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**NEW SOLUTIONS**

**VITRAN CORPORATION INC.**

1999 Annual Report



# VITRAN CORPORATION

A Driving Force in the North American Transportation Industry

Vitran Corporation is a leading, full service North American transportation company. The Company is achieving success with its established and growing distribution system, delivering premier service, cost-effective transportation and logistics solutions through a network of linked companies in Canada and the United States. The Company is comprised of over 3,000 employees and associates, including 540 owner/operators, and over 4,510 tractors and trailers. Operating from over 100 service centers and offices, Vitran drives home added value to its customers through a comprehensive range of distribution solutions, which include the following services separately or in combination:

- Less-than-truckload (LTL)
- Truckload (TL)
- Logistics
- Intermodal and Highway Brokerage

Cover: "The cover illustrates an employee of Livingston Inc., one of Vitran's valued customers, utilizing Vitran's new internet software that puts pertinent information at their fingertips 24 hours a day, seven days a week."



1999

## FINANCIAL HIGHLIGHTS

Amounts in thousands of Canadian dollars, except per share values

1999

1998

1997

## Operating Results

Revenue	\$ 479,780	\$ 416,143	\$ 351,310
Earnings before interest, taxes, depreciation and amortization	34,900	29,003	21,671
Income from operations	21,695	18,794	13,794
Net income	9,426	8,683	5,498
Cash from operations (before changes in working capital items)	20,821	22,116	14,852

## Per Share

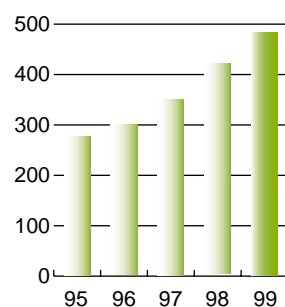
Basic earnings	\$ 0.95	\$ 0.90	\$ 0.58
Fully diluted earnings	0.87	0.83	0.54
Dividends	0.07	0.07	0.07

## Financial Position

Total assets	\$ 203,735	\$ 208,261	\$ 150,969
Interest bearing debt (not including bank indebtedness)	\$ 81,104	\$ 94,212	\$ 61,890
Shareholders' equity	\$ 70,657	\$ 64,755	\$ 51,434

## Revenue

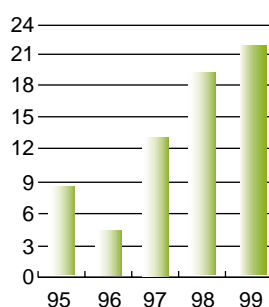
dollars in millions



Revenue for 1999 at \$479.8 million increased 15% from \$416.1 million in 1998.

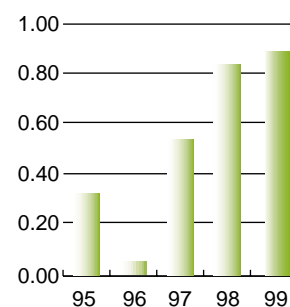
## Operating Income

dollars in millions



Operating income (EBIT) increased 15% from \$18.8 million in 1998 to \$21.7 million in 1999.

## Earnings per Share



Earnings per share (fully diluted) increased 4.8% to \$.87 in 1999 from \$.83 in 1998.



Anthony F. Griffiths  
Chairman of the Board



Richard D. McGraw  
President and  
Chief Executive Officer

Vitrان Corporation achieved record levels of revenue and income for the third consecutive year, including year-over-year improvements at most of its divisions. Additionally, the Company significantly strengthened the competitiveness of its North American less-than-truckload (LTL) distribution system in 1999. Early in the second quarter of 1999, the Company combined its two U.S. central states subsidiaries to launch Vitrان Express, and in the process, created one of the largest next day delivery carriers in the central states region. The combined operation created many new, enhanced service offerings for our customers. However, Vitrان Express encountered some difficulties as a result of the integration of the two carriers that temporarily impacted our goal of maximizing the bottom line potential from this initiative. Although our U.S. LTL division had a good year, it did not live up to the high expectations that we had set for it. Fortunately, the majority of Vitrان's other business units demonstrated continued improvement in 1999, contributing to our record results and our success as a premier North American transportation services provider.

### Financial Highlights

Vitrان's 1999 revenue increased 15% to \$480 million, compared to \$416 million in 1998, reflecting full-year results of the U.S. LTL acquisition we made in September 1998, combined with internal growth. Earnings before interest, taxes, depreciation and amortization (EBITDA) rose 20% to \$35 million from \$29 million in 1998. Operating income (EBIT) increased 15% to \$22 million in 1999, versus \$19 million in the previous year. The Company's earnings per share on a fully diluted basis increased to \$0.87 in 1999 (basic \$0.95), compared to \$0.83 (basic \$0.90) in the year-earlier period. Vitrان's operating ratio (OR), a standard measurement of efficiency in the transportation business, remained at 95.5%. Both the distribution system and the environmental business achieved year-over-year OR improvements.

### Expectations

Vitrان's consolidated net income has grown at the rate of 17% compounded annually for the past five years. While ahead of the previous year, this year's net income growth was less than the historical rate and less than expected largely as a result of the integration difficulties we experienced at Vitrان Express. As Vitrان Express represents 45% of total revenue, the shortfall in performance had a significant impact on consolidated results.

While we did not deliver the expected returns to shareholders given the potential for the newly created Vitrان Express, there are many reasons to be optimistic about its future success. By combining and eliminating certain service centers, we successfully reconfigured our network to provide customers with faster transit times and internal operating efficiencies. The integrated network now covers 18 states and is more competitive by offering greater geographic coverage to every customer. Many adjustments have been made to the operation, and given the positive acceptance from our customers of the new services, we expect results to improve in 2000.

Several of our other divisions had strong performances in 1999. Our Canadian LTL operation had a record year, achieving its best operating ratio ever of 91.9%. Our truckload business overcame an industry-wide driver shortage, turning in a very good performance last year and achieved a 1% improvement in its operating ratio. The logistics group gathered new momentum and finished the year with a strong performance. The environmental group completed the change to its business model so that it is now less sensitive to commodity price fluctuations. As a result, this division also generated a significant improvement in its financial results.

### Strategic Plan

Vitrان's ongoing goal is to continue developing our LTL-based North American, business-to-business distribution system with complementary services that facilitate the

delivery of cost-effective solutions for customers. Our strategy is to expand further our network with regional, stand-alone business units that service logical economic geographic areas. To date, our network has been fully developed in the U.S. central states and throughout all Canadian provinces. Growth has been achieved by disciplined acquisitions and internal efforts. We intend to pursue new acquisitions in the near future to extend our geographic coverage, ultimately building a system which serves the entire North American continent. While searching for the next target is an ongoing process, our current emphasis is to continue developing our existing system and achieving performance goals and priorities for the year ahead.

### E-commerce Strategy

Given today's exciting age of rapid electronic communication and exploding e-commerce, we have made e-commerce a major priority at Vitran. It is also the theme of this annual report. Vitran is focused on capitalizing upon many of the opportunities presented by the Internet. Since all of our client relationships are business-to-business oriented, we are utilizing the Internet to enhance customer service levels and improve our internal communications and operating efficiencies.

### 1999 Priorities Review

- Improve operating ratio by 1.5 percentage points. *Remained the same as last year.*
- Accelerate our technology development programs. *Very progressive internet software was developed and new information systems introduced.*
- Refine capital structure to support long-term growth. *A new long-term debt facility was arranged with a consortium of banks resulting in increased flexibility.*
- Maintain our commitment to safety throughout the organization. *Positive trends were continued.*
- Increase or maintain ROCE performance. *Decreased to 13.5%.*
- Improve the liquidity of Vitran shares. *The capital markets did not afford very much opportunity.*

### 2000 Priorities

- Improve performance of Vitran Express
- Further improvements in operating ratio
- Further development of technology
- Maintain commitment to safety

### Environmental Group

The environmental business has been reengineered with a change in management and a significant investment in technology that has resulted in a material improvement in financial performance. While not a core business, the enterprise is generating free cash flow and contributing to shareholder value. The challenge for management is to find a way to properly monetize the growth potential for Vitran shareholders. In the meantime, the business will remain in the Vitran Group.

### Outlook

The economies of Canada and the United States are buoyant. Most economists are predicting continued growth, with some caution offered because of expected interest rate increases. Consequently, the Company's financial results should continue to improve, especially as the performance of the Vitran Express operation better reflects its tremendous potential.

### Recognition

The success we have enjoyed is a direct reflection of the hard work, dedication and diligence of over three thousand Vitran employees, associates and contractors throughout our organization, and we would like to thank everyone on behalf of our shareholders. We would also like to thank the shareholders and other stakeholders for their continued support that is essential. We look forward to reporting to you on our progress throughout 2000 and the years ahead.



Anthony F. Griffiths  
Chairman of the Board



Richard D. McGraw  
President and  
Chief Executive Officer





“Utilizing new Internet communications and Internet-delivered services is a powerful way for Vitran to deliver a higher quality of service and to raise the bar on our partnership relationship with our clients.”

**Rick E. Gaetz, President and Chief Operating Officer,  
Vitran Distribution Systems**



# COM

Vitran moved forward dramatically in 1999, building on its commitment to forge stronger, more powerful customer connections and improve Vitran's operating efficiency by expanding its electronic commerce capabilities in its LTL business unit.

### **Online to More Valuable Customer Relationships**

“Information and interaction were the wheels that continued to drive home better connections with our customers in 1999,” says Rick Gaetz, President and Chief Operating Officer, Vitran Distribution Systems. “We understood early on that the Internet was an extraordinarily effective tool for delivering new solutions for our customers, and in turn, for helping us improve operating efficiency.”

For example, Vitran's Canadian LTL division developed and launched a proprietary and innovative online solution in 1999. It allows customers to trace and monitor shipment status,

view such documents as Proof of Delivery and Bill of Lading, and review historical activity, all at their fingertips, 24 hours a day, seven days a week. Vitran also empowered its customers to manage their own shipping information in a report format that they can customize to their specific business needs. Vitran's future plans include adding capabilities for order placement and claims status, and rolling out the program into the U.S. LTL business.

### **Rapid Acceptance of Internet Program**

“Because of its ability to speed up information flow and accessibility online, this program became widely accepted very quickly,” explains Rick Gaetz. “Vitran is able to be more accountable, while creating more valuable and lasting relationships with our customers. As we further develop our online solution, we expect to be able to operate even more efficiently. While we began with the LTL operation, Vitran is committed to extending our internet capabilities to other business units during 2000.”



# MAKING NEW CONNECTIONS WITH MUNICIPALITIES





**DRIVEN TO BE**

# NORTH AMERICAN

Vitran's North American LTL freight division, which is its largest division and represents 75% of its distribution revenues, continued to improve and develop all aspects of the service in both countries. Transit times were shortened in key lanes throughout the system and in particular across the trans-border gateways in the East, Midwest and West, making it one of the most competitive services available.

## **Integrating the Network**

Customers are serviced through a network of 80 terminal locations throughout Canada and the United States. The range of LTL service includes regional, national and expedited, and is delivered with a 98% on-time accuracy standard. In Canada, the LTL operation is a market leader, offering over the road, intermodal and expedited services utilizing trailers and containers.

In Spring 1999, Vitran combined its two business units, Overland Transportation and Quast Transfer, to create one integrated operation offering coverage in 18 central states. This new entity was rebranded as Vitran Express and became one of the largest next day LTL carriers in the region. This consolidation of geographic coverage under one carrier resulted in a dramatic expansion of service for every customer of both original companies. Customers also benefit from access to 14 northeastern states through a partnership with New England Motor Freight and a further 11 states through a special relationship with Saia Motor Freight.

The intense process of integration combined with the introduction of a new information system continued over a number of months. The priorities included maintaining service levels, reconfiguration of the terminal network, rebalancing of the operations and realignment of the organization.

As expected, the process was very challenging, particularly as it was undertaken in a tight labour market. With many of the priorities substantially completed, the focus is now on optimizing financial performance.

## **Expanding Coverage**

"Vitran Express now offers hundreds of new one day delivery service lanes throughout the central states," explains George Reid, President, U.S. LTL Operations. "With our ownership of the infrastructure on both sides of the border and our quality and control of service, we are now offering the best transit times in the industry. This is especially advantageous for our American customers, as considerably more LTL freight flows north than it does south over the border."

"We've built the finest and most flexible LTL coverage in Canada, a service that can be customized to meet a full range of transit times and modes to accommodate any customer's requirements," says Tony Trichilo, President, Canadian LTL Operations. "The service includes next day service, east-west national coverage and north-south distribution from three different gateways."

## **In the Fast Lane**

The expedited service that Vitran offers under the names Maximum in Canada and Silver Service in the U.S. continued to grow dramatically in 1999. Expedited services allows the Company to offer an additional way to take care of its customers' distribution needs. This service accommodates time-sensitive freight that utilizes Vitran's existing network of facilities and equipment, but offers faster transit times when a customer just has to get it there. It's another way for Vitran to offer one-stop service.





# LTL

“We were focused in 1999 on providing every American and Canadian customer with the best quality LTL service within and between the two countries, completely ignoring the border.”

Tony Trichilo, President, Canadian LTL Operations (top)

George Reid, President, U.S. LTL Operations (bottom)



# LOGISTICS

## TO MANAGE A TOTAL SOLUTION



“The added value of logistics service from Vitran is that everything we do is focused on lowering a customer’s overall cost and providing a total solution.”

**Al Leger, Vice President, Vitran Logistics**

The Company’s logistics efforts are focused on bringing value to the supply chain. The Company addresses logistics by going deeper into the supply chain to manage a total solution, one that includes state-of-the-art information and systems support, and is advantageous for both the Company and its customers. The goal with every solution is to gather fragments of data within the various logistics processes extrapolating mission critical information for our clients. That requires a sound understanding of our client’s business drivers. Those drivers go far beyond our client’s loading docks and reaches in financial areas such as inventory carrying costs, return on capital, logistics costs per revenue dollar and total costs.

### **Bringing Value to the Supply Chain**

“Vitran is very specific in its logistic effort,” says Al Leger, Vice President, Vitran Logistics. “There is no instant ‘out of the box’ solution. Each solution is customized for the customer to address individual

requirements, and due to the in-depth analysis required, takes considerable time to develop. We emphasize the use of Vitran transportation equipment and services where it is competitive. By speeding up cycle times and overall performance, Vitran’s ultimate goal is to lower total costs for a particular customer solution. For example, a solution may eliminate a customer’s distribution centre, reduce the elapse time from production to the ultimate destination or it may improve a customer’s inventory turns. In each case, Vitran strives to improve the distribution metrics by looking at all the issues, including costs, time, investment and efficiencies.”

### **Eliminating the Need for Traditional Warehousing**

By controlling the total process, as opposed to contracting the services out to a number of different providers, Vitran can assure its customers both a higher level of service and cost savings at the same





time. Vitran eliminates the need for traditional warehousing by operating special flow-through facilities on both sides of the border. A new state-of-the-art flow-through facility was opened in Chicago in January 1999, which is a dedicated facility for a major national retailer. This facility accepts product from hundreds of vendors, 24 hours a day. Orders are then picked, packed and delivered directly to the retailer's stores located within a 2,200-mile radius on a pre-determined schedule. In its first year of operation, over half a million pallets of product were moved through the facility, an indication of the scale and success of the facility.

The Company's logistics efforts are focused on bringing value to the supply chain. The Company addresses logistics by going deeper into the supply chain to manage a total solution, one that includes state-of-the-art information and systems support, and is advantageous for both the Company and its customers.





"We offer a premium service throughout the Midwest and southeastern states 24 hours a day, seven days a week!"

Steve Cook, President, Frontier Transport

SHORT HAUL PREMIUM SERVICE

# TRUCKLOAD







## Met the Driver Challenge — Increased Profitability

Frontier Transport is Vitran's U.S. regional same day service truckload business that services Midwest and Southeast states. Although primarily a dry van service, Frontier does offer limited refrigerated service in the Midwest. Headquartered in Indianapolis, the company has a fleet of over 1,000 trailers and more than 250 owner/operators under contract. Frontier's customer base includes a large number of companies in many different industries, which require a high quality, reliable service. The company provides highly responsive service around the clock, seven days a week, with most assignments completed within 24 hours.

Over the last three years the trailer fleet has been converted to 53' vans, specially built to handle all of our customers' shipping weight and cubic requirements. New computer systems were installed in the past year to increase productivity and accommodate anticipated growth in volume.

## Improved Performance in 1999

The only barrier to revenue growth is the availability of owner/operators and with very aggressive recruiting and creative retention programs the company is progressing very well. During 1999, Frontier handled 11% more loads compared to the previous year and increased its revenue by 11%. Earnings before interest and taxes increased 28% to \$3.3 million and the operating ratio improved by almost 1%. "These results were excellent considering the difficulties encountered in recruiting owner/operators coupled with the challenges of increasing fuel prices," explains Steve Cook, President, Frontier Transport.

The Frontier name is synonymous with service and demand has consistently exceeded our ability to supply. Expectations are that this business unit will continue to grow in line with its ability to recruit dedicated safety-conscious drivers.



**“We can put forth a North American transportation solution that combines the best of the available rail and road alternatives.”**

**Geoff Duncan, President, The Freight Connection U.S. (top)**  
**Adrian Facca, Vice President, TFC Canada (bottom)**

# INTERMODAL & HIGHWAY BROKERAGE

Vitran's non-asset brokerage business operates under the name The Freight Connection (TFC). It provides a North American service to its customers through an inter-linked network of offices, time-proven relationships with all the major railroads and thousands of transportation providers, as well as all of Vitran's other divisions. TFC has offices in Atlanta, Los Angeles, Chicago and Toronto.

TFC transportation professionals respond daily to requests for customized transportation solutions and enjoy repeat business because of their creativity, knowledge, reliability and speed of execution.

The 1999 fiscal year was a transitional year for both the American and Canadian divisions of this

operation. Shifting requirements of a number of its major customers resulted in significant modifications to both organizations, and negatively impacted profitability. Fortunately, these are highly variable cost operations with limited assets. Therefore management was able to react in a timely and effective manner to the change in circumstances.

TFC management expects to reestablish its traditional revenue growth rate and return operations to historical profitability levels. Generally, rail service in the U.S. is expected to improve to levels satisfactory to our customers, and highway service volumes continue to grow. Accordingly, the TFC group is expected to demonstrate a year-over-year improvement in year 2000.



## NEW RECYCLING BUSINESS MODEL DRIVES INCREASED PROFITABILITY

# ENVIRONMENTAL



ETL Environmental (ETL) recycles newspaper, cardboard, metal and plastic sourced from industry and community recycling programs. The business is headquartered in Vancouver, British Columbia and obtains its feedstock within a 500-mile radius. The business model has been significantly modified over the past three years by new management. It has been converted from a labour-dependent, commodity price-sensitive operation to one that is founded on technology and depends on steady margins and optimum volumes. Profitability is now being achieved by maximizing productivity and generating steady volumes of pre-sold material.

### Dramatic Change in Production

In 1999, ETL processed and sold 127,000 metric tons of material from three locations, representing a 31% increase over the previous year's activity level. More importantly, the earnings before interest and taxes have increased by more than five times, and on a per ton basis, more than three and a half times, indicating a considerable increase in productivity.

"During the year 2000, ETL plans to open several new processing centers both inside and outside its current operating territory, which will provide new opportunities to continue the profitable growth trends," explains Gerry Wiebe, President, ETL Environmental. "ETL's recently opened glass processing facility exemplifies the revised operating model with state-of-the-art optical reading processing equipment which is controlled by leading edge industrial software."

"With the investment in technology, we are recovering higher quality material and reaching new levels of productivity."

Gerry L. Wiebe, President, ETL Environmental Technologies Ltd.

## MANAGEMENT DISCUSSION AND ANALYSIS



**Kevin Glass**  
Vice President Finance  
and Chief Financial  
Officer

Vitran Corporation recorded its third consecutive year of financial improvement, with strong performance in most business units, resulting in higher revenue and earnings than has been achieved in any previous year.

### **Year Ended December 31, 1999 Compared to the Year Ended December 31, 1998**

#### **Consolidated Results**

Vitran's revenue grew impressively in 1999, increasing by \$63.6 million to \$479.8 million, a substantial 15.3% increase over 1998. The majority of the increase was in the U.S. less-than-truckload (LTL) unit, reflecting the full-year impact of the Quast acquisition; however strong revenue growth was also realized in the U.S. truckload (TL) and environmental business units.

Gross profit increased by over \$9.1 million, or 12.1%, from \$75.5 million to \$84.6 million, while the gross profit margin decreased slightly from 18.1% in 1998 to 17.6% in 1999. Costs were largely held in line as revenue increased, which enabled the company to generate the record gross profit results.

Selling, general and administrative (SG&A) expenses decreased as a percentage of revenue from 11.2% in 1998 to 10.4% in 1999, a reflection of the Company's ongoing focus on cost control.

Earnings before interest, taxes, depreciation and amortization (EBITDA) increased significantly during the year, rising by \$5.9 million or 20.3% to \$34.9 million. Depreciation and amortization expenses of \$13.2 million represent a 29.4% increase over the \$10.2 million in 1998, reflecting depreciation on capital purchases made in recent years, as well as the full-year impact of the amortization charge relating to the goodwill recorded on the acquisition of Quast.

The consolidated operating ratio in 1999 was 95.5%, the same as it was in 1998. The operating ratio (OR) is the total of operating expenses before interest and taxes expressed as a percentage of revenue. By maintaining profit margins, the increased revenue generated earnings before interest and taxes (EBIT) in 1999 of \$21.7 million, higher by \$2.9 million, or 15.4% than 1998.

Income taxes for the year were \$4.3 million,

producing an effective tax rate of 31.2%. This is slightly higher than the 30.1% for 1998, a consequence of a lower proportion of income earned in lower tax jurisdictions.

Interest expense, net of interest income increased from \$5.9 million in 1998 to \$7.8 million in 1999, resulting from the impact of an entire year of borrowings for the Quast acquisition.

Net income increased from \$8.7 million to \$9.4 million, dropping slightly as a percent of revenue from 2.1% in 1998 to 2.0% in 1999, due to a slightly higher tax rate and a higher interest expense.

Basic earnings per share was \$0.95 per share versus \$0.90 per share in 1998 with fully diluted earnings per share being \$0.87 versus \$0.83 in 1998. The weighted average shares outstanding increased from 9.6 million in 1998 to 9.9 million in 1999.

#### **Segmented Results**

Revenue in the LTL business unit grew by \$58.2 million, or 20.2%, from \$288.6 million to \$346.8 million. As discussed previously, the majority of this increase was due to the Quast acquisition; however, the Canadian LTL unit also successfully grew its revenues during 1999. Operating income for the LTL unit increased from \$18.0 million to \$19.8 million, a rise of 10.2%. This strong result was driven by both the increase in business as well as significant operating efficiency improvements in the Canadian LTL unit.

The U.S. TL operation had a highly successful year, with revenues increasing by \$4.7 million or 10.5%. This achievement was particularly impressive given the industry challenges of attracting and retaining owner/operators. The increase in revenue, together with an improvement in the OR from 94.3% to 93.4%, drove a substantial improvement in income from operations of \$0.7 million from \$2.6 million to \$3.3 million.

The revenues of the logistics & intermodal group decreased from \$70.8 million to \$66.8 million. This reduction in revenue occurred in the intermodal unit, and was a result of several key factors, including continued poor service from certain rail service providers, severe shortages of container equipment, the termination of a cartage





contract, and reduced business with a large volume customer. The logistics unit however performed well, most notably in the second half of the year. Notwithstanding the \$4.0 million drop in revenue, income from operations decreased by only \$0.5 million from \$1.2 million to \$0.7 million.

The Environmental Services Group had a successful year, with revenues increasing by \$4.8 million, or 40.3%, from \$11.9 million to \$16.7 million. Vitran invested over \$2.0 million in this operation in 1999, as it is clear that management continues to add value to the business. Changing its business practices to focus increasingly on generating revenue from processing and adding value to commodities processed paid dividends, and the operating ratio decreased from 98.2% in 1998 to 93.5% in 1999. The increase in revenue and improved operating margins has driven a significant improvement in income from operations, which dramatically increased by over 400% to \$1.1 million in 1999 from \$0.2 million in 1998.

### Year Ended December 31, 1998 Compared to the Year Ended December 31, 1997

#### Consolidated Results

Vitran's revenue growth continued in 1998, both at an internal double-digit rate and by the acquisition of Quast. Revenues increased by \$64.8 million, or 18.5% over 1997 to \$416.1 million. Volumes grew in all units and pricing within the industry was stable as the economies of Canada and the United States remained strong in 1998, though slowing through the latter half of the year.

The consolidated gross profit margin for the Company in 1998 was 18.1% versus 16.4% in 1997, an improvement achieved through efforts made to operate with higher efficiency and better productivity in both the Vitran Distribution System and the Environmental Services Group.

SG&A increased as a percent of revenues from 10.2% in 1997 to 11.2% in 1998, negatively affected by expenses associated with the opening of new facilities and the integration of Quast into the U.S. LTL operation.

EBITDA for 1998 was \$29.0 million, an increase of 33.8% over 1997.

Depreciation and amortization expense was \$10.2 million for the year, \$2.3 million more than the prior year. Capital purchases made over recent years and the charges incurred by Quast, including the amortization of goodwill recorded on the acquisition of Quast, account for the increase.

EBIT for the Company was \$18.8 million for 1998 as compared to \$13.8 million in 1997, an improvement of 36.2%. This produced an improved OR of 95.5% in 1998 versus 96.1% in 1997. This improvement was largely because of efforts to streamline operations and take advantage of synergies that exist between the various business units.

Income taxes for the year were \$3.8 million. The effective tax rate decreased due to an increasing proportion of income in lower tax jurisdictions.

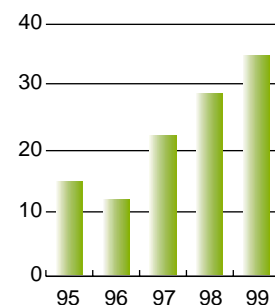
Net income increased \$3.2 million from 1997 to \$8.7 million in 1998. The net income margin improved from 1.6% to 2.1% on better operating results coupled with a reduction in the effective tax rate, more than offsetting the impact of increased interest costs. Basic earnings per share was \$0.90 per share versus \$0.58 per share in 1997, and fully diluted earnings per share were \$0.83 versus \$0.54 in 1997. The weighted average shares outstanding increased from 9.4 million in 1997 to 9.6 million in 1998.

#### Segmented Results

Of the \$64.8 million revenue increase, 80.7% is attributable to the LTL division, and over half of that, to the inclusion of Quast's results for the last four months of the year. Terminal expansion and improved density generated the internal growth. The growth in revenue, together with a slightly improved operating ratio, generated operating income of \$18.0 million, a 27.5% improvement over 1997.

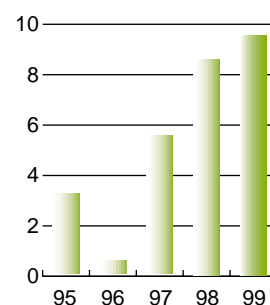
The U.S. TL division grew revenue by over \$4.5 million, or 11.3%, in 1998. Demand for the TL service was strong and management's ability to attract and retain owner/operators has supported the revenue growth. Operating profits of the U.S. TL division improved dramatically from 1997, almost tripling to \$2.6 million in 1998. This was due to the success of cost control measures and an

#### EBITDA dollars in millions



Operating income before depreciation and amortization (EBITDA) at \$34.9 million increased by 20% from \$29.0 million in 1998.

#### Net income dollars in millions



Consolidated net income increased to \$9.4 million, or \$0.95 per share from \$8.7 million, or \$0.90 per share in 1998.

## MANAGEMENT DISCUSSION AND ANALYSIS continued



effective driver recruitment program that provided capacity to handle increased demand.

Revenues in the logistics and intermodal/freight brokerage divisions increased by over \$8.7 million, a 14.0% increase over 1997. Almost two thirds of the improvement was achieved by The Freight Connection (TFC), an 81.1% owned public subsidiary, through the opening of additional sales offices, a program that began in 1997. Operating income of \$1.2 million was slightly lower than 1997 as costs relating to expanding the infrastructure were absorbed.

The Environmental Services Group continued to improve in 1998. Efficiencies achieved through investments in new equipment coupled with an emphasis on more stable processing revenue resulted in a significantly improved bottom line.

### Liquidity and Capital Resources

In 1999, cash flow from operations before working capital changes was \$20.8 million compared to \$22.1 million in 1998. While net income increased by over 8.5%, the reduction in deferred income taxes of \$2.1 million versus an increase of \$2.7 million in 1998 was the main driver of the decrease.

Non-cash working capital increased by \$6.1 million due primarily to an increase in accounts receivable, offset somewhat by an increase in the balance of net payables.

Interest bearing debt was \$86.5 million at the end of the year, versus \$94.2 million at December 31, 1998. Interest bearing debt as a percentage of total capital decreased from 59.2% in 1998 to 54.2% in 1999. The Senior Notes and the new credit facilities noted below are secured by the Company's Canadian assets.

During the year, the Company negotiated credit facilities with a syndicate of major Canadian banks. These facilities are comprised of revolving credit facility of \$10.0 million and a revolving credit facility convertible into a non-revolving term credit facility of \$55.0 million. At December 31, 1999, the Company had bank indebtedness of \$2.5 million and had utilized \$30.0 million of the revolving term facility. Management expects that existing working capital, together with available bank lines of credit, are sufficient to fund operating

and capital requirements in 2000, as well as service the principal debt repayment requirements of \$36.2 million, a portion of which has been refinanced.

Capital expenditures for the year were \$17.1 million compared to \$10.3 million in 1998. \$14.4 million was invested in revenue equipment, computers, and facilities in the LTL operation.

### Year 2000 Issue

Vitran initiated its Year 2000 Compliance Plan in late 1996 with the objective of having its internal mission critical systems modified and tested for year 2000 compliance by the end of the second quarter 1999. The overall program was executed on plan and all mission critical systems were compliant, fully tested and implemented before year-end. Where appropriate, organizational units had prepared contingency plans, but executing them did not prove necessary.

By modifying and replacing internal systems, monitoring the readiness of key customers and suppliers, and preparing appropriate contingency plans, the Company successfully mitigated the risk of the year 2000 issue. As of February 16, 2000, no year 2000 incidents negatively impacting business operations, infrastructure or business relationships have been experienced. While it is not possible to be certain that all aspects of the year 2000 issue affecting the Company – including those relating to external parties – will not have any negative impact, it is believed that no material interruptions will occur. All systems will continue to be monitored for year 2000 compliance.

To date, the Company has expensed all costs associated with the year 2000 program. The Company does not expect the year 2000 program to result in significant additional costs, given the use of internal resources and the operational (as opposed to compliance) needs for new information systems within the Company.

### General Risks and Uncertainties

The Company is exposed to a number of general risks and uncertainties which could impact results.

The nature of the Company's business means that it is sensitive to general economic conditions, although this is mitigated somewhat by the variable nature of many of the Company's costs.





The Company is not dependent on any particular industry or customer. Adverse weather conditions such as heavy snow, ice storms, and extreme cold have a negative impact on operating results. Labour represents Vitran's most significant cost and key to service quality. The Company has a history of positive labour relations which will continue to be important to future success. While diesel fuel represents an important cost component to Vitran, the extensive use of owner-operators and the ability to share significant fuel increases with customers reduces this risk.

The Senior Notes are at fixed rates of interest. Subsequent to year end, the full amount drawn under the revolving term facility was converted to a fixed rate loan denominated in U.S. dollars. This acts as a hedge to the foreign currency exposure generated by the Company's U.S. dollar denominated revenue, which represented 64.7% of total revenue in 1999.

## Outlook

The Company remains committed to the strategic plan formulated in 1997 by the Vitran Board of Directors and the senior management team. At its foundation is the establishment of a comprehensive North American distribution network with an immediate emphasis on the LTL services. More specifically, the plan focuses on creating a family of regional LTL companies located in the United States and Canada that can also be utilized to provide a full range of North American transportation services. The intent is to realize these objectives by consistent internal growth and highly selective acquisitions.

During 1999, progress towards achieving this goal continued to be made with the combination of Quast and Overland to form Vitran Express and significant improvement in the Canadian LTL unit. The Company expects continued strong performance from the Canadian LTL business unit and anticipates seeing more benefits from the integrated U.S. LTL operation in the Mid-west U.S. market, where increased market and customer-base expansion is already being realized. Significant investment will be made in rolling stock, real estate, and information technology in 2000.

The TL division continues to improve and will

be strengthened with continued investment in the trailing fleet and information technology infrastructure. The biggest challenge in this unit continues to be the attraction and retention of owner-operators; however, it is well poised for another successful year in 2000.

The logistics & intermodal unit will concentrate on expanding market share, as well as continue to focus on efficiency and cost control, to mitigate the extent of the negative impact of reduced business in 1999. The intermodal unit has been strategically restructured to eliminate marginal branches and centralize all administrative functions. As well, the U.S. head office has been relocated to Atlanta, GA from Tampa, FL. The logistics portion of this business unit has solidified its operations, is providing consistent high-quality service, and should see strong performance in 2000.

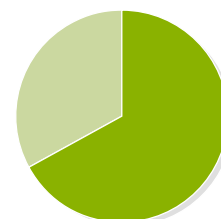
The Environmental Services Group will build on the success achieved in 1999 with continued investment to add value to the operation. A new glass processing plant will come on stream early in 2000 and a number of new processing centres for both fibre and containers are scheduled for development during the year. These new initiatives, together with the benefit from investments made in 1999, should generate a strong 2000. While this operation is considered a non-core asset, its strong growth in both revenue and profitability means that the timing of realizing its value needs to be carefully considered.

Vitran's financial performance should continue to improve since all divisions are well positioned to succeed. Vitran Express has completed its integration groundwork and continued investment will be made in all of the Company's divisions to maximize performance.

## Forward Looking Statements

This report contains certain forward-looking information that is subject to certain risks and uncertainties as indicated from time to time in the Company's filings with the Securities and Exchange Commission. These risks and uncertainties include, but are not limited to, the future performance of the economy, competitive and pricing pressures, labour relations, fuel costs, and other factors impacting the transportation industry.

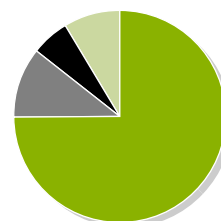
### U.S./Canada Transportation Revenues



■ Canada ■ U.S.

Vitran generates 67% of its transportation revenues in the United States and 33% in Canada.

### Transportation Revenues



■ LTL ■ Logistics  
■ TL ■ Intermodal

The LTL division is Vitran's largest and represents 75% of its transportation revenues.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Vitran Corporation are the responsibility of management and have been prepared in accordance with generally accepted accounting principles and, where appropriate, reflect estimates based on management's judgement. In addition, all other information contained in the annual report is also the responsibility of management.

The Company maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the financial information provided is accurate and complete and that all assets are properly safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board appoints the Audit Committee comprised of non-management directors that meets with management and KPMG LLP, the external auditors, at least once a year to review among other things, accounting policies, annual financial statements, the results of the external audit examination, and the management discussion and analysis included in the annual report. The Audit Committee reports its findings to the Board of Directors so that the Board may properly approve the financial statements.

### Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Vitran Corporation Inc. as at December 31, 1999 and 1998 and the consolidated statements of income, retained earnings and cash flows for each of the years in the three year period ended December 31, 1999. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and 1998 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 1999 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Toronto, Canada  
February 16, 2000



# CONSOLIDATED BALANCE SHEETS

Amounts in Canadian dollars



December 31,	1999	1998
<b>Assets</b>		
<i>Current assets:</i>		
Cash and short-term deposits	\$ –	\$ 4,964,185
Accounts receivable	60,696,285	52,605,615
Inventory, deposits and prepaid expenses	5,223,189	4,758,375
Income taxes recoverable	346,513	600,604
	66,265,987	62,928,779
<i>Fixed assets</i> (note 3)	64,146,774	65,090,075
<i>Goodwill</i> , net of accumulated amortization of \$9,218,034 (1998 - \$6,712,842)	73,322,170	80,242,565
	\$ 203,734,931	\$ 208,261,419
<b>Liabilities and Shareholders' Equity</b>		
<i>Current liabilities:</i>		
Bank indebtedness (note 4(g))	\$ 2,485,986	\$ –
Accounts payable and accrued liabilities	44,144,165	42,171,894
Income and other taxes payable	1,679,305	2,046,346
Current portion of long-term debt (note 4)	12,423,507	23,152,333
	60,732,963	67,370,573
<i>Long-term debt</i> (note 4)	68,680,174	71,059,627
<i>Deferred income taxes</i>	3,019,064	4,436,442
<i>Minority interest</i>	645,644	639,443
	72,344,882	76,135,512
<i>Shareholders' equity:</i>		
Capital stock (note 5)	39,271,075	38,685,604
Retained earnings	32,872,753	24,190,109
Cumulative translation adjustment (note 6)	(1,486,742)	1,879,621
	70,657,086	64,755,334
	\$ 203,734,931	\$ 208,261,419
<i>Commitments</i> (note 10)		
<i>Contingent liabilities</i> (note 11)		

On behalf of the Board:

Director

Director

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF INCOME

Amounts in Canadian dollars

Years ended December 31,	1999	1998	1997
<b>Revenue</b>	<b>\$ 479,780,336</b>	<b>\$ 416,142,954</b>	<b>\$ 351,310,440</b>
Operating expenses	395,161,898	340,642,020	293,693,242
Gross profit	84,618,438	75,500,934	57,617,198
Selling, general and administrative expenses	49,718,025	46,498,328	35,945,985
<i>Income from operations before depreciation and amortization</i>	<i>34,900,413</i>	<i>29,002,606</i>	<i>21,671,213</i>
Depreciation and amortization	13,205,882	10,208,510	7,877,388
<b>Income from operations</b>	<b>21,694,531</b>	<b>18,794,096</b>	<b>13,793,825</b>
Interest on long-term debt	(7,953,781)	(6,643,414)	(5,683,416)
Interest income	196,302	782,497	738,017
Loss on sale of investment (note 2)	—	—	(73,281)
Gain (loss) on sale of fixed assets	(234,639)	(441,298)	88,272
	(7,992,118)	(6,302,215)	(4,930,408)
<b>Income before income taxes and minority interest</b>	<b>13,702,413</b>	<b>12,491,881</b>	<b>8,863,417</b>
Income taxes (note 8):			
Current	6,322,096	1,025,805	1,873,711
Deferred (reduction)	(2,051,830)	2,735,030	1,329,704
	4,270,266	3,760,835	3,203,415
<b>Income before minority interest</b>	<b>9,432,147</b>	<b>8,731,046</b>	<b>5,660,002</b>
Minority interest	(6,201)	(48,098)	(162,389)
<b>Net income</b>	<b>\$ 9,425,946</b>	<b>\$ 8,682,948</b>	<b>\$ 5,497,613</b>
<b>Earnings per share:</b>			
Basic	\$ 0.95	\$ 0.90	\$ 0.58
Fully diluted	0.87	0.83	0.54

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Amounts in Canadian dollars

Years ended December 31,	1999	1998	1997
Retained earnings, beginning of year	\$ 24,190,109	\$ 16,364,954	\$ 11,557,580
Net income	9,425,946	8,682,948	5,497,613
	33,616,055	25,047,902	17,055,193
Dividends - \$0.07 per share	(695,491)	(679,317)	(659,210)
Cost of repurchase of Class A voting shares in excess of book value	(47,811)	(178,476)	(31,029)
<b>Retained earnings, end of year</b>	<b>\$ 32,872,753</b>	<b>\$ 24,190,109</b>	<b>\$ 16,364,954</b>

See accompanying notes to consolidated financial statements.



# CONSOLIDATED STATEMENTS OF CASH FLOWS

Amounts in Canadian dollars



Years ended December 31,	1999	1998	1997
<b>Cash provided by (used in):</b>			
<b>Operations:</b>			
Net income	\$ 9,425,946	\$ 8,682,948	\$ 5,497,613
Items not involving cash from operations:			
Depreciation and amortization	13,205,882	10,208,510	7,877,388
Deferred income taxes (reduction)	(2,051,830)	2,735,030	1,329,704
Loss (gain) on sale of fixed assets and investments	234,639	441,298	(14,991)
Minority interest	6,201	48,098	162,389
	20,820,838	22,115,884	14,852,103
Changes in non-cash working capital components	(6,061,711)	(1,944,340)	1,014,254
	14,759,127	20,171,544	15,866,357
<b>Investments:</b>			
Purchase of fixed assets	(17,062,956)	(10,269,686)	(6,281,445)
Acquisition of shares of subsidiary companies, net of cash position at date of acquisition	–	(49,894,262)	(758,345)
Proceeds on sale of fixed assets	4,798,348	2,790,931	440,416
Proceeds on sale of investments	–	–	330,397
	(12,264,608)	(57,373,017)	(6,268,977)
<b>Financing:</b>			
Repayment of long-term debt	(39,877,776)	(6,877,089)	(3,828,623)
Issue of long-term debt	30,740,251	30,067,008	61,800
Dividends	(695,491)	(679,317)	(659,210)
Issue of Class A voting shares	644,655	801,437	129,602
Repurchase of Class A voting shares	(106,995)	(324,300)	(119,237)
	(9,295,356)	22,987,739	(4,415,668)
<b>Effect of translation adjustment on cash</b>	(649,334)	1,094,808	667,781
<b>Increase (decrease) in cash position</b>	(7,450,171)	(13,118,926)	5,849,493
<b>Cash position, beginning of year</b>	4,964,185	18,083,111	12,233,618
<b>Cash position, end of year</b>	\$ (2,485,986)	\$ 4,964,185	\$ 18,083,111
<b>Changes in non-cash working capital components:</b>			
Accounts receivable	\$ (8,090,670)	\$ 146,711	\$ (8,378,328)
Inventory, deposits and prepaid expenses	(464,814)	(1,042,583)	(19,775)
Income and other taxes recoverable	521,502	1,406,016	1,710,881
Accounts payable and accrued liabilities	1,972,271	(2,454,484)	7,701,476
	\$ (6,061,711)	\$ (1,944,340)	\$ 1,014,254
<b>Supplemental disclosures:</b>			
Cash paid for:			
Interest	\$ 7,922,076	\$ 6,536,062	\$ 5,625,234
Taxes	5,473,736	1,539,321	162,830
Non-cash transactions:			
Cash A voting shares issued for acquisitions	–	3,051,191	–
Purchase of fixed assets under capital leases	24,610	412,500	–

Cash position is defined as cash and short-term deposits less bank indebtedness.

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Amounts in Canadian dollars

Years ended December 31, 1999, 1998 and 1997

## 1. Significant accounting policies:

### (a) Principles of consolidation:

These consolidated financial statements include the accounts of the Corporation and its subsidiary companies, all of which are wholly owned, except for a United States subsidiary company which is 81.1% owned. All material intercompany transactions have been eliminated on consolidation. All amounts in these consolidated financial statements are expressed in Canadian dollars, unless otherwise stated.

### (b) Revenue recognition:

Freight forwarding revenues are recognized as of the date of shipment.

### (c) Inventory:

Inventory is valued at the lower of cost and net realizable value.

### (d) Fixed assets:

Fixed assets are recorded at cost. Depreciation and amortization of fixed assets is provided from the date assets are put in service over their estimated useful lives as follows:

Asset	Basis	Rate
Buildings	Straight line	10 - 31.5 years
Leasehold interests and improvements	Straight line	Over the term of the lease
Vehicles:		
Trailers and containers	Straight line	10 years
Trucks	Straight line	7 years
Machinery and equipment	Straight line	5 years

Tires purchased as part of a vehicle are capitalized as a cost of the vehicle. Replacement tires are expensed when placed in service.

### (e) Goodwill:

The excess of acquisition cost over the fair value of net assets of businesses acquired is being amortized over a period of forty years on a straight-line basis. The Corporation annually assesses the recoverability of goodwill by comparing estimates of future undiscounted cash flows from operations to the carrying value of goodwill. Based on this review, the Corporation does not believe that an impairment in the carrying value of goodwill has occurred.

### (f) Foreign currency translation:

The assets and liabilities denominated in a foreign currency of self-sustaining foreign operations are translated at exchange rates in effect at the balance sheet date. The resulting gains and losses are accumulated in a separate component of shareholders' equity. Revenue and expense items are translated at average exchange rates prevailing during the period.

In respect of other transactions denominated in a foreign currency, the monetary assets and liabilities of the Corporation which are denominated in foreign currencies are translated at the period-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. All of the exchange gains or losses resulting from these transactions are recognized currently in income.

### (g) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

### (h) Stock-based compensation:

The Corporation has a stock option plan for employees and directors which is described in note 5(d). All stock options issued under the plan have an exercise price equal to the fair market value of the underlying Class A voting shares on the date of grant. As a result, no compensation expense is recorded on the grant of options under the plan. Consideration paid by employees on the exercise of stock options is recorded as share capital.

### (i) Statement of cash flows:

During 1999, the Corporation adopted the recommendations of the Canadian Institute of Chartered Accountants for cash flow statements. The new recommendations require the disclosure of information about the historical changes in cash and cash equivalents of the Corporation by means of a cash flow statement which classifies cash flows during the period arising from operating, investing and financing activities. Previously, the Corporation provided a statement of changes in financial position, which provided information in a format similar to the cash flow statement, however, it included non-cash transactions.

As a result of adopting these new recommendations, certain amounts have been reclassified within the statements of cash flows for the years ended December 31, 1998 and 1997, resulting in a reduction in cash provided by operations of \$1,094,808 and \$667,781 in 1998 and 1997, respectively, and a reduction in cash used in investments and cash provided by financing of \$3,463,691 in 1998.



## 2. Acquisitions and divestitures:

### Year ended December 31, 1998:

On September 9, 1998, the Corporation completed the acquisition of 100% of the shares of Quast Transfer Inc., and Quast Realty Inc., (collectively "Quast"). Quast is a Minnesota-based regional overnight less-than-truckload carrier operating in nine mid-western U.S. states. This acquisition was accounted for by the purchase method with the results of operations being included in these consolidated financial statements from September 9, 1998.

Details of the net assets acquired at fair values are as follows:

Cash and short-term deposits	\$ 93,928
Accounts receivable	7,163,522
Fixed assets	16,455,853
Goodwill	43,463,551
Other assets	1,655,166
	68,832,020
Accounts payable	9,371,221
Long-term debt	4,605,959
Deferred income taxes	1,815,459
	15,792,639
	\$ 53,039,381
Consideration given:	
Cash	\$ 47,150,582
Class A voting shares	3,051,191
Other amounts payable	2,837,608
	\$ 53,039,381

### Year ended December 31, 1997:

During 1997, the Corporation acquired an additional 14.5% of the voting shares of The Freight Corporation, Inc., at a total cash cost of \$758,345. Goodwill of \$377,705 was recorded on this transaction. Also in 1997, the Corporation sold its 50% investment in CK Fibres Corp. for proceeds of \$330,397 and recorded a loss on disposal of \$73,281 before income taxes.

## 3. Fixed assets:

	1999	1998
Land	\$ 6,458,509	\$ 6,306,111
Buildings	23,091,597	18,939,741
Leasehold interests and improvements	4,770,473	2,937,249
Vehicles	42,999,325	47,570,076
Machinery and equipment	22,591,083	18,489,100
	99,910,987	94,242,277
Less accumulated depreciation and amortization	35,764,213	29,152,202
	\$ 64,146,774	\$ 65,090,075

## 4. Long-term debt and bank indebtedness:

	1999	1998
(a) Guaranteed Senior Notes, due 2002	\$ 48,711,375	\$ 60,412,020
(b) Revolving and non-revolving term bank credit facility	30,000,000	—
(c) Non-revolving term bank credit facility	—	30,087,672
(d) Term bank loans, bearing interest at rates averaging 7.9% at December 31, 1999 (7.9% at December 31, 1998), maturing at varying intervals to 2001	1,034,819	2,445,850
(e) Mortgages payable	1,296,393	983,687
(f) Other	61,094	282,731
	81,103,681	94,211,960
Less current portion of long-term debt	12,423,507	23,152,333
	\$ 68,680,174	\$ 71,059,627

(a) The Guaranteed Senior Notes due 2002 (the "Senior Notes") bear interest at 9.04% per annum payable quarterly. During 1999, U.S. \$5,650,000 (1998 - U.S. \$2,800,000; 1997 - U.S. \$1,400,000) of the Senior Notes was repaid in accordance with the terms. The remaining principal balance of the Senior Notes at December 31, 1999 is U.S. \$33,750,000. The Senior Notes are subject to the following required repayments in future years:

2000	U.S. \$ 22,450,000
2001	5,600,000
2002	5,700,000
	U.S. \$ 33,750,000

The Senior Notes are secured obligations of a subsidiary company and are guaranteed by the Corporation and certain other subsidiary companies. The Senior Notes are secured by accounts receivable and general security agreements of the Corporation and of all its Canadian subsidiaries. The provisions of the Senior Notes impose certain maintenance and debt incurrence tests and include restrictions on the sale of assets, mergers and consolidations, dividends and investments. In addition, upon a change in control of the Corporation, the holders of the Senior Notes may request repayment of the amounts due under the Senior Notes.

(b) The \$55,000,000 revolving and non-revolving term bank credit facility is secured by accounts receivable and general security agreements of the Corporation and of all its Canadian subsidiaries and is guaranteed by the Corporation and certain other subsidiaries. The facility is interest bearing at the bank

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

Amounts in Canadian dollars

Years ended December 31, 1999, 1998 and 1997

prime rate plus 1%, payable monthly. At the end of 2000, the Corporation has the option of converting the facility into a 3 year non-revolving term loan, or with the bank's consent, postpone the conversion by one year. The unused portion of this facility will be used to finance the repayments due under the Senior Notes described in note 4(a).

(c) The non-revolving term bank credit facility was unsecured and was interest bearing at the bank prime rate plus 1%, payable monthly. At December 31, 1998, the credit facility included U.S. \$9,840,000 of foreign currency denominated borrowings.

(d) The term bank loans are generally secured by chattel mortgages on vehicles. At December 31, 1999, the term bank loans include U.S. \$716,981 of foreign currency denominated borrowings (1998 - U.S. \$1,595,157).

(e) The mortgages are secured by certain land and buildings, bear interest at rates ranging from 8.25% to 10.75% and are repayable over various terms to 2001. At December 31, 1999, mortgages include U.S. \$898,215 of foreign currency denominated borrowings (1998 - U.S. \$613,284).

(f) Other long-term debt consists principally of capital leases obtained to acquire fixed assets at various interest rates and maturing at varying dates. At December 31, 1999, other long-term debt includes no U.S. dollar foreign currency denominated borrowings (1998 - U.S. \$3,614).

(g) The bank indebtedness outstanding at December 31, 1999, is under a \$10,000,000 revolving credit facility and is secured by general security agreements on the assets of certain subsidiary companies and incurs interest charges at the bank prime rate plus 1%.

At December 31, 1999, the required future principal repayments on all long-term debt are as follows:

Year ending December 31:	
2000	\$ 12,423,507
2001	21,260,699
2002	28,856,975
2003	18,562,500
	<u>\$ 81,103,681</u>

## 5. Capital stock:

### (a) Authorized:

The Corporation's capital stock consists of an unlimited number of Class A voting shares, Class B non-voting shares and first preference shares, issuable in series.

### (b) Issued:

Class A voting shares	1999		1998	
	Number	Amount	Number	Amount
Balance, beginning of year	9,878,158	\$ 38,685,604	9,415,994	\$ 34,978,800
Shares repurchased for cancellation	(14,400)	(59,184)	(39,500)	(145,824)
Shares issued:				
Upon exercise of employee stock options	109,807	644,655	136,033	801,437
As partial consideration for the Quast acquisition	—	—	365,631	3,051,191
Balance, end of year	9,973,565	\$ 39,271,075	9,878,158	\$ 38,685,604

### (c) Normal course issuer bid:

The Corporation repurchased for cancellation 14,400 Class A voting shares during 1999 (1998 - 39,500 Class A voting shares) under a normal course issuer bid, at a total cost of \$106,995 (1998 - \$324,300). The excess of \$47,811 (1998 - \$178,476) of the cost of repurchase over the book value of the shares has been charged to retained earnings.





**(d) Stock options:**

The Corporation provides a stock option plan to key employees, officers and directors to encourage executives to acquire a meaningful equity ownership interest in the Corporation over a period of time, and as a result, reinforce executives' attention on the long-term interest of the Corporation and its shareholders. Under the plan, options to purchase Class A voting shares of the Corporation may be granted to key employees, officers and directors of the Corporation and its affiliates by the Board of Directors or by the Corporation's Compensation Committee. There are 1,265,300 options authorized under the plan. The term of each option is six years; the vesting period is generally five years. The exercise price for options is the trading price of the Class A voting shares of the Corporation on The Toronto Stock Exchange on the day of the grant.

Details of stock options are as follows:

	1999		1998	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	1,013,400	\$ 6.07	828,800	\$ 5.55
Granted	307,000	7.30	392,000	7.24
Exercised	(100,600)	5.68	(123,400)	5.76
Forfeited	(75,000)	7.23	(84,000)	6.65
Outstanding, end of year	1,144,800	\$ 6.36	1,013,400	\$ 6.07
Exercisable, end of year	461,100	\$ 5.91	401,140	\$ 5.89

At December 31, 1999, the range of exercise prices, the weighted average exercise price and the weighted average remaining contractual life are as follows:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$ 4.00 - 6.00	490,800	2.2	\$ 5.10	325,200	\$ 5.34
7.00 - 8.75	654,000	4.5	7.31	135,900	7.29
\$ 4.00 - 8.75	1,144,800	3.5	\$ 6.36	461,100	\$ 5.91

Compensation expense related to stock options was nil for each of the years ended December 31, 1999, 1998 and 1997.

**6. Cumulative translation adjustment:**

The cumulative translation adjustment represents the unrealized foreign currency translation gain on the Corporation's net investment in self-sustaining foreign operations in the United States arising from changes in the foreign exchange rate between the Canadian dollar and the United States dollar.

**7. Segmented Information:**

The Corporation's business operations are grouped into four operating segments. The Corporation's principal business is the Vitran Distribution System, which is comprised of less-than truckload, truckload and logistics and intermodal segments, which provide transportation services in Canada and the United States. The Corporation also has an Environmental Services Group which operates in British Columbia, Canada.

Segmented information is presented below for each of the years ended December 31, 1999, 1998 and 1997.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

Amounts in Canadian dollars

Years ended December 31, 1999, 1998 and 1997

Year ended December 31, 1999	Vitran Distribution System				Environmental services	Corporate office & other	Consolidated totals
	Less than truckload	Truckload	Logistics and intermodal	Total			
Revenue	\$ 346,770,657	\$ 49,538,921	\$ 66,800,433	\$ 463,110,011	\$ 16,670,325	\$ –	\$ 479,780,336
Operating, selling, general and administrative expenses	315,706,223	45,201,410	65,749,308	426,656,941	15,240,135	2,982,847	444,879,923
Income (loss) from operations before depreciation and amortization	31,064,434	4,337,511	1,051,125	36,453,070	1,430,190	(2,982,847)	34,900,413
Depreciation and amortization	11,279,795	1,065,404	387,278	12,732,477	351,830	121,575	13,205,882
Income (loss) from operations	\$ 19,784,639	\$ 3,272,107	\$ 663,847	\$ 23,720,593	\$ 1,078,360	\$ (3,104,422)	21,694,531
Interest expense, net							(7,757,479)
Other items, net							(240,840)
Income taxes							(4,270,266)
Net income							\$ 9,425,946
Capital expenditures	\$ 14,392,558	\$ 103,417	\$ 306,816	\$ 14,802,791	\$ 2,157,350	\$ 102,815	\$ 17,062,956
Total assets	\$ 217,641,703	\$ 13,991,848	\$ 9,599,439	\$ 241,232,990	\$ 6,036,347	\$ (43,534,406)	\$ 203,734,931
<b>Year ended December 31, 1998</b>							
Revenue	\$ 288,589,902	\$ 44,835,701	\$ 70,771,337	\$ 404,196,940	\$ 11,946,014	\$ –	\$ 416,142,954
Operating, selling, general and administrative expenses	262,529,360	41,056,446	69,250,996	372,836,802	11,296,445	3,007,101	387,140,348
Income (loss) from operations before depreciation and amortization	26,060,542	3,779,255	1,520,341	31,360,138	649,569	(3,007,101)	29,002,606
Depreciation and amortization	8,107,011	1,220,707	342,561	9,670,279	439,089	99,142	10,208,510
Income (loss) from operations	\$ 17,953,531	\$ 2,558,548	\$ 1,177,780	\$ 21,689,859	\$ 210,480	\$ (3,106,243)	18,794,096
Interest expense, net							(5,860,917)
Other items, net							(489,396)
Income taxes							(3,760,835)
Net income							\$ 8,682,948
Capital expenditures	\$ 8,557,152	\$ 27,049	\$ 1,129,784	\$ 9,713,985	\$ 445,655	\$ 110,046	\$ 10,269,686
Goodwill acquired	\$ 43,463,551	\$ –	\$ –	\$ 43,463,551	\$ –	\$ –	\$ 43,463,551
Total assets	\$ 165,241,538	\$ 21,365,478	\$ 15,980,591	\$ 202,587,607	\$ 2,811,212	\$ 2,862,600	\$ 208,261,419
<b>Year ended December 31, 1997</b>							
Revenue	\$ 236,297,793	\$ 40,286,302	\$ 62,057,757	\$ 338,641,852	\$ 12,062,839	\$ 605,749	\$ 351,310,440
Operating, selling, general and administrative expenses	215,681,845	38,951,714	60,512,738	315,146,297	11,854,469	2,638,461	329,639,227
Income (loss) from operations before depreciation and amortization	20,615,948	1,334,588	1,545,019	23,495,555	208,370	(2,032,712)	21,671,213
Depreciation and amortization	6,536,798	436,880	270,721	7,244,399	516,857	116,132	7,877,388
Income (loss) from operations	\$ 14,079,150	\$ 897,708	\$ 1,274,298	\$ 16,251,156	\$ (308,487)	\$ (2,148,844)	13,793,825
Interest expense, net							(4,945,399)
Other items, net							(147,398)
Income taxes							(3,203,415)
Net income							\$ 5,497,613
Capital expenditures	\$ 4,915,992	\$ 372,801	\$ 470,310	\$ 5,759,103	\$ 462,937	\$ 59,405	\$ 6,281,445
Goodwill acquired	\$ –	\$ –	\$ 377,705	\$ 377,705	\$ –	\$ –	\$ 377,705





## 8. Income taxes:

Income tax expense differs from the amount which would be obtained by applying statutory federal and provincial income tax rates to the respective year's income before income taxes and minority interest as follows:

	1999	1998	1997
Effective statutory federal and provincial income tax rate	44.6%	44.6%	44.6%
Effective income tax expense on the income before income taxes and minority interest	\$ 6,114,016	\$ 5,573,877	\$ 3,954,857
Increase (decrease) results from:			
Non-deductible depreciation and amortization	789,166	405,461	194,448
Income taxed at different rates in foreign jurisdictions	(3,008,476)	(2,258,076)	(1,787,326)
Losses, the tax effect of which has not been recorded	—	—	149,438
Miscellaneous	375,560	39,573	691,998
Actual income tax expense	\$ 4,270,266	\$ 3,760,835	\$ 3,203,415

## 9. Financial instruments:

The fair value of cash and short-term deposits, accounts receivable, accounts payable, bank indebtedness and accrued liabilities approximates the carrying value because of the short-term nature of these instruments. The fair value of the Corporation's long-term debt, determined based on the future cash flows associated with each debt instrument discounted using an estimate of the Corporation's current borrowing rate for similar debt instruments of comparable maturity, is approximately equal to the carrying value at December 31, 1999.

## 10. Commitments:

### (a) Leases:

At December 31, 1999, future minimum rental payments relating to operating leases for premises and equipment are as follows:

#### Year ending December 31:

2000	\$ 14,846,270
2001	13,482,212
2002	11,695,051
2003	10,267,792
2004	7,765,010
Thereafter	8,314,464
	\$ 66,370,799

### (b) Other:

At December 31, 1999, the Corporation has entered into commitments for the purchase of fixed assets in the forthcoming year at a total cost of approximately \$7,000,000.

## 11. Contingent liabilities:

### (a) Litigation:

There exist certain legal actions against the Corporation, none of which is expected to have a material adverse effect on the consolidated financial position or results of operations of the Corporation.

### (b) Uncertainty due to the Year 2000 issue:

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to be certain that all aspects of the Year 2000 issue that may affect the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

## 12. Comparative figures:

Certain of the 1998 and 1997 figures presented for comparative purposes have been reclassified to conform with the presentation adopted in 1999.

## CORPORATE GOVERNANCE

The Board of Directors of Vitran has the obligation to oversee the businesses of the Corporation and supervise senior management who have the responsibility to manage the business on a day to day basis. The Board of Directors has delegated certain of its responsibilities to the Audit Committee, Capital Committee and Compensation Committee with appropriate independent membership.

Vitran's Board of Directors and senior management consider good corporate governance as an important part of their mandate to maximize shareholder value. The system of Corporate Governance at Vitran reflects the nature of its businesses and organizational structure and is appropriately reviewed as the company changes in size and scope. Additional commentary of the corporate governance practices of Vitran are contained in Vitran's Information Circular dated March 24, 2000.



# CORPORATE DIRECTORY



## Directors

**Carl J. Cook**  
Decisions Inc.

**G. Mark Curry**  
President  
Revmar Inc.

**Rick E. Gaetz**  
President & Chief Operating Officer,  
Distribution Systems  
Vitran Corporation Inc.

**Albert Gnat, Q.C.**  
Senior Partner  
Lang Michener

**Anthony F. Griffiths**  
Corporate Director  
Fairfax Financial Holding Ltd.

**Richard D. McGraw**  
President & Chief Executive Officer  
Vitran Corporation Inc.

**Graham W. Savage**  
Managing Director  
Savage Walker Capital Inc.

## Corporate Officers

**Anthony F. Griffiths**  
Chairman

**Albert Gnat, Q.C.**  
Vice Chairman

**Richard D. McGraw**  
President & Chief Executive Officer

**Rick E. Gaetz**  
President & Chief Operating Officer,  
Distribution Systems

**Kevin A. Glass**  
Vice President Finance &  
Chief Financial Officer

## Corporate Executive Office

**Vitran Corporation Inc.**  
70 University Avenue  
Suite 350  
Toronto, Ontario  
Canada M5J 2M4  
Tel: (416) 596-7664  
Fax: (416) 596-8039  
Web site: [www.vitran.com](http://www.vitran.com)

## Distribution System

**Canadian Executive Office**  
CN MacMillan Yard Complex  
751 Bowes Road  
Concord, Ontario  
Canada L4K 5C9  
Tel: (416) 798-4965  
Fax: (416) 798-4753

## Principal Operating Divisions

Trans Western Express  
G&W Freightways  
Can-Am LTL  
Maxximum Express  
The Freight Connection  
Vitran Logistics

## United States Executive Office

6500 East 30<sup>th</sup> Street  
Indianapolis, Indiana  
U.S.A. 46219  
Tel: (317) 803-6400  
Fax: (317) 543-1230

## Principal Operating Divisions

Vitran Express

## Frontier Transport Corporation

1560 W. Raymond St.  
Indianapolis, Indiana  
U.S.A. 46221  
Tel: (317) 636-1641  
Fax: (317) 634-0321

## United States Intermodal Office

The Freight Connection  
9870 Highway 92, Suite 110  
Woodstock, Georgia (Atlanta)  
U.S.A. 30188  
Tel: (770) 517-7744  
Fax: (770) 517-4774

## Environmental Services Group

### Canadian Executive Office

12345 - 104<sup>th</sup> Avenue  
Surrey, British Columbia  
Canada V3V 3H2  
Tel: (604) 589-4385  
Fax: (604) 589-7833

## Stock Exchange Listings

### The Toronto Stock Exchange

Stock Symbol: VTN.A  
The NASDAQ Stock Market<sup>SM</sup>  
Stock Symbol: VTNA

## Transfer Agent

### Montreal Trust Company of Canada

151 Front Street West  
8th Floor  
Toronto, Ontario  
Canada M5J 2N1  
Tel: (416) 981-9766

## Dividend Information

Paid semi-annually in June and December. The December 1999 dividend was \$0.035 per share.

## Annual Meeting

The Annual Meeting of the Shareholders of Vitran Corporation Inc., will be held at the Royal York Hotel, 100 Front Street West, Toronto, Ontario in the Tudor Room on the main mezzanine floor at 4:30 p.m. on Wednesday May 3, 2000.



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