

# ***CONTRANS GROUP INC.***

*THIRD QUARTER REPORT  
SEPTEMBER 30, 2011*

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REPORT FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER



*Contrans' strong third quarter results are a reflection of the successful efforts of the Company's management and employees. Their efforts were evident in the smooth start-ups of work arising from two new major contracts that were awarded to Contrans earlier in the year. In addition, three acquisitions were completed during the quarter and contributed to the Company's financial performance. The integration of these acquisitions with existing operations is progressing well and we expect to achieve further operating efficiencies in the fourth quarter.*

*While uncertainty is widespread regarding the future health of our economy, Contrans' shareholders can take comfort knowing that the Company has a strong balance sheet that few competitors can match. This financial strength has also*

*positioned Contrans in a way that it can take advantage of growth opportunities swiftly and decisively. Contrans' shareholders can also be assured that management is continuing to seek ways to enhance long-term shareholder value in a diligent, disciplined manner.*

*Respectfully submitted,*

A handwritten signature in black ink, appearing to read 'Stan G. Dunford'.

*Stan G. Dunford  
Chairman and Chief Executive Officer  
November 9, 2011*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The consolidated interim financial statements contained in this interim report have been reported in Canadian dollars and have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting ("IAS 34") and in accordance with International Financial Reporting Standards 1, First-time Adoption of IFRS ("IFRS 1"). The financial statements should be read in conjunction with the analysis that follows. A cautionary note regarding non-GAAP financial measures and forward-looking statements follows this Management's Discussion and Analysis of operations and financial condition.

### FINANCIAL HIGHLIGHTS

For the periods ended September 30 (\$CAD millions except per share amounts)	Three Months				Nine Months			
	2011		2010		2011		2010	
Revenue – as stated	\$ 116.2		\$ 101.7		\$ 324.9		\$ 296.4	
– fuel surcharges	(16.0)		(9.0)		(44.3)		(28.1)	
Revenue – transportation services	100.2	100.0%	92.7	100.0%	280.6	100.0%	268.3	100.0%
Direct operating expenses – net of fuel surcharges <sup>(1)</sup>	78.6	78.4	74.3	80.2	222.4	79.3	216.5	80.7
Gross margin	21.6	21.6	18.4	19.8	58.2	20.7	51.8	19.3
General and administration expenses	11.4	11.4	10.6	11.4	32.7	11.7	28.7	10.7
Net financing costs	1.4	1.4	1.3	1.4	4.0	1.4	4.2	1.6
Earnings before income taxes (EBT)	8.8	8.8	6.5	7.0	21.5	7.6	18.9	7.0
Income tax expense	2.5	2.5	2.1	2.3	6.5	2.3	5.9	2.2
Net earnings and comprehensive income	\$ 6.3	6.3%	\$ 4.4	4.7%	\$ 15.0	5.3%	\$ 13.0	4.8%
Earnings per share – basic and diluted	\$ 0.18		\$ 0.12		\$ 0.42		\$ 0.40	
Weighted average shares outstanding (000s)	35,794		35,794		35,794		32,512	

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

### RESULTS FROM OPERATIONS

#### Revenue

Contrans' revenue from transportation services ("revenue") has increased in 2011 as a result of acquisitions and from internal growth. Contrans' waste collection business, acquired near the end of the third quarter in 2010, contributed \$3.6 million of revenue in the third quarter of 2011 ("2011 Q3") and \$10.4 million of revenue in 2011 for the 2011 nine-month period ended September 30 ("YTD") compared to \$0.2 million in the third quarter of 2010 ("2010 Q3") and 2010 YTD. Revenue from acquisitions completed in 2011 Q3 contributed \$3.1 million in revenue. Revenue from significant new customers in 2011, including that from two major contract awards, amounted to \$2.9 million and \$4.1 million in 2011 Q3 and YTD respectively. Contrans' 2011 revenue has, however, been adversely impacted by business lost in competitive bid processes. This has reduced revenue in 2011 by \$1.6 million and \$5.3 million for the third quarter and YTD respectively compared to the same periods in 2010. Revenue has also been adversely impacted by a shortage of owner-operators that is affecting the entire trucking industry. Revenue from fuel surcharges was higher in 2011 Q3 than in 2010 Q3 due to higher diesel prices and increased revenue.

#### Direct operating expenses

Acquisitions completed in 2010 and 2011 added \$4.9 million of direct operating expenses in 2011 Q3 compared to 2010 Q3 (\$9.0 million YTD). Depreciation of rolling stock, excluding that

relating to acquisitions, increased in 2011 Q3 by \$0.9 million compared to 2010 Q3 (\$1.9 million increase YTD) due to increased capital expenditures in 2010 and in 2011 compared to prior years. These expenditures were incurred in respect of growth opportunities, to take advantage of favourable pricing conditions and to replace equipment that had been previously financed through operating leases. Equipment lease expenses were \$0.5 million lower in 2011 Q3 compared to 2010 Q3 (\$1.9 million lower YTD). Provisions for insurance claims were \$0.2 million lower in 2011 Q3 than in 2010 Q3 (\$0.6 million lower YTD). Management also negotiated insurance premiums that were \$0.2 million lower in 2011 Q3 compared to 2010 Q3 (\$0.6 million lower YTD). In 2011 Q2, management lowered its estimate of future costs expected to be incurred relating to the return of leased equipment by \$0.5 million.

#### General and administration expenses

Acquisitions have added \$0.6 million to Contrans' general and administration ("G&A") expenses in 2011 Q3 (\$1.7 million YTD). Stock options were granted to certain officers, directors and employees of Contrans in April, 2011. As a result, \$0.3 million was charged to G&A expenses in 2011 Q3 (\$1.1 million YTD). Contrans recorded a \$0.1 million foreign exchange loss in 2011 Q3 (\$0.4 million YTD) compared to a loss of \$0.1 million in 2010 Q3 (\$0.1 million gain YTD). G&A expenses for the YTD were favourably impacted by a reduction in the provisions for doubtful accounts of \$0.4 million recorded in the first quarter of 2011.

### Net financing costs

Net financing costs have been favourably impacted in 2011 compared to 2010 by the interest earned on the proceeds received

from the issue of shares in June, 2010. This has been partially offset by an increase in interest expense in 2011 arising from increased equipment financing.

### SUMMARY OF QUARTERLY RESULTS

(\$CAD millions except per share amounts)	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2011	2010	2011	2010	2011	2010	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>
Revenue – as stated	\$ 101.1	\$ 93.8	\$ 107.6	\$ 101.0	\$ 116.2	\$ 101.7	\$ 99.8	\$ 99.2
– fuel surcharges	(12.5)	(9.3)	(15.8)	(9.9)	(16.0)	(9.0)	(9.7)	(9.3)
Revenue – transportation services	88.6	84.5	91.8	91.1	100.2	92.7	90.1	89.9
Net earnings	\$ 3.5	\$ 3.6	\$ 5.2	\$ 5.1	\$ 6.3	\$ 4.4	\$ 4.6	\$ 8.5
Earnings per share – basic and diluted	\$ 0.10	\$ 0.12	\$ 0.15	\$ 0.16	\$ 0.18	\$ 0.12	\$ 0.14	\$ 0.29

(1) Amounts reported using Canadian GAAP in effect prior to the adoption of IFRS.

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 as a result.

### SEASONALITY

Generally, the second quarter is Contrans' strongest period. Volumes from customers in the construction industry typically increase in the spring, peak in the fall and then decline with the onset of winter. 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.

### CASH FLOW

In 2011 Q3, Contrans acquired a bulk trucking operation for a cash payment of \$3.8 million. In addition, Contrans settled debts assumed in this acquisition for a further cash payment of \$2.1 million. Contrans made two other acquisitions in 2011 Q3 consisting of the acquisition of a tandem flatbed operation for cash consideration of \$0.7 million and contingent consideration of \$0.3 million and the acquisition of a pneumatic tank operation for cash consideration of \$1.2 million and contingent consideration of \$0.5 million. Further details of these acquisitions can be found in note 9 of the attached consolidated financial statements.

Land was purchased in Calgary, Alberta in 2011 Q2 for \$4.9 million for the purpose of developing a terminal to replace rented premises that are currently occupied by Tri-Line Carriers LP, a subsidiary of Contrans. Contrans also exercised its option to purchase a terminal in Oakville, Ontario in 2011 Q3 for \$6.5 million. Tripar Transportation LP, another subsidiary of Contrans, had been renting these premises since it was acquired in 2006. In addition, management is in the process of acquiring land located in Edmonton, Alberta for the purpose of building a terminal for Tri-Line Disposal Inc., its waste collection business. This subsidiary's leased premises are presently not large enough and management expects this business to grow. The transaction is expected to close in the fourth quarter of 2011 ("2011 Q4") for consideration of approximately \$3.0 million.

Approximately \$5.0 million has been expended in 2011 to replace tractors that had been previously financed through

operating leases. In addition, approximately \$4.9 million of expenditures have been incurred to acquire specialized equipment to service new customer contracts.

Contrans' Board of Directors has declared the following dividends in 2011:

- January 19, 2011 – \$0.08 per share, paid on February 15, 2011, totalling \$2.9 million
- April 18, 2011 – \$0.10 per share, paid on May 13, 2011, totalling \$3.6 million
- July 18, 2011 – \$0.10 per share, paid on August 15, 2011, totalling \$3.6 million
- October 17, 2011 – \$0.10 per share, payable on November 15, 2011, totalling \$3.6 million

The payment of dividends is subject to the discretion of Contrans' Board of Directors. Prior to declaring a dividend, the Board of Directors considers many factors including Contrans' overall financial condition, its expected future financial performance, its anticipated capital requirements as well as its debt repayment obligations and the covenants that are contained in Contrans' loan agreements.

### LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2011

(\$CAD millions)

Cash and cash equivalents	\$	12.6
Short-term investments	\$	49.2
Operating line cash available	\$	28.7
Current ratio		2.3:1
Total debt (including deferred tax liabilities) to equity ratio		0.9:1

Contrans currently has a strong balance sheet. This is primarily due to the raising of new share capital through an equity issue in June, 2010. Management intends to use these proceeds by making further acquisitions in a manner that will maximize shareholder value.

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 that management believes are sufficient to meet these needs. Contrans' 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:

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

### CONTRACTUAL OBLIGATIONS

As at September 30, 2011

(\$CAD millions)	2011	2012	2013	2014	2015	Thereafter	Total
Senior secured notes payable	\$ 1.3	\$ 5.3	\$ 37.1	\$ 3.4	\$ 3.5	\$ 54.8	\$ 105.4
Equipment financing agreements	0.6	2.2	2.2	2.0	1.1	—	8.1
Finance lease liabilities	1.8	7.1	6.8	6.5	2.8	1.1	26.1
Operating lease commitments	1.1	3.7	2.6	1.7	0.4	—	9.5
Accounts payable and accrued liabilities	37.1	—	—	—	—	—	37.1
Property and equipment purchase commitments	11.3	—	—	—	—	—	11.3
<b>Total</b>	<b>\$ 53.2</b>	<b>\$ 18.3</b>	<b>\$ 48.7</b>	<b>\$ 13.6</b>	<b>\$ 7.8</b>	<b>\$ 55.9</b>	<b>\$ 197.5</b>

### STOCK OPTIONS

Contrans has a stock option plan designed to encourage ownership of Contrans' shares by its directors, officers and key employees. On April 5, 2011, 1,615,000 Class A Subordinate Voting Share stock options were granted to certain directors, officers and employees of Contrans. Upon issuance, 20% of the stock options vested immediately and the remainder will vest at a rate of 20% per year. The exercise price of the options

is \$8.95, the closing price of Contrans' Class A shares on April 4, 2011. These options expire on April 4, 2021.

### OUTSTANDING SHARES

As at October 31, 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 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 experience of write-offs.
Property, equipment and intangible assets – useful lives, rates of depreciation	Based on past experience.
Provisions – matters involving litigation or accident claims	Settlement estimates are based on information provided by legal counsel or insurance claims professionals, based on levels of insurance coverage and deductibles that are in place.
Income tax estimates	Requires estimates of future taxable income and exercise of judgment regarding the probability that deferred tax assets will be realized.
Lease classification	Determining whether substantially all the risks and rewards incidental to ownership have been transferred to Contrans is based on past experience and the terms of lease agreements.
Share-based payments	Estimates of risk-free rates of return, expected volatility, expected life of options and market conditions based on past experience, current market values and discussions with investment bankers.
Business combinations	Values for tangible assets are based on estimates of current market values. Values for customer relationships and non-competition agreements are based on discounted expected future cash flows and estimates of the impact of possible competition from the vendor. Values for contingent consideration are based on management's best estimates of future operating results for the acquired entity.
Cash-generating units – impairment testing	Based on expected future earnings. Consideration is given to past performance and future conditions that are known or expected to change. Consideration is also given to opinions received from third-party advisors regarding the application of appropriate earnings multiples.

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 from operations.

#### **INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The accompanying consolidated interim financial statements have been prepared in accordance with IAS 34 and with IFRS 1. These consolidated interim financial statements do not include all of the information required for full annual financial statements.

The impact of adopting IFRS is fully described in the notes to the financial statements. Management believes that the following standards have had or will have the most significant ongoing impact on Contrans' financial statements and should be considered if comparing IFRS financial statements with Contrans' financial statements prepared under Canadian GAAP prior to the adoption of IFRS ("CGAAP").

#### **IAS 36, Impairment of Assets**

Under IAS 36, testing for impairment is carried out on 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 of assets. Testing must be carried out once per year or sooner if there is an indication of possible impairment. The entire group of assets to be tested is therefore comprised of tangible and intangible assets (including goodwill) belonging to the same cash-generating unit ("CGU"). Under IFRS, CGUs align with Contrans' legal entities.

Under CGAAP, goodwill impairment was tested at the reporting unit level. A reporting unit consisted of a group of independent operating entities (similar to CGUs under IFRS) that had similar economic characteristics. Under CGAAP, Contrans had six reporting units, each aligned with Contrans' service lines. Impairment losses for individual operating entities within Contrans' reporting units were more than offset by the total surplus of fair values over carrying values of the other operating entities within the same reporting unit. Accordingly, Contrans did not record any goodwill impairment losses under CGAAP. Under IFRS any impairment arising on an individual operating entity will be recognized and charged to earnings in the period in which the impairment occurs.

#### **IFRS 3, Business Combinations**

Under IFRS 3, Business Combinations, costs relating to acquisitions are required to be recognized as an expense in the period that they are incurred. Under CGAAP, these costs were required to be capitalized as part of the cost of the acquisition. In addition, under IFRS, management must make an estimate of the amount that it expects to pay out in the future as consideration for the purchase of a business and treat it as part of the acquisition cost in the period that the transaction is completed.

Under CGAAP, Contrans recognized contingent consideration in the period that it was paid.

#### **NEW ACCOUNTING PRONOUNCEMENTS**

##### **IFRS 7, Financial Instruments: Disclosure**

In October 2010, the International Accounting Standards Board ("IASB") amended IFRS 7, Financial Instruments: Disclosure. This amendment enhances the disclosure requirements for transfers of financial assets that result in derecognition and is effective for Contrans' interim and annual consolidated financial statements commencing January 1, 2012. Contrans is assessing the impact of this new standard on its consolidated financial statements.

##### **IFRS 9, Financial Instruments**

In October 2010, the IASB issued IFRS 9, Financial Instruments ("IFRS 9"). IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amount, timing and uncertainty of an entity's future cash flows. This new standard is effective for Contrans' interim and annual consolidated financial statements commencing January 1, 2013. Contrans is assessing the impact of this new standard on its consolidated financial statements.

##### **IFRS 10, Consolidated Financial Statements**

In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements ("IFRS 10"). IFRS 10 replaces IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation – Special Purpose Entities, and is effective for annual periods beginning on or after January 1, 2013. This standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. Contrans is assessing the impact of this new standard on its consolidated financial statements.

##### **IFRS 12, Disclosure of Interest in Other Entities**

In May 2011, the IASB issued IFRS 12, Disclosure of Interest in Other Entities ("IFRS 12"). IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity and is effective for annual periods beginning on or after January 1, 2013. Contrans is assessing the impact of this new standard on its consolidated financial statements.

##### **IFRS 13, Fair Value Measurement**

In May 2011, the IASB issued IFRS 13, Fair Value Measurement ("IFRS 13"). IFRS 13 defines fair value, sets out a single framework for measuring fair value and requires disclosures about fair value measurements. This IFRS is effective for annual periods beginning on or after January 1, 2013. Contrans is assessing the impact of this new standard on its consolidated financial statements.

### **IAS 1, Presentation of Financial Statements**

In June 2011, the IASB amended IAS 1, Presentation of Financial Statements. The amendments to IAS 1 retain the "one or two statement" approach to presenting the Statements of Income and Comprehensive Income at the option of the entity and only revise the way other comprehensive income is presented. This amended standard is effective for annual periods beginning on or after July 1, 2012. Contrans is assessing the impact of this new standard on its consolidated financial statements.

### **FINANCIAL INSTRUMENTS**

Contrans enters into foreign exchange contracts from time to time to manage its exposure to currency fluctuations. As at September 30, 2011, Contrans had no foreign exchange contracts outstanding.

### **BUSINESS RISKS**

The MD&A contained on pages 10 and 11 in Contrans' 2010 annual report discusses business risks. Those risks remain in effect as at the date of this report.

### **CONTROLS AND PROCEDURES**

No changes were made in Contrans' systems that have materially affected, or are reasonably likely to materially affect, Contrans' internal control over financial reporting during the three-month period ended September 30, 2011.

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 2011 Q3, Contrans paid \$0.6 million (\$4.2 million YTD) 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 leased certain premises to Peterbilt of Ontario Inc. in 2011 Q3 for \$0.1 million (YTD \$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.

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

Management has included a non-GAAP financial measure, "Direct operating expenses – net of fuel surcharges", to supplement its consolidated financial statements. This non-GAAP

measure does not have any standardized meaning prescribed under IFRS and therefore it 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 IFRS.

Management believes that it is important to isolate the effects of fuel surcharges, a volatile source of revenue and operating expenses, when analyzing operating results. 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 expenses and profit margins 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).  
November 9, 2011

## CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

(\$CAD thousands except for per share amounts)

(unaudited)

For the periods ended September 30	Three Months		Nine Months	
	2011	2010	2011	2010
<b>Revenue</b>				
Transportation services	\$ 100,202	\$ 92,707	\$ 280,572	\$ 268,307
Fuel surcharges	16,020	8,977	44,368	28,130
	<b>116,222</b>	101,684	<b>324,940</b>	296,437
<b>Direct operating expenses</b>	<b>94,637</b>	83,264	<b>266,727</b>	244,600
<b>Gross Margin</b>	<b>21,585</b>	18,420	<b>58,213</b>	51,837
General and administration expenses	11,333	10,564	32,655	28,667
Finance costs	1,681	1,517	4,844	4,499
Finance income	(223)	(169)	(804)	(272)
<b>Earnings Before Income Taxes</b>	<b>8,794</b>	6,508	<b>21,518</b>	18,943
Income tax expense	2,506	2,160	6,563	5,945
<b>Net Earnings and Comprehensive Income</b>	<b>\$ 6,288</b>	\$ 4,348	<b>\$ 14,955</b>	\$ 12,998
Earnings per share – basic and diluted	\$ 0.18	\$ 0.12	\$ 0.42	\$ 0.40
Weighted average number of shares outstanding – basic and diluted	35,794	35,794	35,794	32,512

The accompanying notes are an integral part of these consolidated interim financial statements.

## CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(\$CAD thousands)

(unaudited)

For the nine months ended September 30	Share Capital	Contributed Surplus	Retained Deficit	Total
Balances at January 1, 2011	\$ 182,922	\$ 961	\$ (5,655)	\$ 178,228
Stock-based compensation expense	—	1,078	—	1,078
Net earnings and comprehensive income	—	—	14,955	14,955
Dividends declared <sup>(1)</sup>	—	—	(10,022)	(10,022)
<b>Balances at September 30, 2011</b>	<b>\$ 182,922</b>	<b>\$ 2,039</b>	<b>\$ (722)</b>	<b>\$ 184,239</b>
Balances at January 1, 2010	\$ 128,716	\$ 961	\$ (15,199)	\$ 114,478
Share issue	54,206	—	—	54,206
Net earnings and comprehensive income	—	—	12,998	12,998
Dividends declared <sup>(2)</sup>	—	—	(5,259)	(5,259)
<b>Balances at September 30, 2010</b>	<b>\$ 182,922</b>	<b>\$ 961</b>	<b>\$ (7,460)</b>	<b>\$ 176,423</b>

The accompanying notes are an integral part of these consolidated interim financial statements.

(1) 2011 Q2 and Q3 – \$0.10 per share, 2011 Q1 – \$0.08 per share.

(2) 2010 Q2 and Q3 – \$0.08 per share.

CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(\$CAD thousands)

(unaudited)

As at	September 30, 2011	December 31, 2010
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 12,647	\$ 24,442
Short-term investments	49,230	61,318
Trade and other receivables	62,200	48,378
Other current assets	7,228	5,446
<b>Total Current Assets</b>	<b>131,305</b>	139,584
<b>Non-Current Assets</b>		
Property and equipment (Note 3)	153,084	116,253
Intangible assets (Note 4)	74,567	74,041
<b>Total Non-Current Assets</b>	<b>227,651</b>	190,294
<b>Total Assets</b>	<b>\$ 358,956</b>	\$ 329,878
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Trade and other payables	\$ 37,063	\$ 32,234
Income taxes payable	10,789	6,556
Finance lease liabilities (Note 5)	6,621	2,049
Long-term debt	2,036	1,632
<b>Total Current Liabilities</b>	<b>56,509</b>	42,471
<b>Non-Current Liabilities</b>		
Finance lease liabilities (Note 5)	17,416	5,552
Long-term debt	89,782	89,221
Deferred tax liabilities	11,010	14,406
<b>Total Non-Current Liabilities</b>	<b>118,208</b>	109,179
<b>Total Liabilities</b>	<b>174,717</b>	151,650
<b>Equity</b>		
Share capital	182,922	182,922
Contributed surplus	2,039	961
Retained deficit	(722)	(5,655)
<b>Total Equity</b>	<b>184,239</b>	178,228
<b>Total Liabilities and Equity</b>	<b>\$ 358,956</b>	\$ 329,878

Contingency and Commitments (Note 8). Subsequent Events (Note 14).

The accompanying notes are an integral part of these consolidated interim financial statements.

Signed on behalf of the Board of Directors


  
**Stan G. Dunford**, Director      **Archie M. Leach, C.A.**, Director

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW

(\$CAD thousands)

(unaudited)

<i>For the nine months ended September 30</i>	<b>2011</b>	<b>2010</b>
<b>Cash Provided by (Used in) Operating Activities</b>		
Net earnings	\$ 14,955	\$ 12,998
Income tax expense	6,563	5,945
Net financing costs	4,040	4,227
Share-based compensation expense (Note 10)	1,078	—
Change in unrealized loss (gain) on foreign exchange	656	(13)
Long-term debt – accretion	60	60
Asset retirement obligations – accretion	—	22
Depreciation (Note 3)	12,102	9,346
Amortization (Note 4)	3,116	2,696
Gain on sale of equipment	(464)	(237)
	<b>42,106</b>	<b>35,044</b>
Changes in non-cash working capital (Note 6)	<b>(11,664)</b>	<b>(3,196)</b>
	<b>30,442</b>	<b>31,848</b>
Taxes refunded (paid)	<b>(6,306)</b>	<b>10</b>
Interest paid	<b>(4,806)</b>	<b>(4,476)</b>
<b>Cash Provided by Operating Activities</b>	<b>19,330</b>	<b>27,382</b>
<b>Cash Provided by (Used in) Investing Activities</b>		
Proceeds from sale of property and equipment	2,175	2,423
Proceeds from note receivable	—	88
Purchase of short-term investments	<b>(15,063)</b>	<b>(85,500)</b>
Proceeds from sale of short-term investments	<b>27,600</b>	<b>35,000</b>
Asset retirement obligations – settlement	—	(100)
Interest received	355	188
Acquisition of businesses (Note 9)	<b>(5,638)</b>	<b>(11,328)</b>
Purchase of property and equipment	<b>(26,118)</b>	<b>(16,228)</b>
<b>Net Cash Used in Investing Activities</b>	<b>(16,689)</b>	<b>(75,457)</b>
<b>Cash Provided by (Used in) Financing Activities</b>		
Proceeds from issuance of shares	—	53,505
Proceeds from long-term debt	2,640	2,193
Proceeds from restricted cash	—	7,375
Repayment of long-term debt	<b>(3,911)</b>	<b>(559)</b>
Payment of finance lease liabilities	<b>(3,143)</b>	<b>(1,647)</b>
Dividends paid	<b>(10,022)</b>	<b>(9,750)</b>
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>(14,436)</b>	<b>51,117</b>
Increase (decrease) in cash and cash equivalents	<b>(11,795)</b>	<b>3,042</b>
Cash and cash equivalents – beginning of period	<b>24,442</b>	<b>30,193</b>
<b>Cash and Cash Equivalents – End of Period</b>	<b>\$ 12,647</b>	<b>\$ 33,235</b>

The accompanying notes are an integral part of these consolidated interim financial statements.

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the periods ended September 30, 2011 and 2010

(Unaudited, tabular amounts in thousands of \$CAD except per share data)

### 1. General Information

Contrans Group Inc. ("Contrans") is located at 1179 Ridgeway Road, Woodstock, Ontario, Canada. Contrans operates in a single reportable industry segment, freight transportation. Contrans' Class A Subordinate Voting Shares are listed on the Toronto Stock Exchange under the symbol "CSS". 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.

The consolidated interim financial statements were authorized for issuance on November 9, 2011 by Contrans' Board of Directors.

### 2. Significant Accounting Policies

#### Basis of preparation

These consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34") and with IFRS 1, First-time Adoption of IFRS ("IFRS 1"). These consolidated interim financial statements do not include all of the information required for full annual financial statements. These consolidated interim financial statements should be read in conjunction with the Company's 2010 annual consolidated financial statements prepared in accordance with Canadian GAAP prior to the adoption of IFRS ("CGAAP") and with the IFRS accounting policies and transition disclosures included in Notes 2 and 15 of the Company's 2011 first quarter consolidated interim financial statements. Prior to adoption of IFRS, Contrans prepared its financial statements in accordance with CGAAP.

The Company transitioned to IFRS effective January 1, 2010. The impact of the transition from CGAAP to IFRS on these consolidated interim financial statements is explained in Note 15.

These consolidated interim financial statements have been prepared on the historical cost basis with the following exceptions:

- Certain land and buildings have been restated to fair value as at January 1, 2010 in accordance with IFRS 1; and
- Liabilities for cash-settled, share-based payment arrangements have been measured at their fair value in accordance with IFRS 2.

### 3. Property and Equipment

Cost or Deemed Cost	Land	Buildings	Rolling Stock and Other		Total
			Owned	Leased	
Balance at January 1, 2011	\$ 7,740	\$ 27,927	\$ 137,974	\$ 13,527	\$ 187,168
Additions	9,333	2,668	14,117	18,039	44,157
Buyout of leased assets	—	—	118	(118)	—
Acquired through business combinations	—	—	5,437	1,050	6,487
Disposals	—	—	(4,445)	(966)	(5,411)
<b>Balance at September 30, 2011</b>	<b>17,073</b>	<b>30,595</b>	<b>153,201</b>	<b>31,532</b>	<b>232,401</b>
<b>Accumulated Depreciation and Impairment Losses</b>					
Balance at January 1, 2011	—	10,820	56,996	3,099	70,915
Depreciation	—	735	9,651	1,716	12,102
Buyout of leased assets	—	—	26	(26)	—
Disposals	—	—	(3,154)	(546)	(3,700)
<b>Balance at September 30, 2011</b>	<b>—</b>	<b>11,555</b>	<b>63,519</b>	<b>4,243</b>	<b>79,317</b>
<b>Carrying Amount at September 30, 2011</b>	<b>\$ 17,073</b>	<b>\$ 19,040</b>	<b>\$ 89,682</b>	<b>\$ 27,289</b>	<b>\$ 153,084</b>

Cost or Deemed Cost	Rolling Stock and Other				Total
	Land	Buildings	Owned	Leased	
Balance at January 1, 2010	\$ 7,460	\$ 25,679	\$ 124,771	\$ 12,728	\$ 170,638
Additions	280	2,248	19,500	783	22,811
Acquired through business combinations	—	—	5,608	90	5,698
Disposals	—	—	(11,905)	(74)	(11,979)
Balance at December 31, 2010	7,740	27,927	137,974	13,527	187,168
<b>Accumulated Depreciation and Impairment Losses</b>					
Balance at January 1, 2010	—	9,765	55,813	1,875	67,453
Depreciation	—	1,055	10,545	1,238	12,838
Disposals	—	—	(9,362)	(14)	(9,376)
Balance at December 31, 2010	—	10,820	56,996	3,099	70,915
Carrying Amount at December 31, 2010	\$ 7,740	\$ 17,107	\$ 80,978	\$ 10,428	\$ 116,253

#### 4. Intangible Assets

Cost	Non-competition		Customer	Total
	Goodwill	Agreements	Relationships	
Balance at January 1, 2011	\$ 57,841	\$ 9,468	\$ 27,679	\$ 94,988
Acquired through business combinations	963	820	1,859	3,642
Expired	—	(2,076)	—	(2,076)
Balance at September 30, 2011	<b>58,804</b>	<b>8,212</b>	<b>29,538</b>	<b>96,554</b>
<b>Accumulated Amortization and Impairment Losses</b>				
Balance at January 1, 2011	—	7,397	13,550	20,947
Amortization charge for the period	—	1,065	2,051	3,116
Expired	—	(2,076)	—	(2,076)
Balance at September 30, 2011	—	<b>6,386</b>	<b>15,601</b>	<b>21,987</b>
Carrying amount				
Balance at September 30, 2011	\$ <b>58,804</b>	\$ <b>1,826</b>	\$ <b>13,937</b>	\$ <b>74,567</b>

Cost	Non-competition		Customer	Total
	Goodwill	Agreements	Relationships	
Balance at January 1, 2010	\$ 51,118	\$ 8,658	\$ 22,565	\$ 82,341
Acquired through business combinations	6,723	930	5,114	12,767
Expired	—	(120)	—	(120)
Balance at December 31, 2010	57,841	9,468	27,679	94,988
<b>Accumulated Amortization and Impairment Losses</b>				
Balance at January 1, 2010	—	5,990	11,331	17,321
Amortization charge for the period	—	1,527	2,219	3,746
Expired	—	(120)	—	(120)
Balance at December 31, 2010	—	7,397	13,550	20,947
Carrying amount				
Balance at December 31, 2010	\$ 57,841	\$ 2,071	\$ 14,129	\$ 74,041

Contrans assessed its goodwill for impairment as at the IFRS transition date of January 1, 2010. This resulted in a decrease in goodwill of \$12.7 million, a decrease in non-competition agreements of \$0.3 million, a decrease in customer relationships of \$0.9 million and a decrease in land values of \$0.4 million with a corresponding charge to opening retained deficit of \$14.3 million. See note 15 A i) for further details.

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the periods ended September 30, 2011 and 2010

(Unaudited, tabular amounts in thousands of \$CAD except per share data)

### 5. Finance Lease Liabilities

Contrans has principal and interest payment obligations on its finance lease liabilities as follows:

As at September 30

2011	\$ 1,826
2012	7,148
2013	6,783
2014	6,534
2015	2,825
Thereafter	1,055
Minimum lease payments	\$ 26,171
Lease amount representing interest at rates ranging from 3.5% to 8.4% (2010 – 4.8% to 8.4%)	(2,134)
Present value of net minimum finance lease payments	\$ 24,037
Less current portion	(6,621)
	\$ 17,416

### 6. Non-Cash Working Capital

For the nine months ended September 30

	2011	2010
Change in non-cash working capital		
Increase in trade and other receivables	\$ (13,803)	\$ (3,030)
Increase in other current assets	(1,782)	(764)
Increase in trade and other payables	3,921	598
Change in non-cash working capital	\$ (11,664)	\$ (3,196)
Non-cash transactions		
Value of finance leases used to fund equipment purchases	\$ 18,039	\$ 702

### 7. Change in Estimate

In 2011 Q2, a provision for return costs related to leased equipment was reduced resulting in a credit to direct operating expense of \$0.5 million.

### 8. Contingency and Commitments

#### Letters of credit

Contrans had \$1.3 million in letters of credit outstanding as at September 30, 2011 (December 31, 2010 – \$2.2 million). These letters of credit expire at various dates from October 2011 to August 2012.

#### Capital commitments

At September 30, 2011, Contrans had entered into contracts to purchase trucks and trailers for \$11.3 million that are expected to be delivered during Q4 2011.

## 9. Acquisition of Business

### a) Business acquisitions – 2011

2011	S&S Enterprises <sup>(i)</sup>	AIM <sup>(ii)</sup>	TBM <sup>(iii)</sup>	Total
Accounts receivable	\$ 19	\$ —	\$ —	\$ 19
Property and equipment	3,693	689	2,105	6,487
Intangible assets and goodwill				
Customer relationships	1,169	210	480	1,859
Non-competition agreements	720	—	100	820
Goodwill	868	83	12	963
Fair value of assets acquired	6,469	982	2,697	10,148
Accounts payable and accrued liabilities	19	—	—	19
Deferred tax liabilities	529	7	44	580
Long-term debt assumed	2,109	—	—	2,109
Finance lease liability assumed	—	—	951	951
Fair value of liabilities assumed	2,657	7	995	3,659
	\$ 3,812	\$ 975	\$ 1,702	\$ 6,489
Consideration				
Cash	\$ 3,812	\$ 655	\$ 1,171	\$ 5,638
Contingent consideration	—	320	531	851
	\$ 3,812	\$ 975	\$ 1,702	\$ 6,489

(i) On July 1, 2011 Contrans acquired all the outstanding shares of 9213-2901 Quebec Inc. (“S&S Enterprises”), a bulk truck operation based in St-Barthelemy, Quebec for cash consideration of \$3.8 million. Long-term debt acquired was settled for cash consideration of \$2.1 million with related costs of \$0.1 million.

This bulk operation was acquired to expand Contrans’ bulk service offering in Quebec and Northern Ontario. Management expects that this acquisition will give Contrans greater market share and will realize synergies through improved utilization of its existing bulk equipment as well as that of the acquired assets. The purchase price is subject to adjustments pending the finalization of the closing financial statements.

- a. Any deficit or surplus in the final working capital accounts will result in an adjustment to the amount of consideration payable to the vendors.
  - b. The vendors have entered into a seven-year non-competition agreement with Contrans. In addition, Contrans acquired certain customers as part of the acquisition. The final allocation of the purchase price among customer relationships, non-competition agreements and goodwill will be made once their fair values have been determined.
  - c. The deferred tax liability will be finalized when the tax values of the assets at the date of acquisition have been determined.
  - d. The fair values assigned to property and equipment may change once all valuations have been received.
  - e. Contrans also assumed operating leases on 10 tractor units. These leases expire between 2011 and 2013.
  - f. Contrans has incurred \$0.1 million costs in relation to this acquisition. These costs have been charged to General and Administration (“G&A”) expenses in 2011 Q2.
  - g. It is impracticable to determine precisely the impact that S&S Enterprises would have had on Contrans’ 2011 results had it been acquired on January 1, 2011. Management expects there to be synergies realized that manifest themselves through reduced empty miles and improved equipment utilization, both factors that would enable the Company to be more competitive. Ignoring potential realization of synergies, management expects that S&S Enterprises will contribute annual revenue of between \$12 million and \$15 million and between \$1.0 million to \$1.5 million of annual earnings before tax and amortization of intangible assets.
- (ii) On July 4, 2011 Contrans acquired certain of the assets of AIM Transportation Systems Inc. and 6129005 Canada Inc. (together “AIM”), a flatbed trucking operation based in Stoney Creek, Ontario. This acquisition was made to expand Contrans’ flatbed service offering in Southern Ontario and has been combined with Contrans’ existing flatbed operations located in Hagersville, Ontario. The purchase price includes contingent consideration, the amount of which will depend on revenues earned from AIM customers over the three years following acquisition. If earned, the contingent consideration will be paid on August 1 of each year beginning in 2012. The undiscounted amount of contingent consideration is expected to be between \$0.2 million and \$0.4 million. The accounting for this acquisition will be finalized once the fair values of the intangible assets have been finalized.

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the periods ended September 30, 2011 and 2010

(Unaudited, tabular amounts in thousands of \$CAD except per share data)

- a. The vendors have entered into a five-year non-competition agreement with Contrans. In addition, Contrans acquired certain customers as part of the acquisition.
  - b. The deferred tax liability will be finalized when the tax values of the assets at the date of acquisition have been determined.
  - c. The fair values assigned to property and equipment may change once final valuations have been received.
  - d. Contrans assumed operating leases on eight tractor units. These leases expire in 2015.
  - e. Contrans has incurred nominal costs in relation to this acquisition. These costs have been charged to G&A expenses in 2011 Q2.
  - f. Had AIM been acquired on January 1, 2011 management estimates that the additional revenue and earnings before taxes and amortization of intangible assets that would have been recorded in the nine months to September 30, 2011 would have approximated \$1.5 million and \$0.1 million respectively.
- (iii) On July 25, 2011 Contrans acquired the bulk trucking assets of TBM Transportation Ltd. ("TBM") based in Edmonton, Alberta. This acquisition was made to expand the bulk service offering in Alberta and has been combined with Contrans' bulk operations that are based in Calgary, Alberta. The purchase price includes contingent consideration, the final amount of which will depend on revenues earned from TBM customers over the three years following acquisition. If earned, the contingent consideration will be paid on August 15 of each year beginning in 2012. The undiscounted amount of contingent consideration is expected to be between \$0.5 million and \$0.9 million.
- a. The vendors have entered into a five-year non-competition agreement with Contrans. In addition, Contrans acquired certain customers as part of the acquisition.
  - b. The deferred tax liability will be finalized when the tax values of the assets at the date of acquisition have been determined.
  - c. The fair values assigned to property and equipment may change once final valuations have been received.
  - d. The finance lease debt assumed has expiry dates between 2014 and 2015.
  - e. Contrans incurred \$0.1 million of costs in relation to this acquisition. These costs were charged to G&A expenses in 2011 Q3.
  - f. Had TBM been acquired on January 1, 2011 management estimates that the additional revenue and earnings before taxes and amortization of intangible assets that would have been recorded in the nine months to September 30, 2011 would have approximated \$2.3 million and \$0.4 million respectively.

### b) Business acquisitions – 2010

	Truboy	ProWerx	Total	
Accounts receivable	\$ —	\$ 1,880	\$ 1,880	
Property and equipment	712	3,630	4,342	
Intangible assets				
Customer relationships	160	3,590	3,750	
Non-competition agreements	200	2,140	2,340	
Goodwill	533	2,788	3,321	
Fair value of assets acquired	1,605	14,028	15,633	
Accounts payable and accrued liabilities	5	2,000	2,005	
Finance lease liabilities	79	—	79	
Debt assumed on acquisition	573	—	573	
Deferred tax liability	—	1,148	1,148	
Fair value of liabilities assumed	657	3,148	3,805	
	\$ 948	\$ 10,880	\$ 11,828	
Consideration				
Cash	\$ 448	\$ 10,880	\$ 11,328	
Contingent	500	—	500	
	\$ 948	\$ 10,880	\$ 11,828	
Entity acquired	Date	% Shares Acquired	Province	Service Area
Truboy Freight International Inc. ("Truboy")	Jan. 29, 2010	Assets acquired	Ontario	Flatbed
ProWerx Disposal Ltd. ("ProWerx")	Sept. 20, 2010	100%	Alberta	Waste

An additional \$0.5 million of consideration was negotiated to be paid to the vendors of Truboy over the three years following the acquisition contingent upon the achievement of certain financial objectives. The financial objectives for the first year were met and \$0.1 million of the contingent consideration was paid to the former owners during 2011 Q1. The balance of \$0.4 million remains outstanding and is included in trade and other payables at September 30, 2011 in the consolidated interim statements of financial position.

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

## 10. Share-Based Compensation Plan

On April 5, 2011, Contrans established a stock option plan designed to encourage ownership of Contrans by certain directors, officers and employees. Under the terms of the plan, 2,993,739 Class A Subordinate Voting Shares ("Class A shares") have been reserved for issuance. The maximum number of options that can be granted to insiders cannot exceed 10% of the total number of Class A shares and Class B multiple Voting Shares ("Class B shares") then outstanding. The number of options that can be granted to an individual insider in a one-year period cannot exceed 5% of the total number of Class A shares and Class B shares then outstanding. Upon issuance, 20% of the options vest immediately and the remainder vest at a rate of 20% per year over the next four anniversary dates. In the event of their termination or retirement, participants will have 30 days, or such longer period as decided by the Board, in which to exercise their options. All options outstanding become exercisable in the event of a change in control over Contrans. Contrans' Board of Directors, in their discretion, may require holders to exercise their options within a 30-day period in the event of a sale of Contrans, provided that such a sale is completed within 180 days. In accordance with the plan, options are exercisable at the closing market price of the shares on the day prior to the date of the grant. Any option that is granted but is subsequently cancelled or terminated for any reason prior to its exercise will be returned to the pool and will be available for future share option grants.

The grant date fair value of the stock options was measured using the Black-Scholes option pricing model. Expected volatility is estimated by considering historical average share price volatility. The inputs used in the measurement of the fair values at grant date of the stock options were as follows:

### Fair value of stock options and assumptions

Option grant date	April 5, 2011
Option expiration date	April 4, 2021
Fair value at grant date (weighted average)	\$ 1.73
Share price at grant date	\$ 8.95
Exercise price	\$ 8.95
Expected volatility (weighted average volatility)	30%
Option life (expected weighted average life)	6 years
Expected dividend yield	4.47%
Risk-free interest rate (weighted average, based on government bonds)	2.89%

The number and weighted average exercise prices of stock options were as follows:

	Three Months		Nine Months	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
(In thousands of options)				
Outstanding at January 1	\$ —	—	\$ —	—
Granted during the period	\$ 8.95	1,615	\$ 8.95	1,615
Exercised during the period	\$ —	—	\$ —	—
Outstanding at September 30	\$ 8.95	1,615	\$ 8.95	1,615
Exercisable at September 30				323

The amount charged to stock-based compensation expense in the consolidated interim statements of comprehensive income for the three-month and nine-month periods ended September 30, 2011 was \$0.2 million and \$1.1 million respectively.

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the periods ended September 30, 2011 and 2010

(Unaudited, tabular amounts in thousands of \$CAD except per share data)

### 11. Related Party Transactions

Contrans had business transactions with and had balances owing to and from Peterbilt of Ontario Inc., a company controlled by the Chairman of Contrans, as follows:

As at	September 30, 2011	December 31, 2010
Accounts payable	\$ 358	\$ 430
Accounts receivable	5	8

For the periods ended September 30	Three Months		Nine Months	
	2011	2010	2011	2010
Repairs, maintenance, purchases and leases	\$ 576	\$ 3,685	\$ 4,150	\$ 7,417
Rental income	50	48	154	144

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

### 12. Financial Instruments – Risk Management

Contrans is exposed to credit risk, foreign exchange risk, interest rate risk and liquidity risk from its financial assets and liabilities. Risk management strategies are designed to ensure Contrans' risks and related exposures are consistent with its business objectives and risk tolerance. There have been no significant changes to Contrans' risk management strategies since December 31, 2010.

### 13. Seasonality of Operations

Generally, the second quarter is Contrans' strongest period. Volumes from customers in the construction industry typically increase in the spring, peak in the fall and then decline with the onset of winter. 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.

### 14. Subsequent Events

a) On October 17, 2011, Contrans announced a dividend of \$0.10 per share. As a result, approximately \$3.6 million will be paid on November 15, 2011 to shareholders of record as at October 31, 2011.

#### b) Business acquisition

On October 1, 2011 Contrans paid \$0.5 million to acquire the waste collection assets of Ever Green Ecological Services Inc. ("Ever Green"), a waste collection operation based in Edmonton, Alberta. This waste operation, which consisted of two front load trucks and approximately 200 bins, was acquired to expand Contrans' waste collection service in Alberta. The purchase price is subject to adjustments pending the finalization of the fair value of the assets acquired.

- a. The vendors have entered into a four-year non-competition agreement with Contrans. In addition, Contrans acquired certain customers as part of the acquisition. The allocation of the purchase price among customer relationships, non-competition agreements and goodwill will be finalized once their fair values have been determined.
- b. A deferred tax asset or liability will be calculated on the difference in the value of the acquired assets and their tax value when fair values of the acquisition have been determined.
- c. Contrans has incurred nominal costs in relation to this acquisition. These costs will be charged to G&A expenses in 2011 Q4.
- d. It is impracticable to determine precisely the impact that the acquisition of these waste assets would have had on Contrans' 2011 results had they been acquired on January 1, 2011.

## 15. Transition to IFRS

The accounting policies set out in Note 2 have been applied in preparing financial statements for the three and nine months ended September 30, 2011, in the comparative information presented in these consolidated interim financial statements and in the preparation of an opening IFRS statement of financial position at January 1, 2010 and statements of financial position at September 30, 2010 and December 31, 2010.

The impact of the transition from CGAAP to IFRS as at and for the three and nine months ended September 30, 2010 is set out in the following tables and notes.

### Consolidated Statements of Financial Position – Effect of Transition to IFRS

As at September 30, 2010	CGAAP <sup>(1)</sup>	Effect of Transition to IFRS <sup>(2)</sup>	IFRS
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 33,235	\$ —	\$ 33,235
Short-term investments	50,584	—	50,584
Trade and other receivables	53,819	—	53,819
Other current assets	5,853	—	5,853
<b>Total Current Assets</b>	<b>143,491</b>	<b>—</b>	<b>143,491</b>
<b>Non-Current Assets</b>			
Property and equipment	111,950	(1,189)	110,761
Intangible assets	84,933	(13,197)	71,736
<b>Total Non-Current Assets</b>	<b>196,883</b>	<b>(14,386)</b>	<b>182,497</b>
<b>Total Assets</b>	<b>\$ 340,374</b>	<b>\$ (14,386)</b>	<b>\$ 325,988</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	\$ 32,533	\$ 1,280	\$ 33,813
Income taxes payable	5,506	—	5,506
Finance lease liabilities	1,979	—	1,979
Long-term debt	804	—	804
<b>Total Current Liabilities</b>	<b>40,822</b>	<b>1,280</b>	<b>42,102</b>
<b>Non-Current Liabilities</b>			
Finance lease liabilities	5,962	—	5,962
Long-term debt	86,995	—	86,995
Asset retirement obligations	684	(684)	—
Deferred tax liabilities	14,780	(274)	14,506
<b>Total Non-Current Liabilities</b>	<b>108,421</b>	<b>(958)</b>	<b>107,463</b>
<b>Total Liabilities</b>	<b>149,243</b>	<b>322</b>	<b>149,565</b>
<b>Equity</b>			
Share capital	182,922	—	182,922
Contributed surplus	961	—	961
Retained earnings (deficit)	7,248	(14,708)	(7,460)
<b>Total Equity</b>	<b>191,131</b>	<b>(14,708)</b>	<b>176,423</b>
<b>Total Liabilities and Equity</b>	<b>\$ 340,374</b>	<b>\$ (14,386)</b>	<b>\$ 325,988</b>

(1) Certain of the CGAAP balances have been reclassified to conform to IFRS presentation.

(2) See "Table 1 Summary of IFRS Transition Adjustments" below.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the periods ended September 30, 2011 and 2010

(Unaudited, tabular amounts in thousands of \$CAD except per share data)

Consolidated Statements of Comprehensive Income – Effect of Transition to IFRS

	For the Three Months Ended September 30, 2010			For the Nine Months Ended September 30, 2010		
	CGAAP	Effect of Transition to IFRS <sup>(1)</sup>	IFRS	CGAAP	Effect of Transition to IFRS <sup>(1)</sup>	IFRS
<b>Revenue</b>						
Transportation services	\$ 92,707	\$ —	\$ 92,707	\$ 268,307	\$ —	\$ 268,307
Fuel surcharges	8,977	—	8,977	28,130	—	28,130
	101,684	—	101,684	296,437	—	296,437
Direct operating expenses	—	83,264	83,264	—	244,600	244,600
<b>Gross Margin</b>			18,420			51,837
Operating expenses	80,027	(80,027)	—	234,725	(234,725)	—
General and administration expenses	9,559	1,005	10,564	26,546	2,121	28,667
	12,098	(4,242)	—	35,166	(11,996)	—
Foreign exchange loss (gain)	129	(129)	—	(64)	64	—
Depreciation	3,203	(3,203)	—	9,353	(9,353)	—
Amortization of intangible assets	980	(980)	—	2,895	(2,895)	—
<b>Earnings from Operations Before</b>						
<b>Financing Costs and Income Taxes</b>	7,786	70	—	22,982	188	—
Finance costs	1,508	9	1,517	4,476	23	4,499
Finance income	(169)	—	(169)	(272)	—	(272)
<b>Net Financing Costs</b>	1,339	9	—	4,204	23	—
<b>Earnings Before Income Taxes</b>	6,447	61	6,508	18,778	165	18,943
Income tax expense	—	2,160	2,160	—	5,945	5,945
<b>Income tax expense:</b>						
Current	1,180	(1,180)	—	5,991	(5,991)	—
Deferred	930	(930)	—	(198)	198	—
	2,110	50	—	5,793	152	—
<b>Net Earnings and</b>						
<b>Comprehensive Income</b>	\$ 4,337	\$ 11	\$ 4,348	\$ 12,985	\$ 13	\$ 12,998
Earnings per share – basic and diluted	\$ 0.12	\$ —	\$ 0.12	\$ 0.40	\$ —	\$ 0.40
Weighted average number of shares						
outstanding – basic and diluted	35,794	35,794	35,794	32,512	32,512	32,512

(1) See "Table 1 Summary of IFRS Transition Adjustments" below.

**Table 1****Summary of IFRS Transition Adjustments**

Note	Accounts	Statement of Financial	Profit/Loss	
		Position	for the Period Ended	
		As at	Three Months	Nine Months
		Increase in Asset/ Decrease in Liability (Decrease in Asset)/ (Increase in Liability)	Ended	Ended
		September 30,	September 30,	September 30,
		2010	2010	2010
A i)	Land impairment	\$ (343)	\$ —	\$ —
B i)	Land valuation	(572)	—	—
B i)	Building valuation	(274)	3	7
		(1,189)	3	7
A i)	Goodwill	(12,709)	—	—
A i)	Other intangible assets	(1,034)	67	199
A ii)	Truboy goodwill – earnout liability	501	—	—
A iii)	Truboy goodwill – acquisition costs	(18)	—	(18)
A ii)	Narum goodwill	63	—	—
		(13,197)	67	181
A ii)	Narum contingent consideration	(75)	(1)	(3)
A ii)	Truboy contingent consideration	(521)	(8)	(20)
B ii)	Asset retirement obligation	(684)	—	—
		(1,280)	(9)	(23)
B ii)	Asset retirement obligation	684	—	—
C	Deferred tax	274	(50)	(152)
		\$ (14,708)	\$ 11	\$ 13

**Notes to the Reconciliation of Equity and Earnings****A. Mandatory adjustments arising from the implementation of IFRS reporting****i) CGU impairment**

Upon transition to IFRS, Contrans was required to assess its CGUs for impairment as at January 1, 2010. Contrans' CGUs are identified as each of Contrans' subsidiaries. Under CGAAP, goodwill impairment was tested at the reporting unit (service line) level.

The impairment test was performed by comparing the carrying value and the recoverable amount of each CGU. Under IFRS, the recoverable amount is the higher of the CGU's fair value less costs to sell or value in use. Fair value is calculated by applying a multiple to management's best estimate of sustainable earnings. Management applied a 7.1 times multiple, obtained from an independent investment analyst, to calculate the recoverable amounts in the impairment test. Management used the four-year weighted average of historical annual earnings (before interest, income tax, depreciation and amortization of intangible assets, reduced by a corporate overhead allocation) to estimate sustainable earnings. An estimate of costs to sell was then deducted from the calculated fair value to arrive at fair value less costs to sell. The value in use of each CGU was determined by considering the future expected cash flow over the next four years, expected growth rates and an estimated terminal value discounted at a risk-adjusted rate. Future expected cash flows were based on historical performance, known trends and anticipated capital expenditures. Growth rates were assumed to be 2% and a discount rate of 14% was applied.

Four CGUs were found to be impaired by a combined total of \$14.3 million. This amount was charged to the opening retained deficit and corresponding reductions were made to the carrying amounts of goodwill, other intangible assets and land. As a result of the impairment charge, intangible asset amortization was reduced by \$0.2 million for the nine-month period ended September 30, 2010.

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the periods ended September 30, 2011 and 2010

(Unaudited, tabular amounts in thousands of \$CAD except per share data)

Two of the CGUs that were found to be impaired, Tripar Transportation LP and Tri-Line Carriers LP, each make up a significant portion of the carrying value of Contrans' remaining intangibles. The carrying amounts of their goodwill and intangibles as at January 1, 2010 are summarized as follows:

	Tri-Line	Tripar
Goodwill	\$ 2,943	\$ 21,991
Other intangible assets	468	5,479
Basis on which the CGU's recoverable amount has been determined	Value in use	Fair value less costs to sell

### ii) Contingent consideration on acquisitions

Contingent consideration for Narum, a business acquired in 2007, was outstanding as at the transition date. The fair value of this contingent consideration was \$0.1 million as at January 1, 2010 and was recorded as an increase to goodwill and trade and other payables upon transition to IFRS. The fair value was increased by \$1,000 for the three months ended September 30, 2010.

The fair value of contingent consideration outstanding in respect of the acquisition of Truboy was \$0.5 million as at September 30, 2010. This amount was recorded as an increase to goodwill and trade and other payables. The fair value was increased by \$8,000 for the three-month period ended September 30, 2010 and was charged to income as a finance cost.

### iii) Acquisition costs

Under IFRS 3, an amount of \$18,000 relating to acquisition costs of Truboy was charged to general and administration expenses for the nine-month period ended September 30, 2010 and reduced goodwill as previously reported under CGAAP as at September 30, 2010 and December 31, 2010.

### iv) Reclassification of CGAAP balances

Contrans has chosen to classify its expenses according to their function. Accordingly, operating expenses presented under CGAAP have been reclassified to direct operating expenses. Depreciation has been reclassified partially into direct operating expenses and partially into general and administration expenses depending on the nature of the property and equipment. Amortization of intangible assets and foreign exchange loss have been reclassified into general and administration expenses. Current and deferred income tax expenses have been reclassified into income tax expense.

## B. Optional adjustments arising from IFRS 1 on the implementation of IFRS reporting

### i) Land and buildings valuations

Under IFRS 1, Contrans elected to revalue certain of its land and buildings at January 1, 2010 and has treated the revalued amounts as deemed cost as at that date. The impact on Contrans of the revaluations was a net decrease in land and building values of \$0.5 million and \$0.3 million respectively with a corresponding increase in the opening retained deficit. Depreciation expense for the three months ended September 30, 2010 was reduced by \$3,000.

### ii) Reclassifications on transition to IFRS

Asset retirement obligations are considered to be provisions under IFRS and have been included in trade and other payables accordingly. In addition, interest paid and income taxes paid have been moved into the body of the consolidated interim statements of cash flow as part of operating activities, whereas they were previously disclosed as supplementary information under CGAAP.

**C. The above adjustments decreased the deferred tax liability as follows:**

As at	September 30, 2010
Destructible reserves	\$ 132
Property and equipment	(90)
Intangible assets	232
Decrease in deferred tax liability	\$ 274

	Three months ended September 30, 2010	Nine months ended September 30, 2010
Increase in tax expense for the period	\$ 50	\$ 152

**D. The effects of the above adjustments on equity were as follows:**

	Note	September 30, 2010
Goodwill	A i), A iii)	\$ 12,709
Acquisition costs	A iii)	18
Other intangible assets	A i)	1,034
Change in fair value of contingent consideration	A ii)	32
Property and equipment	A i), B i)	1,189
Deferred tax liability	C	(274)
Total increase in opening retained deficit		14,708
Equity per CGAAP		191,131
Equity per IFRS		\$ 176,423

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