

# ***CONTRANS GROUP INC.***

*THIRD QUARTER REPORT  
SEPTEMBER 30, 2010*

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REPORT FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER



*Contrans is having an exciting year. In spite of the slow pace of economic recovery, Contrans' financial performance has been very solid. This has enabled Contrans to pay dividends to its shareholders at a rate that we believe is rewarding and appropriate under the circumstances. Earlier in the year, we raised \$53 million of new equity. This transaction bolstered a balance sheet that was already the envy of our competitors and positioned Contrans for growth.*

*On September 21, 2010, we announced the acquisition of ProWerx Disposal Ltd., a company in the industrial, commercial and residential waste collection business located in Edmonton, Alberta. Two weeks later, we completed the purchase of certain contracts and waste collection assets from BFI Canada Inc.'s Edmonton operation. This second acquisition immediately added volume and density to ProWerx's existing routes. Waste collection is relatively non-cyclical, an attribute that will complement the diverse nature of Contrans' customer base and other service offerings.*

*For nearly two decades, Contrans has grown steadily while maintaining healthy profit margins and a strong balance sheet. This success has been largely due to management's unwavering focus on profitability and a similarly disciplined approach to growth. We look forward to the challenge of continuing to add long-term value for Contrans' shareholders.*

*Respectfully submitted,*

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

*Stan G. Dunford  
Chairman and Chief Executive Officer  
November 4, 2010*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

On December 1, 2009, under a plan of arrangement, Contrans Income Fund ("the Fund") was effectively converted into a corporation, Contrans Group Inc. ("the Group"). This conversion was recorded using the continuity of interest method of accounting. Accordingly, the consolidated financial statements contained in this interim 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 the Group and the Fund for the periods ended September 30, 2010 and September 30, 2009 respectively as if the Group had carried on the business carried on by the Fund. 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 the Group. The financial statements should be read in conjunction with the analysis that follows and the cautionary notes regarding use of non-GAAP measures and forward-looking statements.

### FINANCIAL HIGHLIGHTS

(in millions except for per share amounts) For the periods ended September 30	Three Months				Nine Months			
	2010		2009		2010		2009	
Revenue – as stated	<b>\$ 101.7</b>		\$ 99.0		<b>\$ 296.4</b>		\$ 274.4	
– fuel surcharges <sup>(1)</sup>	<b>(8.9)</b>		(8.0)		<b>(28.1)</b>		(21.1)	
Revenue – transportation services <sup>(1)</sup>	<b>92.8</b>	<b>100.0%</b>	91.0	100.0%	<b>268.3</b>	<b>100.0%</b>	253.3	100.0%
Operating expenses – net of fuel surcharges	<b>71.1</b>	<b>76.6</b>	69.8	76.7	<b>206.6</b>	<b>77.0</b>	197.4	77.9
Selling, general and administration expenses	<b>9.6</b>	<b>10.3</b>	9.3	10.2	<b>26.5</b>	<b>9.9</b>	26.0	10.3
Foreign exchange loss (gain)	<b>0.1</b>	<b>0.1</b>	(0.7)	(0.8)	<b>(0.1)</b>	—	(1.3)	(0.5)
Earnings before amortization, interest and income taxes	<b>12.0</b>	<b>13.0</b>	12.6	13.9	<b>35.3</b>	<b>13.1</b>	31.2	12.3
Amortization of property and equipment	<b>3.2</b>	<b>3.4</b>	3.0	3.3	<b>9.4</b>	<b>3.5</b>	9.1	3.6
Amortization of intangible assets	<b>1.0</b>	<b>1.1</b>	0.9	1.0	<b>2.9</b>	<b>1.1</b>	2.8	1.1
Net interest expense	<b>1.3</b>	<b>1.4</b>	1.4	1.5	<b>4.2</b>	<b>1.6</b>	4.2	1.7
Earnings before income taxes	<b>6.5</b>	<b>7.1</b>	7.3	8.1	<b>18.8</b>	<b>6.9</b>	15.1	5.9
Income tax provision (recovery):								
Current	<b>1.2</b>	<b>1.3</b>	(0.4)	(0.4)	<b>6.0</b>	<b>2.2</b>	1.5	0.6
Future	<b>0.9</b>	<b>1.0</b>	0.9	1.0	<b>(0.2)</b>	<b>(0.1)</b>	(0.9)	(0.4)
	<b>2.1</b>	<b>2.3</b>	0.5	0.6	<b>5.8</b>	<b>2.2</b>	0.6	0.2
Net earnings	<b>\$ 4.4</b>	<b>4.8%</b>	\$ 6.8	7.5%	<b>\$ 13.0</b>	<b>4.7%</b>	\$ 14.5	5.7%
Earnings per share – basic and diluted	<b>\$ 0.12</b>		\$ 0.23		<b>\$ 0.40</b>		\$ 0.48	

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

### RESULTS FROM OPERATIONS

Contrans' customers, particularly those in the construction and steel industries, have experienced a resurgence in shipping volumes in the first half of 2010 that has increased revenue this year compared to 2009. In addition, several new, major customers have contributed approximately \$8.5 million of revenue year-to-date in 2010 (Q3 – \$3.4 million). Companies acquired by Contrans in 2010 have also added \$1.9 million of revenue in 2010 (Q3 – \$0.9 million). Project work however, which did not commence until the third quarter in 2010 and in 2009, fell from \$4.6 million in 2009 to \$1.3 million in 2010. The project work

performed in 2009 involved environmentally-sensitive materials that required specialized handling to ensure regulatory compliance. Contrans received a rate premium for this work last year.

Management rationalized 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 \$0.3 million increase in accident claim costs in the

third quarter of 2010 ("Q3 2010") compared to the third quarter of 2009 ("Q3 2009") (\$1.2 million increase year-to-date).

SG&A expenses have increased in 2010 primarily due to the cancellation of the salary and wage roll-back program and to the reinstatement of management bonuses. 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 Q3 2009, mark-to-market adjustments to Contrans' open foreign exchange contracts were primarily responsible for a foreign exchange gain of \$0.7 million (2009 – \$1.3 million gain year-to-date). Contrans does not currently have any open foreign exchange contracts.

Contrans completed a public offering of its 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 inter-

est. Net interest expense has not materially changed in Q3 2010 compared to Q3 2009 as a result.

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

Contrans recently completed acquisitions that did not materially impact operating results for the period ended September 30, 2010 but are expected to have a more pronounced impact on future results. ProWerx Disposal Ltd. ("ProWerx"), a waste collection company acquired on September 20, 2010, is expected to produce annual revenues of approximately \$7 million. On October 4, 2010, Contrans acquired certain contracts and waste collection assets of BFI Canada Inc.'s Edmonton, Alberta operation which were consolidated into the ProWerx operation. This second acquisition is expected to contribute approximately \$5 million of revenue annually.

## SUMMARY OF QUARTERLY RESULTS

(in millions except per share amounts)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2010	2009	2010	2009	2010	2009	2009	2008
Revenue – as stated	\$ 93.8	\$ 88.0	\$ 101.0	\$ 87.4	\$ 101.7	\$ 99.0	\$ 99.2	\$ 109.6
– fuel surcharges <sup>(1)</sup>	(9.3)	(7.1)	(9.9)	(6.0)	(8.9)	(8.0)	(9.3)	(12.7)
Revenue – transportation services <sup>(1)</sup>	\$ 84.5	\$ 80.9	\$ 91.1	\$ 81.4	\$ 92.8	\$ 91.0	\$ 89.9	\$ 96.9
Net earnings	\$ 3.4	\$ 1.5	\$ 5.2	\$ 6.2	\$ 4.4	\$ 6.8	\$ 8.5	\$ 3.0
Earnings per share – basic and diluted	\$ 0.11	\$ 0.05	\$ 0.16	\$ 0.20	\$ 0.12	\$ 0.23	\$ 0.29	\$ 0.10

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

## 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.

## CASH FLOW

On June 2, 2010, Contrans issued 5,856,800 Class A Subordinate Voting Shares at a price of \$9.60 per share for net cash proceeds of \$53.5 million. Proceeds from the share issue are intended to be used to fund acquisitions and for general corporate purposes.

On February 10, 2010 Contrans acquired certain assets of Truboy Freight International Inc. ("Truboy") for cash consideration of \$0.5 million. On September 20, 2010 Contrans acquired ProWerx for cash consideration of \$10.9 million. In October, 2010 Contrans acquired certain contracts and waste

collection assets of BFI Canada Inc.'s Edmonton, Alberta operation for cash consideration of \$4.5 million.

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 and August 13, 2010 – totalling \$5.3 million. On October 18, 2010, a further dividend of \$0.08 per share, payable on November 15, 2010 and totalling \$2.9 million, was declared by Contrans' Board of Directors.

Management believes that current pricing for trucks and trailers is favourable to those who are in a position to buy and that this advantage will diminish as the economy improves. Accordingly, Contrans has invested approximately \$13.5 million to date in 2010 to upgrade its fleet of equipment. In addition, as at September 30, 2010, the Company had equipment on order with a value of approximately \$7.6 million that will be delivered in the fourth quarter.

## LIQUIDITY AND CAPITAL RESOURCES

(in millions) As at	September 30, 2010	December 31, 2009
Cash and cash equivalents	\$ 83.8	\$ 30.2
Restricted cash	\$ —	\$ 7.4
Operating line available	\$ 28.0	\$ 21.0
Current ratio	3.5:1	2.2:1
Total debt (including future tax obligations) to equity ratio	0.8:1	1.1:1

Contrans currently has a very strong balance sheet. This is primarily due to measures taken to preserve cash during the recession and from the equity raised by the Company in June, 2010. Management expects to deploy this capital by making further acquisitions.

Contrans requires working capital for day-to-day operations and for paying dividends to its shareholders. These requirements are sourced from operating cash flows and from the Company's operating line. Management believes that

Contrans' operating cash flows are 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.

The Company also enters into equipment financing arrangements periodically to finance the purchase of new tractors and trailers.

Under the terms of its long-term credit agreement, Contrans' restricted cash could only be used to finance growth activities or to repay senior secured notes. The balance of the restricted cash was used in funding the acquisition of ProVerx.

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

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

## CONTRACTUAL OBLIGATIONS

Outstanding as at September 30, 2010

(in millions)	2010	2011	2012	2013	2014	2015	Thereafter	Total
Senior secured notes payable <sup>(1)</sup>	\$ 1.3	\$ 5.3	\$ 5.3	\$ 37.1	\$ 3.4	\$ 3.3	\$ 55.0	\$ 110.7
Equipment finance agreements <sup>(1)</sup>	0.3	1.1	0.9	0.8	0.6	0.2	0.1	4.0
Capital leases	0.5	2.0	1.9	1.6	1.5	0.5	—	8.0
Operating leases	1.7	3.6	1.9	0.8	0.3	—	—	8.3
Accounts payable and accrued liabilities	32.5	—	—	—	—	—	—	32.5
Equipment purchase commitments	7.6	—	—	—	—	—	—	7.6
<b>Total</b>	<b>\$ 43.9</b>	<b>\$ 12.0</b>	<b>\$ 10.0</b>	<b>\$ 40.3</b>	<b>\$ 5.8</b>	<b>\$ 4.0</b>	<b>\$ 55.1</b>	<b>\$ 171.1</b>

(1) Includes interest.

## OUTSTANDING SHARES

As at October 31, 2010

(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 MD&A in Contrans' 2009 annual report contains a discussion of critical accounting estimates on page 8 of that annual report. These critical accounting estimates have remained substantially unchanged in 2010. Furthermore, management does not believe that there are changes that are reasonably likely to

occur in the assumptions that have been used that will have a material impact on Contrans' financial position or on its results from 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 be culminated by 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. Amendments to IFRS occurring prior to December 31, 2011, may have a significant impact on Contrans' first set of financial statements prepared under IFRS as any new or amended standards would 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 on Accounting Policies**

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. If it chooses to revalue some or all of its assets, this revalued amount would become the new carrying value upon which future depreciation charges would be based. Any change in carrying value would be debited or credited to the opening deficit. The Board of Directors has approved the revaluation of certain real estate holdings and is currently obtaining market appraisals.

##### **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 between \$1 million to \$2 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. 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 rec-

ognize 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.

##### **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 thereof.

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 five 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. While management has not completed its assessment of fair value of its operating entities and therefore cannot precisely estimate the impact, management expects that there will be a material impairment charge upon the adoption of IFRS.

#### **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 bases 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 that, 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.

#### **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 its changeover plan.

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. Final decisions on the

accounting policies are expected to be made during November 2010.

#### **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 real estate holdings upon conversion to IFRS. Management does not believe that there will be a material impact on the Company's business activities, including its debt covenants, as a result of this change.

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

Management has drafted IFRS-based consolidated financial statements as well as a balance sheet prepared as at January 1, 2010 based upon accounting policies that it has recommended to the Board of Directors. These financial statements are currently being reviewed by the Company's external auditors. The audit of the opening balance sheet is expected to be completed late in 2010.

#### **BUSINESS RISKS**

In the MD&A contained in Contrans' 2009 annual report there is a discussion of business risks on pages 10 and 11. Those risks remain in effect as at September 30, 2010.

#### **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Management has not evaluated the system of internal controls in place over financial reporting at ProWerk and therefore cannot comment as to their existence or effectiveness. There have been no other material changes in the Company's internal control system in 2010.

#### **TRANSACTIONS WITH RELATED PARTIES**

In Q3 2010, Contrans paid \$3.7 million (\$7.4 million year-to-date) to Peterbilt of Ontario Inc., a company controlled by the Chairman of Contrans, for tractor repairs, tractor purchases, maintenance and equipment lease costs. Contrans also leased certain premises to Peterbilt of Ontario Inc. for consideration of \$0.1 million (\$0.2 million year-to-date) in Q3 2010. These transactions were carried out in the normal course of business and recorded at the exchange amounts, which management has concluded approximates an arm's-length arrangement.

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

Management has included certain non-GAAP measures to supplement its consolidated financial statements which are presented in accordance with Canadian GAAP. Non-GAAP measures do not have any standardized meaning prescribed under Canadian GAAP and therefore they are unlikely to be comparable to similar measures employed by other issuers.

The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP. Management has included these non-GAAP measures for the reasons set forth below.

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

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

**FORWARD-LOOKING STATEMENTS**

This report 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 management 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. Management is under no obligation (and expressly disclaims any such obligation) to update or alter any forward-looking statements or assumption whether as a result of new information, future events or otherwise, except as required by law.

**ADDITIONAL INFORMATION**

Additional information, including Contrans’ Annual Information Form, is available at [www.sedar.com](http://www.sedar.com).

November 4, 2010

## CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(in thousands except for per share amounts)

(unaudited)

For the periods ended September 30	Three Months		Nine Months	
	2010	2009	2010	2009
<b>Revenue</b>	<b>\$ 101,684</b>	\$ 99,009	<b>\$ 296,437</b>	\$ 274,402
Operating expenses	<b>80,027</b>	77,717	<b>234,725</b>	218,503
Selling, general and administration expenses	<b>9,559</b>	9,279	<b>26,546</b>	25,959
Foreign exchange loss (gain)	<b>129</b>	(658)	<b>(64)</b>	(1,273)
Amortization of property and equipment	<b>3,203</b>	2,985	<b>9,353</b>	9,062
Amortization of intangible assets	<b>980</b>	943	<b>2,895</b>	2,828
	<b>7,786</b>	8,743	<b>22,982</b>	19,323
Net interest expense (income) – long-term	<b>1,508</b>	1,456	<b>4,476</b>	4,372
– short-term	<b>(169)</b>	(35)	<b>(272)</b>	(145)
<b>Earnings Before Income Taxes</b>	<b>6,447</b>	7,322	<b>18,778</b>	15,096
<b>Income Tax Provision (Recovery):</b>				
Current	<b>1,180</b>	(419)	<b>5,991</b>	1,529
Future	<b>930</b>	921	<b>(198)</b>	(910)
	<b>2,110</b>	502	<b>5,793</b>	619
<b>Net Earnings and Comprehensive Income</b>	<b>\$ 4,337</b>	\$ 6,820	<b>\$ 12,985</b>	\$ 14,477
Earnings per share – basic and diluted	<b>\$ 0.12</b>	\$ 0.23	<b>\$ 0.40</b>	\$ 0.48
Weighted average number of shares outstanding – basic and diluted	<b>35,794</b>	29,937	<b>32,512</b>	29,884

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

(in thousands)

(unaudited)

For the periods ended September 30	Three Months		Nine Months	
	2010	2009	2010	2009
<b>Retained Earnings (Deficit) – Beginning of Period</b>	<b>\$ 5,775</b>	\$ 1,889	<b>\$ (478)</b>	\$ 435
Net earnings	<b>4,337</b>	6,820	<b>12,985</b>	14,477
Dividend declared	<b>(2,864)</b>	—	<b>(5,259)</b>	(6,203)
<b>Retained Earnings – End of Period</b>	<b>\$ 7,248</b>	\$ 8,709	<b>\$ 7,248</b>	\$ 8,709

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

(in thousands)

As at	September 30, 2010	December 31, 2009
	<i>(unaudited)</i>	<i>(audited)</i>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 83,819	\$ 30,193
Accounts receivable	53,819	48,909
Income taxes recoverable	—	495
Other current assets	5,853	5,089
	<b>143,491</b>	84,686
Restricted Cash	—	7,375
Note Receivable	—	88
Property and Equipment	111,950	104,381
Intangible Assets	18,330	15,135
Goodwill	66,603	63,764
	<b>\$ 340,374</b>	\$ 275,429
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 32,533	\$ 32,057
Distributions payable	—	4,491
Income taxes payable	5,506	—
Current portion of capital lease obligations	1,979	1,921
Current portion of long-term debt	804	339
	<b>40,822</b>	38,808
Capital Lease Obligations	5,962	6,978
Long-Term Debt	86,995	85,193
Asset Retirement Obligations	684	720
Future Income Taxes	14,780	14,531
	<b>149,243</b>	146,230
<b>Shareholders' Equity (Note 3)</b>		
Contributed surplus	961	961
Share capital	182,922	128,716
Retained earnings (deficit)	7,248	(478)
	<b>191,131</b>	129,199
	<b>\$ 340,374</b>	\$ 275,429

Commitments (Note 8)

Subsequent Events (Note 9)

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)

(unaudited)

For the periods ended September 30	Three Months		Nine Months	
	2010	2009	2010	2009
<b>Cash Provided by (Used in):</b>				
<b>Operating Activities</b>				
Net earnings	\$ 4,337	\$ 6,820	\$ 12,985	\$ 14,477
Items not affecting cash:				
Change in unrealized loss (gain)				
on foreign exchange	(20)	(1,272)	(13)	(5,097)
Unit-based compensation expense	—	84	—	127
Long-term debt – accretion	20	20	60	59
Gain on sale of business units	—	—	—	(23)
Fair value adjustment of notes receivable	—	311	—	568
Asset retirement obligations – accretion	8	10	22	30
Amortization of property and equipment	3,203	2,985	9,353	9,062
Amortization of intangible assets	980	943	2,895	2,828
Future income taxes	930	921	(198)	(910)
Loss (gain) on sale of equipment	(212)	177	(237)	(150)
	<b>9,246</b>	10,999	<b>24,867</b>	20,971
Change in non-cash working capital (Note 5)	<b>1,016</b>	(2,556)	<b>2,805</b>	3,494
	<b>10,262</b>	8,443	<b>27,672</b>	24,465
<b>Investing Activities</b>				
Expended on acquisitions (Note 2)	(10,880)	(75)	(11,346)	(3,075)
Asset retirement obligations – settlements	(10)	(75)	(100)	(133)
Proceeds from disposal of business unit	—	—	—	100
Proceeds from note receivable	27	32	88	53
Proceeds from sale of equipment	1,282	1,401	2,423	3,908
Purchase of property and equipment	(7,323)	(2,847)	(16,228)	(8,143)
	<b>(16,904)</b>	(1,564)	<b>(25,163)</b>	(7,290)
<b>Financing Activities</b>				
Dividends paid	(2,864)	—	(9,750)	(9,290)
Proceeds from restricted cash	7,375	—	7,375	3,000
Proceeds from long-term debt	1,321	2,143	2,193	2,269
Repayment of long-term debt	(196)	(39)	(559)	(393)
Payment of capital lease obligations	(577)	(493)	(1,647)	(1,375)
Net proceeds from issuance of equity (Note 3)	—	—	53,505	1,531
	<b>5,059</b>	1,611	<b>51,117</b>	(4,258)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(1,583)</b>	8,490	<b>53,626</b>	12,917
Cash and Cash Equivalents – Beginning of Period	<b>85,402</b>	22,878	<b>30,193</b>	18,451
Cash and Cash Equivalents – End of Period	<b>\$ 83,819</b>	\$ 31,368	<b>\$ 83,819</b>	\$ 31,368

The accompanying notes are an integral part of these statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the periods ended September 30, 2010 and 2009

(Unaudited, tabular amounts in thousands)

### 1. Basis of Presentation

These unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements using the same accounting policies as were applied in the audited consolidated financial statements for the year ended December 31, 2009. These interim financial statements do not conform in all respects with disclosure required for annual financial statements and should be read in conjunction with the audited consolidated financial statements of Contrans for the year ended December 31, 2009.

#### Continuity of interest

On December 1, 2009, under a plan of arrangement, Contrans Income Fund ("the Fund") was effectively converted into a corporation, Contrans Group Inc. ("the Group"). This conversion was recorded using the continuity of interest method of accounting. Accordingly, the consolidated financial statements contained in this interim report, which have been prepared in accordance with GAAP and reported in Canadian funds, detail the performance and financial position of the Group and the Fund for the periods ended September 30, 2010 and September 30, 2009 as if the Group had always carried on the business carried on by the Fund.

### 2. Acquisitions

Period ended September 30, 2010

	Truboy	ProWerx <sup>(1)</sup>	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	51	2,788	2,839
<b>Fair value of assets acquired</b>	<b>1,123</b>	<b>14,028</b>	<b>15,151</b>
Accounts payable and accrued liabilities	5	2,000	2,005
Capital leases assumed on acquisition	79	—	79
Debt assumed on acquisition	573	—	573
Future tax liability	—	1,148	1,148
<b>Fair value of liabilities assumed</b>	<b>657</b>	<b>3,148</b>	<b>3,805</b>
	\$ 466	\$ 10,880	\$ 11,346
<b>Consideration</b>			
Cash	\$ 466	\$ 10,880	\$ 11,346

(1) The allocation of the ProWerx purchase price is 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")	Jan. 29, 2010	Assets acquired	Ontario	Flatbed
ProWerx Disposal Ltd. ("ProWerx")	Sept. 20, 2010	100%	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.

### 3. Shareholders' Equity

	Contributed Surplus	Share Capital	Retained Earnings	Total
Balance at December 31, 2009	\$ 961	\$ 128,716	\$ (478)	\$ 129,199
Issue of share capital <sup>(a)</sup>	—	54,206	—	54,206
Net earnings	—	—	12,985	12,985
Dividends declared	—	—	(5,259)	(5,259)
<b>Balance at September 30, 2010</b>	<b>\$ 961</b>	<b>\$ 182,922</b>	<b>\$ 7,248</b>	<b>\$ 191,131</b>

#### 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 September 30, 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 September 30, 2010.

### 4. 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, 2009.

## 5. Cash Flow

Change in non-cash working capital:

For the periods ended September 30	Three Months		Nine Months	
	2010	2009	2010	2009
Increase in accounts receivable	\$ (3,222)	\$ (8,871)	\$ (3,030)	\$ (1,973)
Decrease (increase) in other current assets	(116)	349	(764)	250
Increase in accounts payable and accrued liabilities	3,272	6,502	598	4,035
Increase (decrease) in income taxes payable	1,082	(536)	6,001	1,182
Net change in non-cash working capital	\$ 1,016	\$ (2,556)	\$ 2,805	\$ 3,494
Cash paid (received) in respect of:				
Interest paid	\$ 1,463	\$ 1,456	\$ 4,344	\$ 4,372
Interest received	(169)	(35)	(272)	(145)
Income taxes – net	113	121	(12)	409
Non-cash transactions:				
Value of equipment financed through capital leases	—	—	702	—

## 6. 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.

## 7. 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.

## 8. Commitments

As at September 30, 2010, the Company had equipment on order with a value of approximately \$7.6 million.

## 9. Subsequent Events

### a) Acquisition

On October 4, 2010 Contrans acquired certain waste collection assets and customer contracts from BFI Canada Inc.'s Edmonton, Alberta operation for \$4.5 million.

### b) Dividend

On October 18, 2010 Contrans announced a dividend of \$0.08 per share. As a result, approximately \$2.9 million will be paid on November 15, 2010 to shareholders of record as at October 31, 2010.

## 10. Comparative Figures

Certain comparative figures have been restated to conform to the current period's basis of presentation.

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