services.
- (5) Debt to equity was calculated by dividing total debt (including future tax obligations) by shareholders' equity.

- (6) Thousands.
- (7) Tangible book value per share was calculated by dividing tangible shareholders' equity by the number of shares outstanding at year-end.
- (8) Earnings per share – basic was calculated by dividing net income by the weighted average number of shares outstanding during the year.
- (9) Price-earnings ratio was calculated by dividing year-end closing price by earnings per share.

**Directors**

**Stan G. Dunford**  
Chairman of the Board and CEO  
Contrans Group Inc.

**Robert B. Burgess, Q.C.**  
Barrister and Solicitor

**Archie M. Leach**  
President and CEO  
Carroll Hospital Group

**G. Ross Amos**  
President  
Everest Canadian Investments Ltd.

**Gregory W. Rumble**  
President and COO  
Contrans Group Inc.

**Officers**

**Stan G. Dunford**  
Chairman of the Board and CEO

**Gregory W. Rumble**  
President and COO

**James S. Clark**  
Vice-President, Finance and CFO

**W. Todd Jenereaux**  
Vice-President,  
Corporate Development

**D. Jamieson Miller**  
Secretary-Treasurer

**Norman McDonough**  
Vice-President,  
Risk and Compliance

**David W. Golton**  
Vice-President, Tank Operations

**Laban B. Herr**  
Vice-President, Van Operations

**Steven Brookshaw**  
Vice-President,  
Flatbed Operations

**Scott B. Talbot**  
Vice-President, Bulk Operations

**Principal Office**

**Courier address:**  
1179 Ridgeway Road  
Woodstock, Ontario  
N4V 1E3

**Mailing address:**  
PO Box 1669  
1179 Ridgeway Road  
Woodstock, Ontario  
N4S 0A9

**Stock Exchange Listing**

Toronto Stock Exchange  
Symbol: CSS

**Transfer Agent  
and Registrar**

Computershare Trust Company  
of Canada  
100 University Avenue  
Toronto, Ontario  
M5J 2Y1

**Annual Meeting**

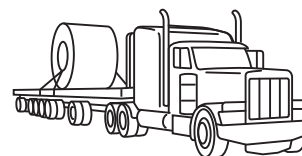
TSX Broadcast and  
Conference Centre  
The Exchange Tower  
130 King Street West  
Toronto, Ontario  
Thursday, May 5, 2011  
at 4:30 p.m.

**Annual Information Form**

A copy of the Annual Information  
Form is available at  
[www.sedar.com](http://www.sedar.com)

**Website**

[www.contrans.ca](http://www.contrans.ca)





*Contrans Group Inc.*  
1179 Ridgeway Road, Woodstock, Ontario N4V 1E3  
Tel: (519) 421-4600 Fax: (519) 539-9220  
[www.contrans.ca](http://www.contrans.ca)