



One Vision. Many Opportunities.

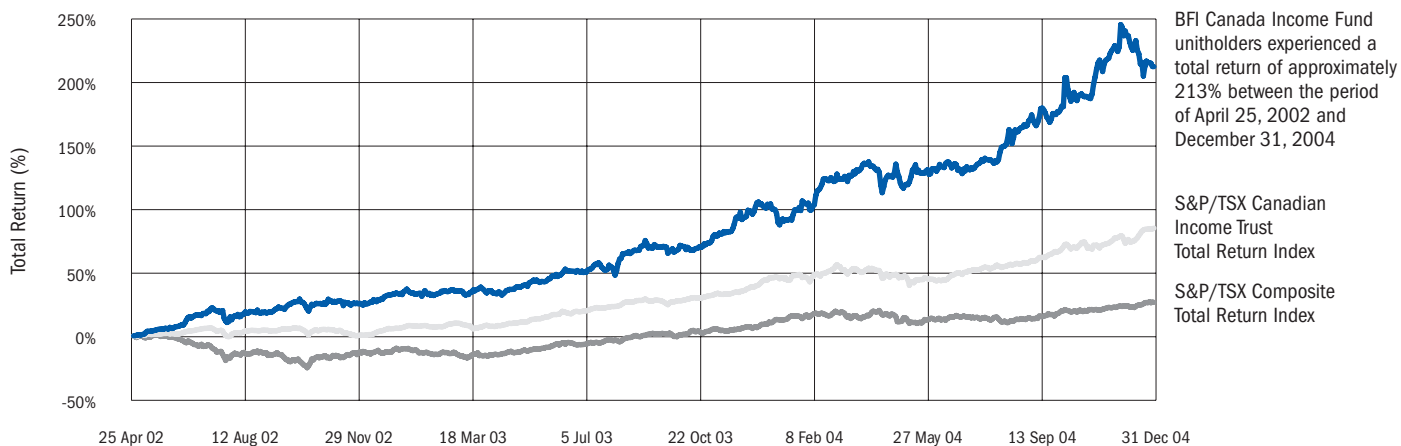
Profile

BFI Canada Income Fund (“BFI Canada” or “the Fund”) is listed on The Toronto Stock Exchange under the symbol BFC.UN. Through its two leading brands, BFI Canada and IESI, it is one of the largest non-hazardous solid waste (“waste”) management companies in North America. For more information on the Fund, visit www.bficanada.com.



Total Return
+213%

BFI Canada Income Fund Total Returns⁽¹⁾



⁽¹⁾ April 25, 2002 to December 31, 2004. Includes reinvestment of distributions paid by BFI Canada Income Fund.

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OUR VISION

To continuously improve our business by maximizing the value of our assets, challenging our 2,500 employees to build on their outstanding track record of service, and optimizing our day-to-day processes.

By diligently employing our vision through market-focused strategies, we believe we can create even more value in the years ahead for our unitholders, our customers, and our communities – while providing a safe and financially secure workplace for our employees. In achieving our objectives and applying our strategies, we will strive to meet the highest standards in environmental practices.





THE SCOPE OF OUR OPPORTUNITY

We are a company with many opportunities to build on our track record of financial performance and customer service.

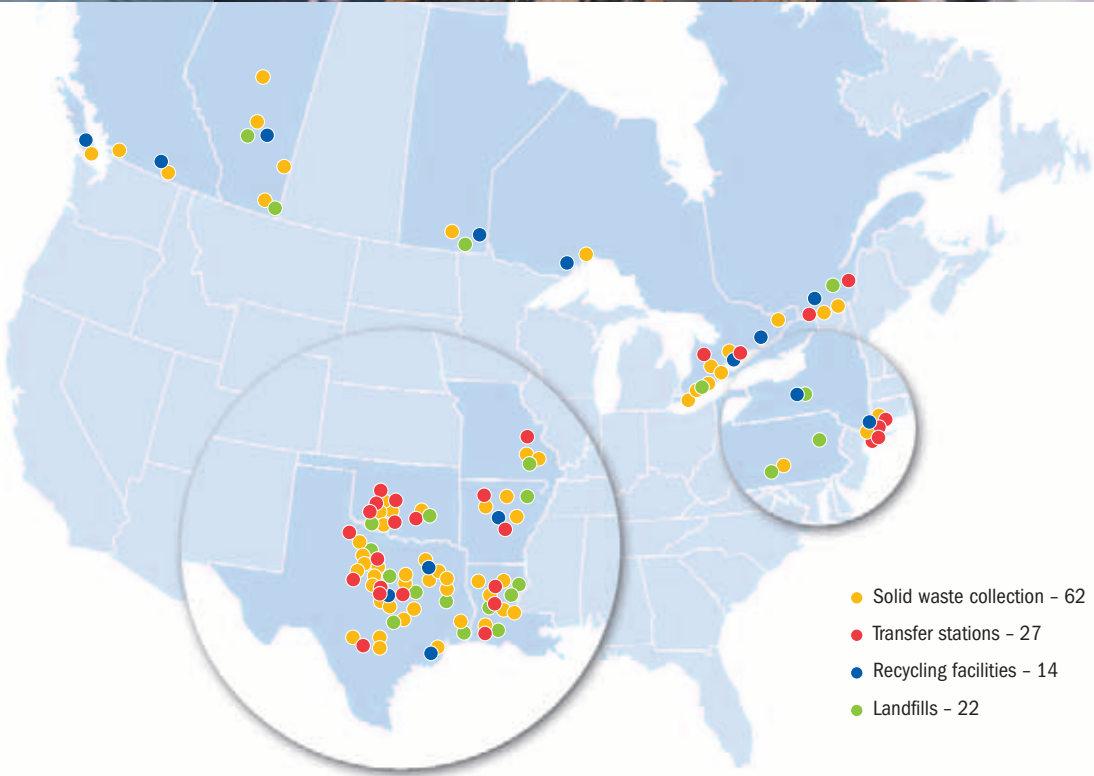
In fact, our opportunities were significantly strengthened in 2004 and early in 2005 as we increased capacity at Lachenaie, our existing landfill in Quebec, won new contracts, and entered new markets through strategic – and accretive – acquisitions. In brief we added:

- Approximately 616,000 residential, commercial and industrial customers and 43 collection markets across nine US states through the acquisition of IESI Corporation in January 2005. A trusted brand name in the US south and northeast for more than a decade, IESI brings us a proven track record of financial performance and growth, a solid base of customer agreements, collection operations, landfill operations and most important, the people who have made IESI successful.
- Complete Disposal Services Ltd. (“CDS”) in Toronto and Twin Oaks Environmental Ltd. (“Twin Oaks”) in Hamilton, both high-quality collection businesses with proven track records.
- 680,000 tonnes of annual disposal capacity through the January 2005 acquisition of the Ridge landfill in southern Ontario. The Ridge landfill complements our recently expanded footprint in the region. This means we can now provide a meaningful, ongoing solution to the largest market for solid waste management in Canada.

As a result of these important developments in existing and new markets, BFI Canada now serves over 850,000 residential and some 100,000 commercial and industrial customers in 56 markets. And this means more opportunity than ever before.



Together, BFI Canada and IESI serve almost one million customers in attractive regional markets in Canada and the US south and northeast.





DRIVING OUR FUTURE WITH MARKET-FOCUSED STRATEGIES

Fundamentally, we believe our success is built on the disciplined application of market-focused strategies.

We do not employ a one-strategy-fits-all approach but are instead responsive to customer needs and business conditions in each of our service areas.

To ensure we properly shape and maintain tailored strategies that work in each market, we use a decentralized management structure. We put responsibility in the hands of empowered local management teams who are given the tools, training and authority to drive organic growth and optimize the performance of assets.

In each case, we challenge our teams to look for opportunities to apply specific volume, pricing and sales strategies to deliver organic growth. In carrying out these strategies, we manage our price and cost base daily. We monitor container weights to ensure we're maximizing collection vehicle capacity, and we apply sophisticated sales strategies to drive returns from our collection and disposal assets.

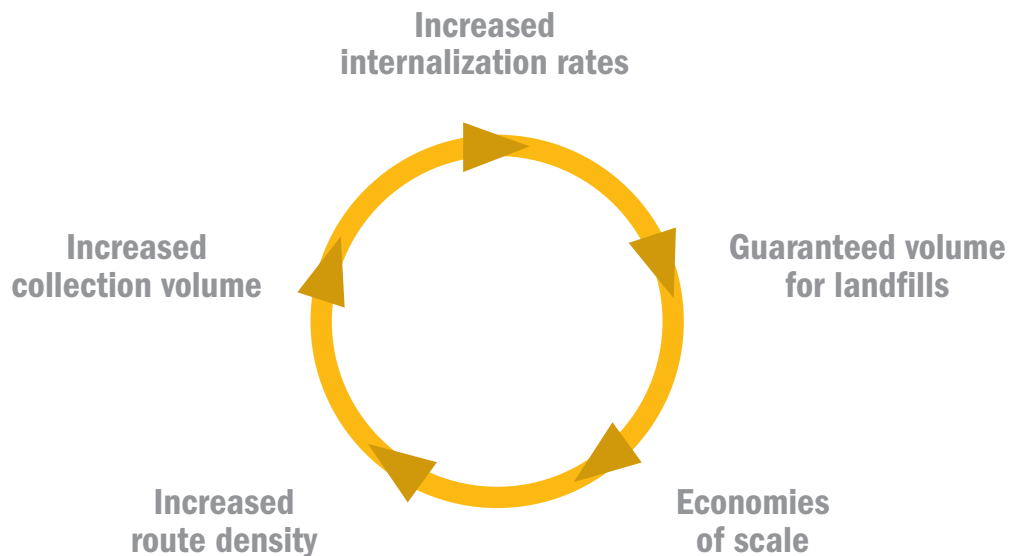
Corporately, we support our teams with growth and investment plans that include the search for accretive acquisitions to expand our landfill ownership and increase customer density.

All of these strategies enable us to enhance returns to unitholders by improving margins, increasing route density, and thereby productivity, expanding landfill volumes, and increasing our internalization rate.

Over the past 4.5 years, growth and opportunity have dramatically changed our scope – but have not and will not change our belief in the power of market-focused strategies.



We address each local market individually, with tailored strategies that maximize productivity and efficiency and have driven our success to date.





THE ASSETS AND CAPABILITIES TO POWER **GROWTH**

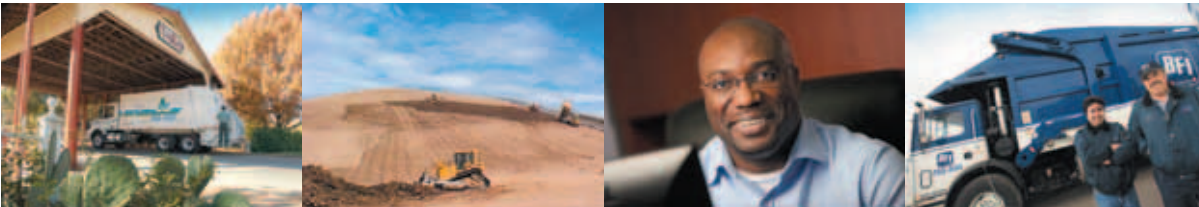
Through our two brands, BFI Canada and IESI, we are a very capable company that employs a high degree of expertise in two service areas: collection and disposal.

Our collection operations put us in recurring contact with residential, commercial and industrial customers in 56 markets where we take responsibility for door-to-door collection and removal of non-hazardous solid waste, including a wide variety of recyclable materials. With an extensive fleet of more than 1,100 vehicles driven by a sophisticated network of people and technology, we will move several thousand tonnes of solid waste per day in our markets in 2005. To do this efficiently and cost-effectively, extensive route planning is required to ensure we maximize the productivity of each of our collection vehicles.

But our services don't stop there. Through vertical integration, we internalize waste collected through our own landfills, transfer stations and recycling facilities. Today, we transfer, divert and dispose of a high percentage of collected waste at our own operations, with the balance delivered to third-party facilities. Our ability to internalize waste is a distinct advantage, and it makes great economic sense.

To operate 22 landfills, 27 transfer stations, 14 recycling facilities and two gas-to-energy plants, we employ a high degree of expertise on the disposal side of our business as well. We establish tipping fees at each facility based on market factors, weight, volume and type of collection vehicle. We also apply best environmental practices (see page 15).

Our capabilities and asset base enable us to power growth and skillfully deliver service for our customers, unitholders and the communities where we do business.



Our job is to maximize the potential of our platform assets through further growth, improvement and strategic, accretive acquisitions.



213%

BFI Canada's total return to unitholders, assuming reinvestment of distributions since our initial public offering in April 2002 to December 31, 2004.

50%

BFI Canada's revenue growth from December 31, 2001 to December 31, 2004.

\$1.1 billion

The value of the January 2005 transaction that saw BFI Canada acquire IESI Corporation of Fort Worth, Texas, to create one of North America's leading non-hazardous solid waste management companies.

\$35.2 million

Total distributions paid to unitholders in 2004. Monthly distributions increased 10% in August 2004 and 12% in February 2005, and on an annualized basis, are now \$1.5708 per unit.

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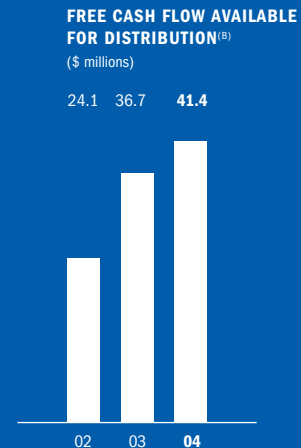
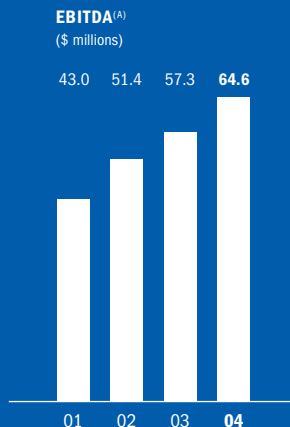
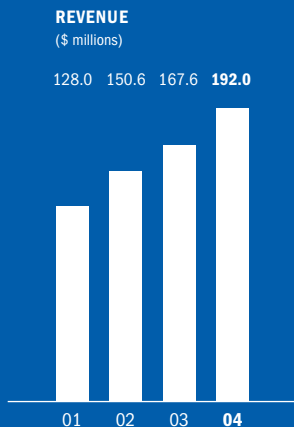
The number of landfills IESI operates in the US that are now part of our asset base.

#1

\$374 million

The amount raised in a secondary offering of subscription receipts, which closed in January 2005. Proceeds have been used to fund the IESI and Ridge landfill acquisitions.

BFI Canada was named Canada's "Business Trust of the Year" at the 2004 Canadian Investment Awards in December by a panel of institutional investors and analysts, based on total return over two years, risk-adjusted return, growth in distribution rate, EBITDA growth, quality of management and investor relations. BFI Canada was also given the IR Magazine Award for "Best Investment Community Meetings" at the Investor Relations Awards in February 2004 and "Best Senior Management Communications" in 2005.



See footnotes throughout the Management's Discussion and Analysis for additional details.

^(A, B) All definitions for these terms are on pages 32 and 33 of this report.

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The number of markets BFI Canada and its newly acquired subsidiary IESI will serve in 2005, up from 19 in 2004.

680,000

The permitted annual capacity of the Ridge landfill in tonnes. Acquired by BFI Canada in January 2005, the Ridge increases internalization of volumes and further enhances opportunities in the southern Ontario market.

330,000

The additional annual capacity – measured in tonnes – permitted at BFI Canada's Lachenaie non-hazardous solid waste management site, following the expansion decree announced in February 2004 by Quebec's Minister of the Environment. This brings Lachenaie's total annual capacity to 1.3 million tonnes.

\$4.6 million

The net cash consideration for Twin Oaks Environmental Ltd., a non-hazardous solid waste collection business BFI Canada acquired in April 2004 to enter the Hamilton, Ontario market.

\$25 million

The cost (excluding working capital) of acquiring CDS of Toronto in November 2004, which operates a non-hazardous solid waste and recycling collection business and transfer station in Canada's largest market for environmental services.

87.5%

Cumulative payout ratio since our initial public offering through December 2004.

30.9%

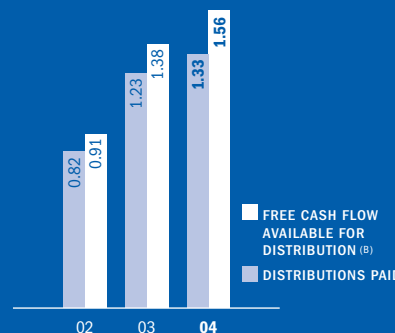
Aggregate increase in per unit distributions since our initial public offering through February 2005.

ANNUALIZED MONTHLY CASH DISTRIBUTIONS PER UNIT
(\$)

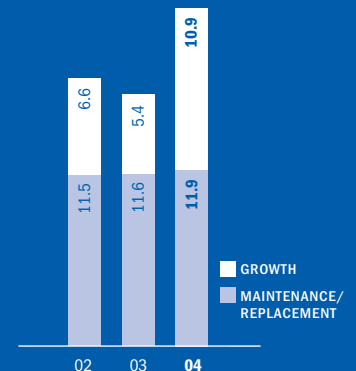
1.200 1.275 1.4025 **1.5708**



ANNUALIZED DISTRIBUTION PERFORMANCE PER UNIT
(\$)



CAPITAL AND LANDFILL EXPENDITURES
(\$ millions)



See footnotes throughout the Management's Discussion and Analysis for additional details.



The employees and management of BFI Canada Income Fund did an excellent job of creating unitholder value in 2004. The Trustees congratulate them for their outstanding performance.

We are even more delighted that the Fund has delivered value consistently since inception. Long-term performance, measured by growth in per trust unit distributions, is the true test of value creation. BFI Canada has passed this test with distinction.

Per trust unit distributions have grown 16.9% since inception (excluding the most recent distribution increase announced January 21, 2005). Including reinvestment of distributions and growth in trust unit price since inception (from \$10 at April 25, 2002), total unitholder return was 213%.

As a business, we prefer to let performance speak for itself. This performance speaks volumes about the quality of our people and strategies as well as the stability of the waste management industry in general.

As Trustees of the Fund, our job is to complement the value creation efforts of management and employees. We strive to do this through professional governance processes and structure as well as active engagement in strategy, risk management, succession and financial planning. All major strategic commitments are reviewed, approved and monitored by the Trustees.

Much can be written about process and structure, and much has been in our information circular, available online at www.bficanada.com. I encourage you to review this information, but as an overview, I will simply say our Trustees are compliant with all TSX governance guidelines and are financially literate. A majority are also independent of management.

We believe compliance is both necessary and appropriate. In today's changing corporate governance climate, remaining compliant also takes an active hand. But process and structure are just starting points for truly good governance.

Good governance requires commitment, integrity, confidence (to ask questions and state opinions) and plain hard work. It's difficult and in some cases impossible to quantify these qualities and characteristics. I am certain of one thing, however: good governance starts with the climate at the top. I believe your senior management team and your Trustees provide that kind of climate. From my perspective, as someone who has served on a number of Boards over many years, your Trustees possess the qualities and characteristics necessary to engender unitholder confidence – and complement value created by our operating team. I invite you to get to know our Trustees at our annual meeting May 12, 2005 in Toronto.

Thanks and Welcome

I wish to thank my fellow Trustees who served the Fund well in 2004: Daniel Milliard, Douglas Knight, James Temple, Joseph Wright and of course our President and CEO, Keith Carrigan. Doug and Jim did not stand for re-election this year. We offer them our most sincere appreciation for sharing their wonderful insights and for serving, as Chairman of our Compensation and Corporate Governance Committee and Chairman of the Environmental, Health and Safety Committee, respectively.

As a result, unitholders are now represented by Messrs. Carrigan, Milliard, Wright and myself as well as three very experienced newcomers: Daniel Dickinson, James Forese and Charles Flood. Mr. Flood is Executive Vice President of BFI Canada and President and CEO of our newly acquired partner, IESI. He has 35 years' experience in the waste management industry, was the founder of IESI and led its growth and success since its founding in 1995. Mr. Dickinson and Mr. Forese are senior executives at Thayer Capital Partners, a private investment firm in Washington. Messrs. Dickinson and Forese have significant business and financial experience and like Mr. Flood, will make an important contribution to value creation for all unitholders.

I look forward to 2005 and thank all of my fellow unitholders for their support and participation in building a strong, performance-ready income trust.

Yours sincerely,

T. Iain Ronald (signed)
Trustee and Non-Executive Chairman
February 25, 2005



Fellow Unitholders:

2004 was a great year for BFI Canada. Financially, we exceeded aggressive internal targets for revenue growth, EBITDA^(A) and free cash flow available for distribution^(B).

As a result, we generated revenue of \$192 million, 14.5% higher than a year ago, and EBITDA^(A) of \$65 million, 12.7% ahead of 2003. More important, in August 2004, we increased annual per trust unit cash distributions 10% from \$1.275 to \$1.4025 – while maintaining a healthy payout ratio of 84.9% and reinvesting appropriately in our business.

Operationally, BFI Canada made strong gains in both reportable segments:

- **Collection operations** achieved a 12.8% increase in EBITDA^(A) on 15.5% growth in revenue over 2003, as it enjoyed contributions from our Twin Oaks and CDS acquisitions, its traditionally strong rate of automatic renewals with satisfied customers, and won many new collection contracts.
- **Landfill & Energy operations** produced EBITDA^(A) growth of 12.6% compared to 2003 on the strength of a 10.3% increase in revenue. This performance was driven by increased landfill volumes, particularly at our Lachenaie site near Montreal, which was granted an annual capacity increase in February 2004 to 1.3 million from 970,000 tonnes annually.

Although only a few examples, these accomplishments are a clear reflection of our employees' diligent focus on continuous improvement. I have great faith in our people and they continued to earn my confidence in 2004 by improving price and productivity standards, augmenting service levels, and increasing return on investment.

Strategically, we added complementary new platforms for growth through our ongoing acquisition program. In southern Ontario, we acquired important collection routes in Toronto and Hamilton – and the high-quality assets to serve these – through the purchases of CDS and Twin Oaks, respectively. Twin Oaks was acquired in the second quarter, while CDS was acquired in the fourth. Even so, both were accretive to cash flows and should contribute meaningfully over time.

Additionally, we announced – and closed subsequent to year-end – the acquisition of the Ridge landfill, also in southern Ontario. Landfills of this size (annual capacity 680,000 tonnes) and location (near Chatham) are scarce resources, and the Ridge is a lynchpin for our market-focused strategies in Ontario. It will be immediately accretive in 2005 and provides additional support to the Trustees' decision to increase distributions in February 2005.

Of course, our acquisition program didn't end there. Prior to year-end we announced the single most significant and accretive addition in our history: the acquisition of IESI Corporation of Fort Worth, Texas, in a transaction valued at \$1.1 billion.

IESI in Profile

Founded in 1995, IESI has grown to become a leader in the majority of its markets in the US. More than this, IESI is a profitable company with an excellent reputation and quality assets that is ideally suited to provide a platform for long-term growth. It has operations in nine states in two regions: the American south and northeast.

In profile, IESI has several strengths which include:

1. **Market-focused and vertically integrated operations.** IESI operates in 37 markets with an integrated network of collection and disposal assets providing high internalization rates.
2. **Long-term customer relationships.** IESI has a large base of customer agreements and an excellent rate of contract renewal as a result of a strong and caring customer-focused approach to business.
3. **Customer and geographic diversification.** These numbers speak for themselves: IESI serves more than 560,000 residential customers and approximately 56,000 commercial and industrial accounts.

^(A, B) All definitions for these terms are on pages 32 and 33 of this report.

4. **Proven acquisition and organic growth.** IESI has completed a large number of platform acquisitions to establish a strategic presence in its markets and over 122 tuck-in purchases to increase volumes and efficiencies and create in-market synergies.
5. **Strong track record of financial performance.** In US dollars, IESI's revenue grew to \$317.5 million in the 12 months to September 30, 2004 from \$110.1 million in 1999, while EBITDA^(A) expanded to \$93.5 million in the 12 months to September 30, 2004 from \$11.2 million in 1999.
6. **High-quality people and assets.** IESI employs a high degree of expertise in its workforce of 1,800. Our new colleagues have the market knowledge and skills to grow efficiently and profitably and the assets to serve their customers. At their command, they have over 780 collection vehicles, 23 transfer stations, 17 landfills and six recycling facilities.

For obvious reasons, we are delighted to welcome IESI to our team in 2005, and indeed, all members of the CDS, Twin Oaks and Ridge landfill operations.

2005 Strategic Agenda

Despite the additions we've made to our team and asset base, it's business as usual for us. While this seems incongruous, the reality is that our business model was not altered by these developments. Our decentralized management approach and market-focused strategies are common to both BFI Canada and IESI and therefore do not require change. Complex integration programs are also not required because each of the four acquisitions we made are highly complementary to existing operations.

What is required, in our view, is an aggressive exchange of best business practices and the diligent application of our continuous improvement philosophy. We are challenging ourselves to do both.

We are also following through on familiar and well-established objectives, including the most fundamental of all: enhance free cash flow available for distribution^(B) by raising our performance standards for unitholders and customers. In support of this goal we will strive to:

- Improve return on capital employed through local market-focused strategies, which emphasize increased productivity and revenue per asset hour.
- Pursue internal growth and strategic, accretive acquisitions in existing markets to increase route densities, and optimize asset utilization in both existing and new markets.
- Enhance service quality and value generation for customers by employing creative, responsive solutions.

Our plan is straightforward. I believe we are fully capable, both financially and operationally, of executing it as a much larger company. In fact, I know our people are ready for the challenge!

Well Financed for Growth

BFI Canada Income Fund has a strong balance sheet and a much broader unitholder base because of our secondary offering that closed in January 2005. This offering provided us with gross proceeds of \$374 million to fund our recent acquisitions. Pro forma the acquisition of IESI and the Ridge and the subscription receipts offering, we have a leverage ratio which we believe is conservative for our company. We also have a new US senior credit facility of US\$385 million with approximately US\$227 million drawn at closing. This is in addition to our \$80 million credit facility available to finance continued growth in Canada. The result is the means to continue our growth and improvement plan.

Well Resourced for Continuous Improvement

Reflecting our new-found size, we have added five seasoned executives to our senior management team, increasing our collective industry experience by approximately 100 years. Additionally, we have accomplished one of our main goals: to retain the talent that made IESI a success over the past decade, including Mickey Flood, IESI's founder, President and Chief Executive Officer.

By retaining the local and senior management expertise resident at IESI, and making their ideas count, we are able to guarantee the exchange of best practices for the benefit of the company overall, and ensure continuity for our customers in the US south and northeast. More than this, we have strengthened overall corporate management in areas such as corporate development, business development, operations, finance, and legal affairs.

Today, I believe we are very well resourced at all levels - from operations through to senior management - to carry out our continuous improvement objectives and achieve our vision. With the addition of IESI's team, we are 2,500 people strong with greater knowledge and skills than ever before.

I look forward to working with all members of our team in 2005.

Distribution Increase

Reflecting the addition of IESI, the Ridge and CDS, and our strong financial position, our Trustees approved a 12% increase in per trust unit distributions, payable to unitholders of record February 28, 2005, on March 15, 2005. This increase brought annualized distributions to \$1.5708 per trust unit. This is in addition to the 10% increase in per trust unit distributions announced in August 2004.

Conclusion

We have many opportunities. But opportunity alone does not guarantee success. We must perform at a higher level than in 2004 and have set new internal targets to do just that.

As always, we will do our utmost to exceed our previous performance standards on behalf of customers and unitholders. This is the meaning of continuous improvement and the driver of our vision.

I sincerely thank our unitholders and customers for their support in the past, and our employees for producing a great year upon which we can build an even brighter future.

Yours sincerely,

Keith Carrigan (signed)
President and Chief Executive Officer
February 25, 2005



1. BFI Canada proudly sponsored the “Annual Maxine DeHart, Ramada Lodge Hotel – United Way Drive-Thru Breakfast” in Kelowna, BC which raised over \$27,000.
2. Winnipeg has made a major commitment to improve the quality of the Red River and our Winnipeg District team joined many others in supporting this important environmental goal.
3. Our Calgary landfill team recently received a special thanks for donating a children’s playground to École de la Source, a local Calgary school.
4. We believe strongly in programs for youth, and as a result, we sponsor amateur sports, including the “BFI Canada Boomers” in the North Toronto Soccer Club.

No solid waste management company can exist without the support of its customers and the communities where it does business – and the dedication of its employees. We understand the important role each of our stakeholders plays in the advancement of our two brands, and we seek to show our appreciation in tangible ways.

For our employees, we formally recognize the outstanding performance of our people through programs such as our Blue Ribbon Employee Recognition Awards and our Blue Ribbon Return on Ideas (ROI) initiative, which rewards employees for good ideas that reduce costs, contribute to customer service, and improve efficiency and productivity.

For our customers, we strive to deliver the best customer service every day, which means excellent value for money, rapid response and best environmental practices.

For our communities, BFI Canada and IESI have an active, grassroots charitable and sponsorship program that in 2004 provided support to more than 150 organizations, including the United Way; Boy Scouts of America; the Canadian Cancer Society; The Hospital for Sick Children – Operation Herbie; St. Michael’s Hospital; the Princess Margaret Hospital; the Super Rex reading program for elementary schools in Windsor, Ontario; the Diabetes Research Institute; the annual Shriners Children Hospital benefit; Meals on Wheels; and other beneficial charities.

By working together for the common good, we believe we can achieve more for all of our stakeholders.



Meeting environmental standards isn't just a requirement of doing business. For our two brands, BFI Canada and IESI, it's a competitive advantage and a moral imperative. We demonstrate our ongoing commitment in a number of ways.

We strive to lead our industry in environmental compliance by meeting or exceeding all regulatory requirements. This first means understanding what's expected. In Canada, the majority of environmental regulations are set out under provincial jurisdiction. In the United States, environmental regulations are set by both federal and state governments. In both countries, we actively seek to engage provincial, state and federal regulators in discussions that advance better business methods and environmental protection and promote strict compliance and enforcement. We regularly share information and encourage visits by regulators to our locations to verify compliance and demonstrate performance. Corporately, compliance with environmental regulations is removed from operations to ensure unencumbered management of environmental matters – independent of operational factors.

We also put health and safety with environment at the forefront of our business plans and operations. Written policies and procedures clearly articulate and demand the highest duties of care for the environment and the health and safety of our employees and the public with whom we interact. To implement and maintain these directives, we train employees, implement best practices and continually strive to improve our operations to make them safer and to enhance environmental protection. Our employees assume direct responsibility for managing regulatory compliance across our operating locations in Canada and the United States, and we also employ consultants to independently monitor our compliance performance and report to regulators.

We also use technology and promote research and development. Today, we are proactively engaged in greenhouse gas destruction at our Lachenaie, Quebec, and Seneca Meadows, New York, landfills where we harness landfill gas to generate electricity. The photo on this page features our landfill gas-to-energy plant in Quebec. In Calgary, Alberta, a two-year research project on the destruction of methane gas using natural biodegradation shows continued promise for climactic regions where collection of gas is impractical.

We also believe the success of future environmental protection and enhancement rests with North America's young people. Understanding this reality, we participate in practical educational initiatives, such as in-house environmental lectures and demonstrations, as well as student tours of our facilities, and we participate in structured educational curricula from the elementary level to post-secondary institutions and public education with our customers.

FINANCIAL REVIEW

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The following is a discussion of the consolidated financial condition and results of operations of BFI Canada Income Fund (the "Fund" or "BFI Canada") for the year ended December 31, 2004, reported in Canadian dollars, and has been prepared with all information available up to and including February 25, 2005.

Effective January 1, 2004, the Fund adopted CICA Handbook section 3110, Asset Retirement Obligations ("ARO"). Management's Discussion and Analysis ("MD&A") for the first quarter ended March 31, 2004 included the impact of adopting ARO on the comparative results of operations for the year ended December 31, 2003. Accordingly, this discussion should be read in conjunction with the consolidated financial statements of BFI Canada Income Fund, including notes thereto, and Management's Discussion and Analysis ("MD&A") for the first quarter ended March 31, 2004 and year ended December 31, 2003.

Management's Discussion and Analysis

For the year ended December 31, 2004

Corporate Overview

As at December 31, 2004, the Fund, through its operating subsidiaries, is one of Canada's largest full-service waste management companies providing non-hazardous solid waste collection and landfill disposal services in the provinces of British Columbia, Alberta, Manitoba, Ontario and Quebec. The Fund operates one and owns and operates three landfills, carries on solid waste collection operations in 19 markets and operates four transfer collection stations, seven material recovery facilities ("MRFs") and one landfill gas to energy facility.

In January 2005, the Fund successfully completed the acquisition of the Ridge landfill located near Chatham, Ontario and IESI Corporation ("IESI"), one of the leading regional, full-service non-hazardous solid waste management companies in the United States. IESI provides its services through a network of vertically integrated assets in 37 markets, including 43 collection operations, 23 transfer stations, 17 landfills and six recycling facilities. IESI provides collection, transfer, disposal and recycling services in two geographic regions as follows: the South Region, consisting of various service areas in Texas, Louisiana, Oklahoma, Arkansas and Missouri, and the North Region, consisting of various service areas in New York, New Jersey, Pennsylvania and Maryland.

The Fund makes cash distributions to unitholders, based on all amounts received as determined by the Trustees. The Fund's declaration of trust provides that monthly cash distributions are to be paid on or about the 15th day of the succeeding month (see "Disclosure of Outstanding Trust Unit Data" for details regarding amendments to the Amended and Restated Declaration of Trust related to the Fund's monthly cash distributions approved by a special meeting of the unitholders on January 20, 2005).

Highlights – For the year ended December 31, 2004

(all amounts are in thousands of Canadian dollars, except per trust unit amounts)

Financial highlights

- Revenues and EBITDA^(A) increased 14.5% and 12.7%, respectively, over the comparative year ended December 31, 2003.
- Free cash flow available for distribution^(B) for the year ended December 31, 2004 totalled \$41,438 and is \$4,759 higher than the comparative year ended December 31, 2003. Higher EBITDA^(A) partially offset by higher interest expense, maintenance capital expenditures and a revision to estimated future cash flows for closure costs is the principal reason for the increase. Excluding the revision to estimated future cash flows for closure costs, free cash flow available for distribution^(B) would have been \$43,340 or \$6,661 higher than the comparative year ended December 31, 2003.
- Aggregate distributions declared totalled \$35,195 for the year ended December 31, 2004, representing a payout ratio of 84.9% of free cash flow available for distribution^(B). Excluding a revision to estimated cash flows amounting to \$1,902 for the year ended December 31, 2004, due principally to closure costs specific to the non-operating portion of the Fund's Lachenaie landfill, the payout ratio would have been 81.2% of free cash flow available for distribution^(B).
- Acquisitions and volume and price growth are the principal reasons for the Fund's revenue and EBITDA^(A) growth.

Other highlights

- Fund completed the refinancing of its term and revolving loans in June 2004, and issued \$47,000 of 5 year debentures at 6.123% and \$58,000 of 10 year debentures at 7.015% and concurrently entered into a new \$60,000 revolving credit facility.
- Fund completed the acquisitions of Twin Oaks Environmental Ltd. ("Twin Oaks") and Complete Disposal Services Ltd. ("CDS") in April and November 2004, respectively.
- Fund entered into agreements in 2004 to acquire the Ridge landfill and IESI Corporation. Both transactions closed in January 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2004

	Year ended	
(in thousands, except per trust unit amounts)	2004	2003 ⁽¹⁾
Revenues	\$ 191,956	\$ 167,626
Operating expenses	99,378	84,892
Selling, general and administration expenses	28,012	25,452
Income before the following	64,566	57,282
Amortization	47,467	45,375
Interest on long-term debt	6,138	5,137
Write-off of deferred financing costs	748	–
Net gain on sale of capital and landfill assets	(192)	(527)
Gain on settlement of bond forward contracts	(1,550)	–
Income before income taxes	11,955	7,297
Income tax recovery	(8,007)	(5,840)
Net income	\$ 19,962	\$ 13,137
Net income per trust unit, basic and diluted	\$ 0.75	\$ 0.50
Number of trust units outstanding	26,500	26,500
Maintenance capital and landfill expenditures	\$ 11,935	\$ 11,586
Growth capital and landfill expenditures	10,886	5,409
Total capital and landfill expenditures	\$ 22,821	\$ 16,995
Free cash flow available for distribution ^(B)	\$ 41,438	\$ 36,679
Free cash flow available for distribution ^(B) per trust unit	\$ 1.56	\$ 1.38
Aggregate distributions declared	\$ 35,195	\$ 32,627
Aggregate distributions declared per trust unit	\$ 1.33	\$ 1.23

Notes:

⁽¹⁾ Operating results, net income per trust unit, basic and diluted, and free cash flow available for distribution^(B) and per trust unit have been restated to reflect the adoption of the new accounting standard for Asset Retirement Obligations. The impact of adopting the new accounting standard on the comparative year is detailed in Note 2 to the BFI Canada Income Fund consolidated financial statements for the year ended December 31, 2004.

Review of Operations – For the year ended December 31, 2004

(all amounts are in thousands of Canadian dollars)

Revenues

Revenues of \$191,956 were \$24,330 or 14.5% higher than the comparative year ended December 31, 2003. The solid waste collection (“collection”) segment contributed approximately \$21,000 to the increase. The acquisition of Twin Oaks on April 6, 2004, CDS on November 18, 2004, and two acquisitions completed in August 2003 contributed approximately \$9,700 to the year over year collection segment increase, while price increases, organic growth and favourable commodity prices combined to account for the remainder of the year over year collection segment revenue increase. The landfill and energy (“landfill”) segment contributed approximately \$3,300 to the year over year increase, principally due to higher volumes of accepted non-hazardous solid waste entering the Lachenaie landfill.

Operating expenses

Operating expenses of \$99,378 were \$14,486 higher than the comparative year ended December 31, 2003. Strategic acquisitions in the collection segment, identified above, contributed approximately \$7,100 to the total collection segment increase of approximately \$13,400. The balance of the increase in collection segment operating expenses is a function of higher disposal and labour expenditures, related principally to the collection of additional volumes of waste, and higher year over year costs to service new and existing customers. The Fund implemented fuel surcharges in 2004 which contained net fuel costs at levels commensurate with 2003. The landfill segment experienced an operating expense increase of approximately \$1,100 year over year, primarily on account of landfill royalty costs related to the Lachenaie north expansion and additional volumes of accepted non-hazardous solid waste entering the Lachenaie landfill, partially offset by a decline in equipment rental charges at the Lethbridge landfill.

Selling, general and administration expenses

Selling, general and administration ("SG&A") expenses of \$28,012 were \$2,560 higher than the comparative year ended December 31, 2003. The increase is principally a function of the Twin Oaks and CDS acquisitions and additional long-term incentive plan ("LTIP") accruals totalling approximately \$360.

Income before amortization, interest on long-term debt, write-off of deferred financing costs, net gain on sale of capital and landfill assets, gain on settlement of bond forward contracts and income taxes ("EBITDA^(A)")

EBITDA^(A) of \$64,566 was \$7,284 or 12.7% higher than the comparative year ended December 31, 2003. The collection and landfill segments contributed approximately \$3,800 and \$3,500, respectively, to the year over year increase. Strategic acquisitions, price and volume growth in the collection segment, and an increase in accepted non-hazardous solid waste at BFI Canada-owned landfills, partially offset by landfill royalty costs related to the Lachenaie north expansion and higher year over year LTIP accruals, were the principal contributors to the collection and landfill segment increases. Effective January 1, 2004, management of the Fund elected to have collection and landfill segment operating districts bear certain costs that were previously borne by the corporate office and allocated to the collection and landfill segments based on various factors, including revenues, and to increase the internal gate rate charged by the landfill segment to certain collection segment operations, collectively, the "allocation changes". The impact of these allocation changes has resulted in collection segment operating districts incurring a greater share of historically corporate allocated charges, as well as incurring higher disposal expenditures charged by landfill segment operating districts. The allocation changes have resulted in an approximately \$1,100 reduction in EBITDA^(A) for the collection segment in favour of the landfill segment for the year ended December 31, 2004.

Amortization expense

Amortization expense for the year ended December 31, 2004 increased \$2,092. The increase is primarily the result of an increase in intangible asset amortization recorded on the Twin Oaks and CDS acquisitions and a revision to estimated future cash flows for costs specific to the non-operating portion of the Fund's Lachenaie landfill amounting to \$1,902, partially offset by a decline in capital asset amortization, due principally to fully amortized vehicles and equipment acquired by 3743276 Canada Inc. (one of the predecessors of BFI Canada Holdings Inc.) and a decline in amortization of capitalized asset retirement obligations at the Fund's Lachenaie landfill due to a decrease in the rate of capitalized closure and post-closure costs associated with the Lachenaie north expansion.

Interest on long-term debt

Interest on long-term debt was \$1,001 higher than the comparative year ended December 31, 2003. An increase in the total principal amount of long-term debt outstanding, coupled with an increase in the underlying interest rate charged on long-term debt, due to the Fund's closing of the debt private placement in June 2004, is the primary reason for the year over year change. Interest on long-term debt includes interest on the Fund's 364 day revolving credit facility, which was entered into concurrent with the closing of the Fund's debt private placement.

Write-off of deferred financing costs

On June 25, 2004, BFI Canada Holdings Inc. ("Holdings"), a wholly owned subsidiary of the Fund, completed a \$105,000 debt private placement and concurrently entered into a new revolving credit facility. Accordingly, all unamortized deferred financing costs attributable to pre-existing debt facilities were charged to income.

Net gain on sale of capital and landfill assets

During the year, the Fund disposed of various vehicles and containers, generally for scrap, resulting in a net gain on sale of \$192. Disposals in the prior year, consisting primarily of surplus parcels of land near the Fund's Winnipeg and Calgary landfill sites, resulted in a gain on sale of \$527.

Gain on settlement of bond forward contracts

The Fund realized a gain on the settlement of two bond forward contracts in the second quarter ended June 30, 2004. The bond forward contracts were entered into in advance of the closing of the debt private placement to manage the risk of interest rate volatility prior to its closing. The bond forward contracts terminated concurrent with the completion of the \$105,000 debt private placement and the gain has been recorded in income.

Income taxes

Income taxes recovered increased by \$2,167 for the year ended December 31, 2004. The increase in income taxes recovered for the year ended December 31, 2004 is due to an adjustment to the tax base of deferred financing costs previously recorded as deferred costs, an increase in unutilized tax loss carryforwards, a \$600 increase in taxes recovered due to the revision to estimated cash flows for closure costs, and various accounting expense amounts in excess of the respective tax deductions, partially offset by higher current tax accruals.

For the year ended December 31, 2004, the Fund generated income before income taxes of \$11,955, which, at a combined corporate tax rate of 34%, attracts income tax expense totalling approximately \$4,100. This income tax expense was offset by approximately \$10,400 of income tax recoveries on income attributable to unitholders. Other recoveries, net of large corporations tax, accounts for the balance of the change in income tax recovery for the year ended December 31, 2004.

Other Performance Measures – For the year ended December 31, 2004

(all amounts are in thousands of Canadian dollars)

Capital and landfill expenditures

Total capital and landfill expenditures, which include maintenance and growth capital expenditures, equalled \$22,821 for the year ended December 31, 2004. Maintenance capital expenditures of \$11,935 were \$349 higher than the comparative year ended December 31, 2003, due principally to the replacement of capital for recently acquired companies. Growth capital expenditures of \$10,886 were \$5,477 higher than the comparative year ended December 31, 2003. The increase in growth capital expenditures is due largely to landfill cell development related to the Lachenaie north expansion which benefits a future period or periods, equipment purchased to operate the City of Lethbridge landfill, and vehicle purchases required for new service contracts commencing in January 2005.

Free cash flow available for distribution⁽⁶⁾

Free cash flow available for distribution⁽⁶⁾ totalled \$41,438 for the year ended December 31, 2004 versus \$36,679 for the comparative year ended December 31, 2003. Excluding the revision to estimated future cash flows for closure costs, free cash flow available for distribution⁽⁶⁾ would have been \$43,340 or \$6,661 higher than the comparative year ended December 31, 2003. Management of the Fund has elected to define and calculate free cash flow available for distribution⁽⁶⁾ using an operations approach, calculated as follows:

(in thousands)	Year ended December 31		
	2004	2003 ⁽³⁾	2002 ⁽³⁾⁽⁴⁾
EBITDA ^(A)	\$ 64,566	\$ 57,282	\$ 37,051
Less amortization of capitalized landfill asset closure and post-closure costs ⁽²⁾	(4,627)	(3,430)	(2,215)
Less interest on long-term debt	(6,138)	(5,137)	(3,118)
Less current income taxes	(540)	(450)	(830)
Less maintenance capital expenditures	(11,935)	(11,586)	(6,789)
Add amortization of gain on settlement of bond forward contracts	112	–	–
Free cash flow available for distribution ⁽⁶⁾	\$ 41,438	\$ 36,679	\$ 24,099

Notes:

⁽²⁾ Amortization of capitalized landfill asset closure and post-closure costs for the year ended December 31, 2004 includes a revision to estimated future cash flows amounting to \$1,902, due principally to closure costs for the non-operating portion of the Fund's Lachenaie landfill.

⁽³⁾ EBITDA^(A) has been restated to reflect the adoption of the new accounting standard for Asset Retirement Obligations. The impact of adopting the new accounting standard on the comparative annual results is detailed in the BFI Canada Income Fund first quarter report for the period ended March 31, 2004.

⁽⁴⁾ Operating results for the period from January 1, 2002 to April 24, 2002 are the results of 3743276 Canada Inc., one of the predecessors of BFI Canada Holdings Inc., and have been excluded from the calculation of free cash flow available for distribution⁽⁶⁾ as presented in the table above. The Fund indirectly acquired all of the issued and outstanding shares of 3743276 Canada Inc. on April 25, 2002 in connection with the closing of its initial public offering of trust units. The Fund has only consolidated the results of BFI Canada Holdings Inc. with its results since April 25, 2002. Reference is made to the prospectus of the Fund dated April 16, 2002 relating to the initial public offering for a complete description of the transactions effected concurrently with the closing of such offering.

In anticipation of closing the debt private placement on June 25, 2004, the Fund entered into two bond forward contracts to manage the risk of interest rate volatility prior to its closing. The settlement of these contracts resulted in a gain totalling \$1,550. The bond forward contracts terminated concurrently with the closing of the debt private placement and the gain has been recorded in income. The cash

received will be amortized to free cash flow available for distribution⁽⁶⁾, commencing July 2004, over the terms of the senior secured debentures as follows:

(in thousands)

Year	\$
2004	112
2005	224
2006	224
2007	224
2008	224
2009	155
2010	86
2011	86
2012	86
2013	86
2014	43
	1,550

As recommended by Canadian Securities Administrators Staff Notice 52-306, Non-GAAP Financial Measures, free cash flow available for distribution⁽⁶⁾ using a cash flow approach is presented in note (c) on page 33.

Selected Annual Information

(all amounts are in thousands of Canadian dollars, except per trust unit amounts)

	Fund	Fund	3743276 Canada Inc. & Fund	3743276 Canada Inc.
	Year ended December 31, 2004	Year ended December 31, 2003 ⁽⁵⁾	Year ended December 31, 2002 ⁽⁵⁾⁽⁶⁾⁽⁷⁾⁽⁸⁾	Year ended December 31, 2001 ⁽⁵⁾⁽⁷⁾
Revenues	\$ 191,956	\$ 167,626	\$ 150,675	\$ 128,003
Net income (loss)	\$ 19,962	\$ 13,137	\$ 4,670	\$ (3,649)
Net income (loss) per share, basic and diluted	N/A	N/A	N/A	N/A
Net income per trust unit, basic and diluted	\$ 0.75	\$ 0.50	\$ 0.18	N/A
Total assets	\$ 397,670	\$ 356,962	\$ 379,441	\$ 189,880
Total long-term financial liabilities	\$ 125,290	\$ 105,101	\$ 105,755	\$ 124,413
Distributions per trust unit	\$ 1.33	\$ 1.23	\$ 0.82	N/A

Notes:

⁽⁵⁾ Operating results have been restated to reflect the adoption of the new accounting standard for Asset Retirement Obligations. The impact of adopting the new accounting standard on the comparative years is detailed in the BFI Canada Income Fund first quarter report for the period ended March 31, 2004.

⁽⁶⁾ Operating results for the year ended December 31, 2002 are the results of 3743276 Canada Inc. for the period from January 1, 2002 to April 24, 2002 and for the Fund from April 25, 2002 to December 31, 2002.

⁽⁷⁾ Net income (loss) per share, basic and diluted is not presented because there was only one Class A series special share outstanding and, therefore, the presentation thereof would be misleading and not relevant.

⁽⁸⁾ Net income per trust unit, basic and diluted, and distributions per trust unit for the year ended December 31, 2002 are for the period from April 25, 2002 to December 31, 2002.

The results reported in comparative selected annual information for the year ended December 31, 2001 and for the period from January 1, 2002 to April 24, 2002, are the results of 3743276 Canada Inc., one of the predecessors of Holdings. The Fund indirectly acquired all of the issued and outstanding shares of 3743276 Canada Inc. on April 25, 2002 in connection with the closing of its initial public offering of trust units. The Fund has only consolidated the results of Holdings with its results since April 25, 2002. Reference is made to the prospectus of the Fund dated April 16, 2002 relating to the initial public offering for a complete description of the transactions effected concurrently with the closing of such offering.

The increase in revenues of approximately \$22,700 between years ended December 31, 2001 and 2002, is principally on account of an increase in collection segment revenues. The collection segment increase is due principally to two acquisitions completed effective

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2004

February 2002 and December 2001. The *Entreprise Sanitaire F.A. Ltee.* ("FA.") acquisition, effective February 2002, provided approximately \$12,600 of additional revenues in 2002 versus 2001 while the acquisition of a solid waste collection business near London, Ontario, effective December 2001, contributed approximately \$3,000 to the same year over year increase. Organic growth and price increases generally account for the balance of the increase. The 2002 to 2003 increase of approximately \$17,000 is attributable to an increase in collection and landfill segment revenues of approximately \$11,500 and \$5,500, respectively. Additional F.A. revenues of approximately \$2,300, two strategic acquisitions and significant new contracts, totalling approximately \$3,700, and net price and organic growth of approximately \$5,500, combined to account for the collection segment increase. Higher landfill volumes, most notably in Calgary, equal to approximately \$4,000, and the City of Lethbridge landfill operating contract of approximately \$1,500, account for the increase in landfill segment revenues. The 2003 to 2004 increase of approximately \$24,300 is primarily attributable to the collection segment which experienced revenue growth of approximately \$21,000, including the acquisition of Twin Oaks, CDS and two strategic acquisitions completed in August 2003, which, combined, account for approximately \$9,700 of the growth in collection segment revenues, while price increases, organic growth and favourable commodity prices combined to account for the remainder of the year over year increase in collection segment revenues. Additional volumes of non-hazardous solid waste entering the Lachenaie landfill is the principal reason for the \$3,300 increase in landfill segment revenues between 2003 and 2004.

Included in the determination of net income (loss) are the following: amortization, interest on long-term debt, net gain on sale of capital and landfill assets, write-off of deferred financing costs, gain on settlement of bond forward contracts, other expenses and income taxes. Net income (loss) for the years ended December 31, 2001 and 2002 is not comparable to net income for the years ended December 31, 2003 and 2004. Amortization expense is not comparable due primarily to the change in the carrying values of the Fund's assets relative to its predecessor 3743276 Canada Inc. Amortization expense of the Fund includes amortization of the following fair value adjustments occurring on the closing of its initial public offering: customer collection contracts \$78,530, capital assets \$5,476, and landfill assets \$60,290. Interest on long-term debt is not comparable due to the change in the Fund's capital structure relative to its predecessor 3743276 Canada Inc. Interest expense of 3743276 Canada Inc. included imputed interest on a subordinated debenture and interest on its non-revolving, term, bridge, and other loans for the year ended December 31, 2001 and for the period from January 1, 2002 to April 24, 2002. On the closing of the initial public offering and the concurrent amalgamation of 3743276 Canada Inc. with Holdings, \$41,821 was paid in full satisfaction of the principal and interest outstanding on the non-revolving loan, \$17,550 was paid in partial satisfaction of the principal together with all interest outstanding on the term and bridge loans, and a \$12,500 payment was paid in full satisfaction of amounts owing to the holder of the subordinated debenture. All payments were made in respect of obligations of the predecessor company. Interest expense of the Fund relates specifically to interest on its term and revolving loans which were entered into concurrently with the closing of the initial public offering. Net gain on sale of capital and landfill assets relates principally to the year ended December 31, 2003, whereby the Fund sold surplus parcels of land near its Winnipeg and Calgary landfill sites. Write-off of deferred financing costs represent the write-off of unamortized deferred financing costs associated with the Fund's term and revolving loans, which were entered into on the closing of the initial public offering, and written off upon closing of the Fund's debt private placement in June 2004. Gain on settlement of bond forward contracts represents gains realized by the Fund on the termination thereof which were entered into by the Fund in advance of closing the debt private placement to manage the risk of interest rate volatility prior to its closing. Other expenses include corporate development and organizational costs, management severance costs, management fees, and a special one-time management bonus issued in connection with the closing of its initial public offering. Other expenses were exclusive to 3743276 Canada Inc. and are, therefore, not directly comparable. Income taxes are not comparable due to the change in the taxable structure of the Fund versus its predecessor.

Excluding the increase in total assets between 2001 and 2002, which is principally on account of fair value adjustments to landfill assets, and the recognition of intangibles and goodwill on the closing of the initial public offering, the increase in total assets between 2002 and 2004 is primarily a function of the following: a \$7,616 increase in cash and cash equivalents due in large part to excess cash realized on the Fund's closing of its debt private placement; a \$8,386 increase in accounts receivable due to acquisitions and organic growth; a \$10,327 increase in deferred costs due to the timing of closing the IESI and Ridge landfill acquisitions in January 2005; a \$5,660 increase in capital assets due largely to the recognition of assets acquired through acquisition partially offset by amortization exceeding annual capital expenditures; a decrease in the carrying amount of intangibles, \$4,949, and landfill assets, \$12,017, which is the result of intangibles and landfill asset amortization exceeding intangibles recognized on various acquisitions and landfill asset cell development, respectively.

Excluding the decline in total long-term financial liabilities between 2001 and 2002, the increase in total long-term liabilities between 2002 and 2004 is primarily a function of the following: a \$28,255 increase in long-term debt, due principally to the Fund's closing of its debt private placement in 2004 coupled with borrowings in respect of growth between years, offset by a decline in future income tax liabilities due in part to an increase in unutilized tax loss carryforwards and a decline in the carrying value of intangible and landfill assets in excess of their respective tax values.

Summary of Quarterly Results

Quarterly results for 2002 and 2003 have been retroactively restated for a change in accounting policy.⁽¹⁰⁾

(all amounts are in thousands of Canadian dollars, except per trust unit amounts)

	2004				
(unaudited)	Q4	Q3	Q2	Q1	Total
Revenues					
Collection segment	\$ 41,914	\$ 39,658	\$ 39,513	\$ 35,038	\$ 156,123
Landfill segment	10,069	8,754	9,873	7,137	35,833
	\$ 51,983	\$ 48,412	\$ 49,386	\$ 42,175	\$ 191,956
Net income	\$ 5,633	\$ 5,159	\$ 5,808	\$ 3,362	\$ 19,962
Net income per trust unit, basic and diluted	\$ 0.21	\$ 0.19	\$ 0.22	\$ 0.13	\$ 0.75
Free cash flow available for distribution^{(B)(9)}	\$ 10,307	\$ 11,681	\$ 8,537	\$ 10,913	\$ 41,438
Distributions declared	\$ 9,292	\$ 9,011	\$ 8,446	\$ 8,446	\$ 35,195

	2003 ⁽¹⁰⁾				
(unaudited)	Q4	Q3	Q2	Q1	Total
Revenues					
Collection segment	\$ 35,061	\$ 34,554	\$ 34,153	\$ 31,369	\$ 135,137
Landfill segment	8,309	8,609	8,616	6,955	32,489
	\$ 43,370	\$ 43,163	\$ 42,769	\$ 38,324	\$ 167,626
Net income	\$ 3,681	\$ 3,323	\$ 3,571	\$ 2,562	\$ 13,137
Net income per trust unit, basic and diluted	\$ 0.14	\$ 0.13	\$ 0.13	\$ 0.10	\$ 0.50
Free cash flow available for distribution^(B)	\$ 7,806	\$ 9,151	\$ 10,170	\$ 9,552	\$ 36,679
Distributions declared	\$ 8,446	\$ 8,281	\$ 7,950	\$ 7,950	\$ 32,627

	2002 ⁽¹⁰⁾				
(unaudited)	Q4	Q3	Q2 ⁽¹¹⁾⁽¹²⁾	Q1 ⁽¹¹⁾	Total ⁽¹²⁾
Revenues					
Collection segment	\$ 32,015	\$ 32,347	\$ 31,824	\$ 27,488	\$ 123,674
Landfill segment	7,673	7,500	7,036	4,792	27,001
	\$ 39,688	\$ 39,847	\$ 38,860	\$ 32,280	\$ 150,675
Net income	\$ 447	\$ 1,566	\$ 2,592	\$ 65	\$ 4,670
Net income per trust, basic and diluted	\$ 0.02	\$ 0.06	\$ 0.10	N/A	\$ 0.18
Free cash flow available for distribution^(B)	\$ 8,621	\$ 8,752	\$ 6,726	N/A	\$ 24,099
Distributions declared	\$ 7,950	\$ 7,950	\$ 5,742	N/A	\$ 21,642

Notes:

⁽⁹⁾ Free cash flow available for distribution^(B) for the year ended December 31, 2004, includes revisions to estimated future cash flows amounting to \$1,902, due principally to closure costs for the non-operating portion of the Fund's Lachenaie landfill. Excluding the revision to estimated future cash flows, free cash flow available for distribution^(B) would have been \$43,340 for the year ended December 31, 2004.

⁽¹⁰⁾ Operating results have been restated to reflect the adoption of the new accounting standard for Asset Retirement Obligations. The impact of adopting the new accounting standard on the comparative annual results is detailed in the BFI Canada Income Fund first quarter report for the period ended March 31, 2004.

⁽¹¹⁾ Operating results for the period from January 1, 2002 to April 24, 2002 are the results of 3743276 Canada Inc., one of the predecessors of BFI Canada Holdings Inc. and have been excluded from the calculation of free cash flow available for distribution^(B) as presented in the table above. The Fund indirectly acquired all of the issued and outstanding shares of 3743276 Canada Inc. on April 25, 2002 in connection with the closing of its initial public offering of trust units. The Fund has only consolidated the results of BFI Canada Holdings Inc. with its results since April 25, 2002. Reference is made to the prospectus of the Fund dated April 16, 2002 relating to the initial public offering for a complete description of the transactions effected concurrently with the closing of such offering.

⁽¹²⁾ Distributions declared are for the period from April 25, 2002 to June 30, 2002 and for the period from April 25, 2002 to December 31, 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2004

Collection segment revenue growth from Q1 2002 to Q4 2004 is comprised of the following:

(in thousands)

Two acquisitions completed Q2 2002	\$ 100
Two acquisitions completed Q3 2003	800
Acquisition of Twin Oaks Q2 2004	1,800
Acquisition of CDS Q4 2004	2,700
Net price and volume growth	9,000
Increase in collection segment revenues Q1 2002 to Q4 2004	\$ 14,400

Landfill segment revenue growth from Q1 2002 to Q4 2004 is comprised of the following:

Operating the City of Lethbridge landfill commencing Q1 2003	\$ 500
Net price and volume growth	4,800
Increase in landfill segment revenues Q1 2002 to Q4 2004	\$ 5,300

Financial Condition

(all amounts are in thousands of Canadian dollars)

SELECTED CONSOLIDATED BALANCE SHEETS INFORMATION

(in thousands)

	December 31,	
	2004	2003
Accounts receivable	\$ 33,348	\$ 25,838
Other receivables – current and long-term	\$ 4,431	\$ 4,487
Intangibles	\$ 72,856	\$ 66,993
Goodwill	\$ 50,889	\$ 49,171
Deferred costs	\$ 12,159	\$ 3,069
Capital assets	\$ 95,325	\$ 84,359
Landfill assets	\$ 110,382	\$ 113,084
Working capital (deficit) position (current assets less current liabilities)	\$ (12,686)	\$ 8,291

Accounts receivable

Accounts receivable increased \$7,510 from December 31, 2003. The increase is principally attributable to accounts receivable acquired on the acquisitions of Twin Oaks and CDS totalling approximately \$4,200 and price and volume growth experienced year over year in both the collection and landfill segments. The collection quality of accounts receivable remains high with less than 5% of total trade receivables in excess of 90 days. Total bad debt charges remain less than 1% of revenues.

Other receivables

The \$56 decrease in other receivables from December 31, 2003 relates to collections during 2004 net of a \$1,138 investment in other receivables due from cities in the province of Quebec made during the year. Other receivables represent financings provided to cities in the province of Quebec for the purchase or lease of collection containers.

Intangibles

Intangibles increased \$5,863 from December 31, 2003. The increase is attributable to intangibles recognized on the acquisitions of Twin Oaks, \$3,535 and CDS, \$15,300, partially offset by current year amortization amounting to \$12,972.

Goodwill

Goodwill increased \$1,718 from December 31, 2003. The increase is entirely attributable to goodwill recognized on the acquisition of Twin Oaks.

Deferred costs

The \$9,090 increase in deferred costs from December 31, 2003 is the result of transaction, trust unit issuance and deferred financing costs incurred in connection with the Fund's acquisition of the Ridge landfill, which closed on January 4, 2005, and the Fund's acquisition of IESI, which closed on January 21, 2005. In the prior year, deferred costs were principally comprised of amounts deferred for Lachenaie

north expansion efforts, debt private placement costs, and deferred costs related to the acquisition of Twin Oaks. Deferred costs in respect of Lachenaie north expansion efforts were capitalized to landfill assets upon successful completion of the north expansion permitting process, deferred debt private placement costs were capitalized to deferred financing costs upon the successful completion of the Fund's \$105,000 debt private placement, and deferred costs in respect of the Twin Oaks acquisition were included as transaction costs of the acquisition and capitalized to goodwill. Deferred costs at December 31, 2004 will be included as transaction and other related costs of the respective acquisitions, trust unit issue costs or deferred financing costs. Deferred costs at December 31, 2004 also include \$748 of costs to amend the Fund's credit facility to complete the Ridge landfill acquisition. This amount will be charged to income in the first quarter of 2005 in connection with a subsequent amendment to the Fund's credit facility concurrent with the closing of the IESI transaction.

Capital assets

The \$10,966 increase in capital assets from December 31, 2003 is due to additions totalling \$15,462 and acquired assets totalling \$11,494 exceeding total amortization of \$15,960. The year over year increase in capital assets is due largely to capital assets acquired through acquisition.

Landfill assets

Landfill assets decreased \$2,702 and totalled \$110,382 at December 31, 2004. The decrease is attributable to landfill asset amortization of approximately \$17,600, including approximately \$2,700 of capitalized landfill closure and post-closure cost amortization and approximately \$1,900 related to a revision to estimated future cash flows for closure costs principally for the non-operating portion of the Fund's Lachenaie landfill, exceeding year to date expenditures. For the year ended December 31, 2004, the increase in the cost of landfill assets is comprised of the following: landfill asset expenditures totalling approximately \$7,400, related principally to cell construction and infrastructure expenditures for the Lachenaie landfill, the capitalization of approximately \$2,900 of deferred costs associated with permitting the Lachenaie north expansion, and the capitalization of approximately \$4,600 of landfill closure and post-closure costs, including the estimated future cash flows revision. Landfill permits together with projected construction and development costs and capitalized landfill asset closure and post-closure costs are being amortized on a per unit basis as landfill airspace is consumed.

Working capital (deficit) position

The Fund has a current working capital deficit at December 31, 2004, representing total current assets less total current liabilities, of \$12,686. The reason for the deficit is due to a \$22,000 draw on the Fund's revolving credit facility in November 2004 as partial consideration for the CDS acquisition. The Fund entered into a new 364 day revolving credit facility concurrent with the closing of its debt private placement in June 2004. Accordingly, all amounts drawn on the revolving credit facility are classified as current liabilities on the consolidated balance sheets of the Fund. Management of the Fund expects the current 364 day revolving credit facility to be extended another 364 days upon maturity of the current facility. For the year ended December 31, 2003, the maturity date of the Fund's then in place revolving loan facility did not require the classification of loan facility draws as current liabilities on the consolidated balance sheets of the Fund. Excluding the \$22,000 advance on the Fund's revolving credit facility at December 31, 2004 results in a comparative working capital position of \$9,314 at December 31, 2004, representing a \$1,023 increase from the December 31, 2003 working capital position of \$8,291.

Excluding the \$22,000 revolving credit facility advance drawn as partial consideration for the Fund's acquisition of CDS in November 2004, the resultant working capital increase is principally a function of the increase in accounts receivable and cash due in large part to the Twin Oaks and CDS acquisitions and the closing of the debt private placement during the year, partially offset by an increase in accounts payable due to various transaction and related costs incurred to complete the Fund's acquisition of IESI and the Ridge landfill in January 2005.

Disclosure of outstanding trust unit data

(in thousands)	December 31, 2004 & 2003	
	Units	\$
Trust units	26,500	254,997

Trust units represent an equal and undivided beneficial interest in the Fund and any distributions. Trust units rank equally and ratably without discrimination, preference or priority. The Fund is authorized to issue an unlimited number of trust units under the terms of the Amended and Restated Declaration of Trust. At December 31, 2004, 26,500 trust units were issued and outstanding.

The Fund, certain of its subsidiaries, and IESI entered into an agreement which provided for the acquisition of IESI. This acquisition was funded by proceeds from the Fund's subscription receipts offering, the issuance of exchangeable participating preferred shares to the selling shareholders, and drawings under IESI's new credit facility. The acquisition closed effective January 21, 2005 and results in the Fund being the sole shareholder of 4264126 Canada Limited, incorporated under the laws of Canada. 4264126 Canada Limited

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2004

holds the common shares of Holdings and IESI. IESI issued 22,266 participating preferred shares which may be exchanged on a one-for-one basis, subject to various conditions, into trust units of the Fund. As of February 25, 2005, 1,854 participating preferred shares were converted into trust units of the Fund. Each holder of participating preferred shares receives dividends as if the holder were a holder of trust units of the Fund. The Fund issued 15,583 trust units, including trust units issued pursuant to the underwriters' exercise of the overallotment option, for total cash proceeds before transaction and related costs of \$374,000. Additional trust units issued on the exercise of various outstanding IESI stock options and warrants totalled 1,042. In aggregate, the Fund has 65,391 equivalent trust units outstanding on closing of the IESI acquisition and at February 25, 2005.

At the special meeting of the unitholders on January 20, 2005 ("special unitholder meeting"), the Fund received approval to create and issue one Class A unit. Pursuant to the Amended and Restated Declaration of Trust, approved at the special unitholder meeting, one Class A unit was issued to IESI. The holder of the Class A unit has the right to vote with trust units of the Fund on all matters on the basis of one vote for each trust unit receivable on exercise of the exchange rights for each participating preferred shareholder. The Class A unit will generally vote together with trust units of the Fund at all unitholder meetings or in respect of any written resolutions of unitholders. The holder of the Class A unit has the right to designate up to two Trustees. The entitlement to designate Trustees of the Fund is dependent on the ownership interest of the participating preferred shareholders and the right to designate two Trustees is conditional on the participating preferred shareholders holding an ownership interest in the Fund, on a fully diluted basis, in excess of 20%. If the ownership interest of the participating preferred shareholders falls below 20%, but is greater than 10%, the Class A unitholder has the right to designate one Trustee. If the ownership interest of the participating preferred shareholders falls below 10%, the Class A unitholder has no right to designate any Trustees of the Fund. The Amended and Restated Declaration of Trust approved at the special unitholder meeting provides that, for so long as any participating preferred shares remain outstanding, the Trustee shall not declare payable or pay or make any distribution of distributable cash flow, as defined herein, or other distribution of cash or property on a trust unit of the Fund unless IESI declares and makes a payment or distribution to holders of the participating preferred shares in an amount equal to the per trust unit distribution payable to trust unitholders of the Fund. The Class A unit will be redeemable at the option of the holder at any time or at the option of the Fund at any time after the date that no participating preferred shares are outstanding and the Class A unit rights against the Fund have ceased. The redemption price of the Class A unit will be for a nominal amount.

Liquidity and Capital Resources

(all amounts are in thousands of Canadian dollars, except per tonne amounts)

CONTRACTUAL OBLIGATIONS

	December 31, 2004				
	Payments due (in thousands)				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	\$ 127,464	\$ 22,224	\$ 240	\$ 47,000	\$ 58,000
Operating leases	5,904	1,226	1,774	1,027	1,877
Other long-term obligations ⁽¹³⁾	27,000	1,500	3,000	1,500	21,000
Total contractual obligations	\$ 160,368	\$ 24,950	\$ 5,014	\$ 49,527	\$ 80,877

Notes:

⁽¹³⁾ Other long-term obligations include the following: a \$1.50 per tonne royalty at the Fund's Lachenaie landfill site, estimated at the maximum annual and cumulative payouts of \$1,500 and \$6,000, respectively, over the 4 year life of the agreement, and payments on account of a license agreement to use the trade-name "BFI" and the related logo for the period from June 30, 2015 to June 30, 2034.

On June 25, 2004, Holdings issued \$47,000, 5 year, senior secured debentures bearing interest at 6.123%, \$58,000, 10 year, senior secured debentures bearing interest at 7.015%, and concurrently entered into a new \$60,000 revolving credit facility. All pre-existing debt facilities were repaid in full on closing.

Cash generated from operating activities for the year ended December 31, 2004 totalled \$58,642 and is \$11,259 higher than the year ended December 31, 2003. Higher net income coupled with lower demands on working capital uses and landfill closure and post-closure expenditures was the primary contributors to the increase. The \$41,712 increase in cash utilized in investing activities is due in large part to the acquisition of Twin Oaks and CDS which resulted in a \$30,575 increase to the Fund's year over year investment in acquired

companies. Additionally, the Fund's investment in capital and landfill assets increased \$5,826, due primarily to an increase in cell construction and infrastructure expenditures at Lachenaie, landfill equipment expenditures for the Lethbridge landfill, and vehicle expenditures to meet the demands of new contracts commencing in January 2005. A \$3,469 decline in proceeds from the disposal of capital and landfill assets realized in 2003, due largely from the sale of surplus parcels of land near the Fund's Winnipeg and Calgary landfill sites, accounts for the balance of the year over year increase in cash utilized in investing activities. The \$35,993 increase in cash generated from financing activities is attributable to the closing of the \$105,000 debt private placement and receipt of proceeds from the Fund's revolving credit facility to acquire Twin Oaks and CDS, offset by the 6.25% and 10% increases in distributions paid to unitholders effective August 31, 2003 and 2004, respectively, and the repayment of pre-existing debt facilities upon closing of the debt private placement and debt acquired in connection with the purchase of Twin Oaks.

In 2005, the Fund expects to use its excess cash resources coupled with proceeds from the Fund's revolving credit facilities to purchase growth capital assets, to develop excess airspace and infrastructure projects at its landfills, and to finance strategic "tuck-in" acquisitions.

The 5 and 10 year senior secured debentures bear interest at fixed rates of 6.123% and 7.015%, respectively. Management of the Fund remains active in its review of alternatives to potentially swap its fixed rate interest charge on its 5 year debentures to a floating rate.

The Fund is obligated under the terms of the debentures and revolving credit facility to repay the principal amount of each debenture and all amounts owing under the revolving credit facility, in full, at their respective maturities. An event of default would require repayment prior to the date of maturity.

The terms of the debentures and revolving credit facility contain numerous restrictive covenants that limit the discretion of the Fund's management with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of the Fund to incur additional indebtedness, to create liens or other encumbrances, to pay distributions on the trust units of the Fund above certain levels or make certain other payments, investments, loans and guarantees, and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the debentures and revolving credit facility contain a number of financial covenants that require the Fund to meet certain financial ratios and financial condition tests. A failure to comply with the obligations of either facility could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under either facility were to be accelerated, there can be no assurance that the assets of the Fund would be sufficient to repay in full that indebtedness. The Fund is currently in compliance with all restrictive covenants under its existing debt facilities.

In order to maintain the Fund's current and future operating performance, the Fund has historically replaced capital and landfill assets ("maintenance capital expenditures") at a rate of approximately \$11,500 to \$12,000 annually. With the successful closing of the Twin Oaks and CDS acquisitions in 2004 and the closing of the Ridge landfill on January 4, 2005, the Fund's annual maintenance capital expenditure requirement, excluding IESI, is expected to approximate \$16,000 to \$17,000 for 2005. As governed by the terms of the Fund's revolving credit facility, the Fund is required to finance maintenance capital expenditures from cash generated from operations. The Fund is restricted to total capital and landfill expenditures (where total capital expenditures includes both maintenance and growth capital expenditures) not to exceed 40% of EBITDA^(A) at the end of any fiscal quarter plus the preceding three quarters. If opportunities are presented that require growth capital expenditures that are in excess of the current restrictive covenant, the Fund would seek a waiver of this covenant. Failure to receive the waiver could accelerate the repayment of the relevant indebtedness or result in the postponement of purchasing growth capital. If the indebtedness were to be accelerated, there can be no assurance that the assets of the Fund would be sufficient to repay such indebtedness in full.

Effective January 4, 2005, the Fund, through Holdings, entered into an Amended and Restated Credit Agreement. The Amended and Restated Credit Agreement makes available to the Fund the following: \$120,000 under a senior secured credit facility and \$60,000 under a subordinated secured credit facility. The principal purpose of these facilities was to allow the Fund to have sufficient available resources to complete the acquisition of the Ridge landfill prior to receiving proceeds from the Fund's subscription receipts offering which closed into escrow on January 5, 2005 and was released from escrow concurrent with the closing of the IESI acquisition on January 21, 2005. On January 4, 2005, the Fund made a \$53,486 draw on its senior secured credit facility, which was in addition to amounts already outstanding on its pre-existing credit facility, and a \$60,000 draw on its subordinated secured credit facility to complete the acquisition of the Ridge landfill. On the closing of the IESI acquisition effective January 21, 2005, the Fund repaid \$98,000 as partial repayment of monies drawn and interest due under the Amended and Restated Credit Agreement. Concurrent with the partial repayment, the subordinated secured credit facility was cancelled and the availability on the senior secured credit facility was reduced to \$80,000 from \$120,000. Included in deferred costs at December 31, 2004 is \$748 of fees paid in respect of the Fund entering this agreement.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2004

Distributions

(all amounts are in thousands of Canadian dollars, except per trust unit amounts)

The Fund paid cash distributions to unitholders of \$1.3175 per trust unit for the year ended December 31, 2004 and declared a distribution payable to unitholders of record on December 31, 2004, payable January 14, 2005, of \$0.116875 per trust unit. In August 2004, the Fund increased its current distribution rate by 10.0% to an annualized rate of \$1.4025 per trust unit beginning with the distribution payable on September 15, 2004 to unitholders of record on August 31, 2004.

On January 21, 2005, the Fund announced that it will increase future distributions by 12.0% to an annualized rate of \$1.5708 per trust unit beginning with the distribution payable on March 15, 2005 to unitholders of record on February 28, 2005.

The following table presents the Fund's payout ratio by quarter and year and on a cumulative quarterly and annual basis:

	2004				
	Q4	Q3	Q2	Q1	Total
Free cash flow available for distribution ^(B)	\$ 10,307	\$ 11,681	\$ 8,537	\$ 10,913	\$ 41,438
Distributions declared	\$ 9,292	\$ 9,011	\$ 8,446	\$ 8,446	\$ 35,195
Payout ratio ⁽¹⁴⁾	90.2%	77.1%	98.9%	77.4%	84.9%
Cumulative payout ratio	87.5%	87.2%	88.7%	87.5%	87.5%
	2003 ⁽¹⁵⁾				
	Q4	Q3	Q2	Q1	Total
Free cash flow available for distribution ^(B)	\$ 7,806	\$ 9,151	\$ 10,170	\$ 9,552	\$ 36,679
Distributions declared	\$ 8,446	\$ 8,281	\$ 7,950	\$ 7,950	\$ 32,627
Payout ratio	108.2%	90.5%	78.2%	83.2%	89.0%
Cumulative payout ratio	89.3%	86.5%	85.7%	87.9%	89.3%
	2002 ⁽¹⁵⁾				
	Q4	Q3	Q2 ⁽¹⁶⁾⁽¹⁷⁾	Q1 ⁽¹⁶⁾⁽¹⁷⁾	Total ⁽¹⁶⁾⁽¹⁷⁾
Free cash flow available for distribution ^(B)	\$ 8,621	\$ 8,752	\$ 6,726	NA	\$ 24,099
Distributions declared	\$ 7,950	\$ 7,950	\$ 5,742	NA	\$ 21,642
Payout ratio	92.2%	90.8%	85.4%	NA	89.8%
Cumulative payout ratio	89.8%	88.5%	85.4%	NA	89.8%

Notes:

⁽¹⁴⁾ The Fund's payout ratio for the year ended December 31, 2004 includes revisions to estimated future cash flows amounting to \$1,902, due principally to closure costs for the non-operating portion of the Fund's Lachenaie landfill. Excluding the revision to estimated future cash flows, the Fund's payout ratio would have been 81.2% for the year ended December 31, 2004.

⁽¹⁵⁾ Free cash flow available for distribution^(B) has been restated to reflect the adoption of the new accounting standard for Asset Retirement Obligations. The impact of adopting the new accounting standard on the comparative annual results is detailed in the BFI Canada Income Fund first quarter report for the period ended March 31, 2004.

⁽¹⁶⁾ Free cash flow available for distribution^(B) has not been calculated for the period from January 1, 2002 to April 24, 2002 as these results are for 3743276 Canada Inc., one of the predecessors of BFI Canada Holdings Inc. The Fund indirectly acquired all of the issued and outstanding shares of 3743276 Canada Inc. on April 25, 2002 in connection with the closing of its initial public offering of trust units. The Fund has only consolidated the results of BFI Canada Holdings Inc. with its results since April 25, 2002. Reference is made to the prospectus of the Fund dated April 16, 2002 relating to the initial public offering for a complete description of the transactions effected concurrently with the closing of such offering.

⁽¹⁷⁾ Free cash flow available for distribution^(B) and distributions declared are for the period from April 25, 2002 to June 30, 2002 and for the period from April 25, 2002 to December 31, 2002.

Seasonality

Revenues are generally higher in spring, summer, and autumn months due to higher collection and disposal of non-hazardous solid waste. Higher landfill and collection revenues are partially offset by higher landfill asset amortization and higher landfill and collection segment operating expenses, respectively.

Risks and Uncertainties

The Fund is subject to various risks and uncertainties related to its operations. A summary of these risks is detailed below. Additional details are contained in the Fund's 2004 Annual Information Form and its December 20, 2004 short-form prospectus filed on SEDAR, which can be found at www.sedar.com.

- renewal or maintenance of landfill operating permits
- integration of significant acquisitions
- loss of contracts through competitive bidding or early termination
- reliance on third party disposal customers
- geographic concentration of operations
- customer concentration
- weather and seasonality
- union labour agreements
- increasing fuel costs
- reliance on key management executives
- localized decision making
- surety bonds, letters of credit and insurance
- leverage, restrictive covenants and capital requirements
- uninsured and underinsured losses
- legislation and governmental regulation
- environmental regulation and litigation
- environmental contamination
- competition
- continued management of business growth
- continued focus on growth through acquisition
- governmental initiatives to reduce landfill disposal by encouraging alternatives
- termination rights under certain agreements for the benefit of third parties
- third party consents and approvals required to complete transactions
- control of the Fund post acquisition of IESI and potential conflicts related thereto
- foreign exchange exposure
- accounting estimates
- internal control over financial reporting and disclosure controls and procedures
- continued ability to meet distribution targets and growth
- price per trust unit is a function of distributable cash flow
- distribution of securities on redemption or termination of the Fund
- investment eligibility and foreign property
- restrictions on certain unitholders and liquidity of trust units
- income tax matters in Canada and the United States
- future sales of trust units by participating preferred shareholders

Outlook

(all amounts are in thousands of Canadian dollars, except per cubic metre amounts)

Overview

With the completed acquisition of both the Ridge landfill and IESI Corporation, management is committed to employing our improvement and market-focused strategies across the expanded operating platform. Management's focus will be to move forward with its growth and improvement programs as one business, operating under two leading brand names, and to aggressively and continuously build value in its operating platforms in five provinces and nine states. Meeting this objective requires the sharing of best practices of both brands and continuing to employ local, market-focused strategies that are responsible for the historical success of both businesses. Together, BFI Canada and IESI serve more than 850,000 residential and 100,000 commercial and industrial customers in 56 markets and feature efficient, low-cost operations, high internalization rates, regionally focused operations, and strong and growing cash flows.

To fund the transaction, as well as its recent purchase of the Ridge landfill in Chatham, Ontario, the Fund successfully completed an offering of 15,583 subscription receipts, including 1,417 subscription receipts issued pursuant to the overallotment option exercised by the underwriters of the offering, into escrow on January 5, 2005. The proceeds from the subscription receipts offering were released from escrow on January 21, 2005, and substantially increased the Fund's market capitalization to more than \$1,000,000.

Management's objective is continuous improvement, which equates to continued revenue growth coupled with efficient management of business operations. New market and landfill development will be a continued focus of the Fund as it looks for ways to expand the business, increase customer density in strategic markets, and increase internalization. The Fund's strengths as an income trust remain founded in the following: consistent historical market growth, strong competitive position, a solid client base with long-term contracts, predictable maintenance capital expenditure requirements, and strong creation of free cash flow available for distribution^(B). Management of the Fund remains committed to actively manage these strengths in the future.

Maintenance capital expenditures

Maintenance capital expenditures for fiscal 2005, representing the replacement of capital in order to sustain current business operations, are expected to approximate \$16,000 to \$17,000 for the Canadian operations and US \$26,000 to US \$27,000 for operations in the United States ("US"). Maintenance capital expenditures are expected to be proportionately higher in the first and second quarters of 2005 which may result in the declaration and payment of distributions in excess of free cash flow available for distribution^(B) for these quarters. For fiscal 2005, the Fund is again targeting a payout ratio below 90%, which is consistent with the Fund's historical cumulative payout ratio of 87.5%.

Landfill segment

The Fund is required to deposit fifty cents per cubic metre of waste accepted at and placed in the approved Lachenaie expansion area into a social utility trust, payable quarterly.

The Fund has received significant volumes of non-hazardous solid waste at its Calgary landfill, and the volumes of waste accepted may not continue at a similar rate. The revenue increase for fiscal 2003 attributable to the Calgary landfill was approximately \$4,000. In 2004, Calgary volumes were down marginally from 2003 resulting in a \$300 decline year over year. In the future, accepted non-hazardous solid waste volumes at the Calgary landfill may not be sustainable at 2003 and 2004 levels.

The Fund closed the acquisition of the Ridge landfill on January 4, 2005. Management expects that the bulk of the \$109,180 purchase price over the fair value of tangible assets will be capitalized to the underlying landfill operating permit and will be recorded in landfill assets.

The Fund is actively reviewing alternatives to replace its Calgary landfill site. To date, the Fund has expensed all costs incurred to develop an alternative Calgary landfill site.

Financing

With the closing of the IESI acquisition, the Fund is subject to credit risk on IESI's new floating rate credit facility. Under the terms of IESI's new credit facility, IESI is required to enter into an interest rate swap, to convert a portion of its new credit facility from floating rate interest to fixed. On January 21, 2005, IESI had converted US \$75,000 of its credit facility from floating rate interest to fixed at an average rate of 5.55%.

Hedges

The Fund, through IESI, entered into three, 3 year, single-rate agreements to hedge its foreign currency exchange exposure in respect of monies to be received from IESI to fund Canadian dollar distribution obligations to unitholders and participating preferred shareholders. The agreements to sell US dollars and purchase \$4,500 Canadian dollars monthly are at an average foreign exchange rate of approximately one dollar and twenty-two cents, commencing in March 2005 through to February 2008. It is management's intention to periodically roll forward the duration of the agreements as they lapse.

Other

Management of the Fund remains active in its review of alternatives to potentially swap its fixed rate interest charge on its 5 year debentures to a floating rate.

Looking ahead, management's principal objective is to increase free cash flow available for distribution^(B) by continuing to enhance the Fund's service offerings, improving efficiencies, and growing through strategic acquisitions. In this regard, management continuously reviews and evaluates potential strategic acquisitions, especially those that can increase free cash flow available for distribution^(B) and, accordingly, distributions. Future strategic initiatives may be financed with borrowings, the issuance of additional trust units, from working capital or from cash flow generated from operations.

Distributions are dependent on free cash flow available for distribution^(B) and the amount of distributions is reviewed by the Trustees from time to time.

Critical Accounting Estimates

Landfill closure and post-closure costs

The Fund develops its estimates for closure and post-closure costs with input from its engineers and accounting personnel based on the landfill regulations governing each facility, and reviews those estimates at least annually.

The assumptions included in the determination of closure and post-closure cost obligations are significant. Changes in estimated costs, discount rates, and capacities may have a significant impact on future closure and post-closure cost obligations, the related landfill assets and the results of operations.

Other

Other estimates include, but are not limited to, the following: estimates of the Fund's allowance for doubtful accounts receivable; future earnings; income tax and other estimates used in the determination of the fair value of goodwill for the Fund's annual test of impairment; deferred cost recoverability assumptions; the useful life of capital assets; projected landfill construction and development costs and estimated permitted and deemed permitted airspace capacity in the determination of landfill asset amortization; and various economic estimates used in the development of fair value estimates.

New Accounting Policies

Derivative financial instruments and hedge accounting

The Fund entered into bond forward contracts to manage interest rate exposure on the placement of long-term debt. Realized and unrealized gains and losses on bond forward contracts designated as hedging instruments are deferred and recognized over the underlying term of the debt. Any gains or losses accumulated up to the date the bond forward contract is terminated or ceases to be designated as a hedge are deferred and recorded over the underlying term of the debt. Any bond forward contracts which do not qualify for hedge accounting or are not designated as a hedge are recorded at fair value with the changes in fair value recorded in current period income.

Amendments to employee future benefits

Effective for years ending on or after June 30, 2004, the Canadian Institute of Chartered Accountants ("CICA") issued various amendments to CICA 3461, Employee Future Benefits, disclosure requirements. Financial statement disclosures in respect of these new amendments are to be applied retroactively with restatement. There were no significant disclosure changes made in respect of amendments to CICA 3461.

Asset retirement obligations

Effective March 2003, the CICA issued a new Canadian accounting standard for Asset Retirement Obligations, which requires the recognition of an obligation associated with the retirement of a tangible long-lived asset that an entity is legally obligated to settle. The new standard is effective for fiscal years beginning on or after January 1, 2004 and requires the Fund to retroactively restate all comparative consolidated financial statements. Accordingly, the December 31, 2003 consolidated financial statements have been restated for all future comparative purposes. Adopting the new accounting standard is expected to have a material impact on landfill assets and closure and post-closure costs; however, it will have no impact on cash generated from operating activities and a marginal impact on free cash flow available for distribution^(B).

Generally accepted accounting principles

Effective June 2003, the CICA issued a new Canadian accounting standard for Generally Accepted Accounting Principles ("GAAP"), which provides additional clarity regarding what constitutes Canadian GAAP and its sources and what to consult when selecting accounting policies and disclosures when a matter is not dealt with explicitly in the primary sources of GAAP. The section is effective for fiscal years beginning on or after October 1, 2003 and earlier adoption is encouraged. Adopting the new accounting standard does not impact the consolidated financial statements of the Fund.

Disclaimer

This document may contain forward-looking statements relating to the Fund's operations or to the environment in which it operates, which are based on the Fund's estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict, or are beyond the Fund's control. A number of important factors could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. These factors include those set forth in the Fund's AIF for the year ended December 31, 2004. Consequently, readers should not rely on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they are made. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, the Fund cannot assure unitholders that actual results will be consistent with these forward-looking statements, and the Fund disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Notes

^(A) All references to "EBITDA" included herein are to "income before the following" on the consolidated statements of operations. "Income before the following" excludes some or all of the following: "amortization, interest on long-term debt, net gain on sale of capital and landfill assets or net (gain) loss on sale of capital and landfill assets, write-off of deferred financing costs, gain on settlement of bond forward contracts and income taxes". EBITDA is a term used by the Fund that does not have a standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and is therefore unlikely to be comparable to similar measures used by other issuers. EBITDA is a measure of the Fund's operating profitability, and by definition, excludes certain items (specifically, amortization, interest on long-term debt, net gain on sale of capital and landfill assets or net (gain) loss on sale of capital and landfill assets, write-off of deferred financing costs, gain on settlement of bond forward contracts and income taxes). These items are viewed by management as either non-cash (in the case of amortization, write-off of deferred financing costs and future income taxes) or non-operating (in the case of interest on long-term debt, net gain on sale of capital and landfill assets or net (gain) loss on sale of capital and landfill assets, gain on settlement of bond forward contracts and current income taxes). EBITDA is a useful financial and operating metric for investors as it represents a starting point in the determination of free cash flow available for distribution^(B). The underlying reasons for exclusion of each item are as follows:

Amortization – as a non-cash item, amortization has no impact on the determination of free cash flow available for distribution^(B).

Interest on long-term debt – interest on long-term debt is a function of an entity's debt/equity mix and interest rates; as such, it reflects the treasury/financing activities of the entity and represents a different class of expense than the components of EBITDA.

Net gain on sale of capital and landfill assets – the net gain on sale of capital and landfill assets has no impact on the determination of free cash flow available for distribution^(B) because the proceeds were reinvested in other capital assets.

Net (gain) loss on sale of capital and landfill assets – the net gain on sale of capital and landfill assets has no impact on the determination of free cash flow available for distribution^(B) because the proceeds were either reinvested in other capital assets or used to repay the Fund's revolving credit facility.

Write-off of deferred financing costs – as a non-cash item, write-off of deferred financing costs has no impact on the determination of free cash flow available for distribution^(B).

Gain on settlement of bond forward contracts – the gain on settlement of bond forward contracts is a treasury/financing activity and represents a different class of revenue than the components of EBITDA.

Income taxes – income taxes are a function of tax laws and rates and are affected by matters which are separate from the daily operations of the Fund.

EBITDA should not be construed as a measure of income or of cash flows. The reconciling items between EBITDA and net income are detailed in the consolidated statements of operations beginning with "income before the following" and ending with "net income".

^(B) The Fund has adopted a measurement called “free cash flow available for distribution” to supplement net income as a measure of operating performance. Free cash flow available for distribution is a term which does not have a standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures used by other issuers. The objective of presenting this non-GAAP measure is to calculate the amount which is available for distribution to unitholders. Free cash flow available for distribution is calculated as EBITDA^(A) less amortization of capitalized landfill asset closure and post-closure costs, interest on long-term debt, current income taxes and maintenance capital expenditures. Additionally, the Fund’s gain on settlement of two bond forward contracts on June 25, 2004 will be amortized to free cash flow available for distribution over the remaining terms of the senior secured debentures (see “Other Performance Measures – Free cash flow available for distribution^(B)” for additional details). Free cash flow available for distribution is not necessarily indicative of cash available to fund cash needs and should not be considered as an alternative to cash flow as a measure of liquidity. All references included herein to “free cash flow available for distribution” have the meaning set out in this note.

^(C) As recommended by Canadian Securities Administrators Staff Notice 52-306, Non-GAAP Financial Measures, free cash flow available for distribution^(B) applying a cash flow approach is calculated as follows:

(in thousands)	Year ended December 31		
	2004	2003 ⁽¹⁹⁾	2002 ⁽¹⁹⁾⁽²⁰⁾
Cash generated from operating activities (per consolidated statements of cash flows)	\$ 58,642	\$ 47,383	\$ 33,339
Changes in non-cash working capital items	(330)	2,226	(2,146)
Net change in landfill closure and post-closure costs ⁽¹⁸⁾	(3,501)	(1,344)	(305)
Gain on settlement of bond forward contracts	(1,550)	–	–
Amortization of gain on settlement of bond forward contracts	112	–	–
Maintenance capital expenditures	(11,935)	(11,586)	(6,789)
Free cash flow available for distribution ^(B)	\$ 41,438	\$ 36,679	\$ 24,099

Notes:

⁽¹⁸⁾ The net change in landfill closure and post-closure costs for the year ended December 31, 2004 includes a revision to estimated future cash flows amounting to \$1,902, due principally to closure costs for the non-operating portion of the Fund’s Lachenaie landfill.

⁽¹⁹⁾ Effective January 1, 2004 the Fund adopted the new accounting standard for Asset Retirement Obligations. The impact of adopting the new accounting standard on the comparative period and annual results is detailed in the BFI Canada Income Fund first quarter report for the period ended March 31, 2004.

⁽²⁰⁾ Cash flows for the period from January 1, 2002 to April 24, 2002 are the results of 3743276 Canada Inc., one of the predecessors of BFI Canada Holdings Inc. and have been excluded from the calculation of free cash flow available for distribution^(B) as presented in the table above. The Fund indirectly acquired all of the issued and outstanding shares of 3743276 Canada Inc. on April 25, 2002 in connection with the closing of its initial public offering of trust units. The Fund has only consolidated the results of BFI Canada Holdings Inc. with its results since April 25, 2002. Reference is made to the prospectus of the Fund dated April 16, 2002 relating to the initial public offering for a complete description of the transactions effected concurrently with the closing of such offering.

Management's Responsibility for Financial Statements

The consolidated financial statements of BFI Canada Income Fund and all the information in this annual report are the responsibility of management and have been approved by the Trustees.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include some amounts that are based on estimates and judgments. Management has determined such amounts on a reasonable basis to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial information presented elsewhere in this annual report has been prepared on a basis consistent with that in the consolidated financial statements.

BFI Canada Income Fund maintains systems of internal accounting and administrative controls. These systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Fund's assets are properly accounted for and adequately safeguarded.

The Trustees are responsible for ensuring that management fulfills its responsibilities for financial reporting and are ultimately responsible for reviewing and approving the consolidated financial statements. The Trustees carry out this responsibility principally through their Audit Committee.

The Audit Committee is appointed by the Trustees and is comprised entirely of non-management Trustees. The Audit Committee meets periodically with management and the external auditors to discuss auditing, internal controls, accounting policy, and financial reporting matters. The Audit Committee reviews the consolidated financial statements with both management and the external auditors and reports its findings to the Trustees before such statements are approved by the Trustees.

The consolidated financial statements have been audited by Deloitte & Touche LLP, the external auditors, in accordance with Canadian generally accepted auditing standards.

Keith Carrigan (signed)
President and Chief Executive Officer

Joseph D. Quarin (signed)
Chief Financial Officer

Auditors' Report

To the Unitholders of
BFI Canada Income Fund

We have audited the consolidated balance sheets of BFI Canada Income Fund as at December 31, 2004 and 2003 and the consolidated statements of operations, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund'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 Fund as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP (signed)

Chartered Accountants

Toronto, Ontario

February 25, 2005

BFI Canada Income Fund Consolidated Balance Sheets

December 31, 2004 and December 31, 2003 (in thousands of dollars)

	December 31,	
	2004	2003
		(Restated - Note 2)
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 13,282	\$ 6,704
Accounts receivable	33,348	25,838
Other receivables (Note 5)	1,403	1,203
Prepaid expenses	2,568	2,081
	50,601	35,826
OTHER RECEIVABLES (Note 5)	3,028	3,284
FUNDED LANDFILL POST-CLOSURE COSTS (Note 10)	570	—
INTANGIBLES (Note 6)	72,856	66,993
GOODWILL	50,889	49,171
DEFERRED COSTS (Note 20)	12,159	3,069
DEFERRED FINANCING COSTS (Note 20)	1,860	1,176
CAPITAL ASSETS (Note 7)	95,325	84,359
LANDFILL ASSETS (Note 8)	110,382	113,084
	\$ 397,670	\$ 356,962
LIABILITIES		
CURRENT		
Accounts payable	\$ 23,206	\$ 11,866
Accrued charges	7,501	5,836
Distribution payable	3,097	2,816
Income taxes payable	636	346
Deferred revenues (Note 5)	6,623	6,400
Current portion of long-term debt (Note 9)	22,224	271
	63,287	27,535
LONG-TERM DEBT (Note 9)	105,240	81,313
LANDFILL CLOSURE AND POST-CLOSURE COSTS (Note 10)	6,143	2,642
FUTURE INCOME TAX LIABILITIES (Note 11)	13,907	21,146
	188,577	132,636
UNITHOLDERS' EQUITY (Note 12)	209,093	224,326
	\$ 397,670	\$ 356,962

Keith Carrigan (signed)
President and Chief Executive Officer

Joseph D. Quarin (signed)
Chief Financial Officer

BFI Canada Income Fund Consolidated Statements of Operations

For the years ended December 31, 2004 and December 31, 2003 (in thousands of dollars, except net income per trust unit amounts)

	2004	2003
		(Restated - Note 2)
REVENUES	\$ 191,956	\$ 167,626
EXPENSES		
OPERATING	99,378	84,892
SELLING, GENERAL AND ADMINISTRATION (Note 19)	28,012	25,452
INCOME BEFORE THE FOLLOWING	64,566	57,282
AMORTIZATION	47,467	45,375
INTEREST ON LONG-TERM DEBT	6,138	5,137
WRITE-OFF OF DEFERRED FINANCING COSTS	748	—
NET GAIN ON SALE OF CAPITAL AND LANDFILL ASSETS	(192)	(527)
GAIN ON SETTLEMENT OF BOND FORWARD CONTRACTS (Note 13)	(1,550)	—
INCOME BEFORE INCOME TAXES	11,955	7,297
INCOME TAX EXPENSE (RECOVERY) (Note 11)		
Current	540	450
Future	(8,547)	(6,290)
	(8,007)	(5,840)
NET INCOME	\$ 19,962	\$ 13,137
Net income per trust unit, basic and diluted	\$ 0.75	\$ 0.50
Weighted average number of trust units outstanding (thousands)	26,500	26,500

“Our experience with BFI Canada has been very positive. They have been able to accommodate our needs and put extra effort into doing the job right.”

David Schaaf P. Eng.
Solid Waste Manager
City of Lethbridge, Alberta

“IESI was awarded the bid for the City of Oakland through a competitive bidding process of which we felt the rates were competitive with the market and fair to the citizens of Oakland. We look forward to a long-lasting relationship with this company.”

Kathy Yahl
City Administrator
City of Oakland, Missouri

“It is with great pleasure that I recommend the services of IESI. The City of Rowlett has been very pleased with our new partners.”

C. Shane Johnson
Mayor
Rowlett, Texas

“(IESI) has clearly fulfilled its commitments to the City under the contract, has been an environmentally conscious and responsible landfill operator and has become an appreciated member of our community.”

Joe M. Tison
Mayor
City of Weatherford, Texas

“On behalf of the Des Peres Board of Aldermen, city hall staff and the residents of Des Peres, I want to personally thank the IESI team for the quality of service you have established in this first month of providing sanitation services to our community.”

Rick Lahr
Mayor
City of Des Peres, Missouri

“We have been contracting our waste and recycling material going on three years with Cora Dawson of BFI, and we have about twenty shopping centres and office buildings that they service. We have been and are very pleased with their service...”

D.E. (Dan) Johnsen
President – Property Manager
Anchor Management, Calgary, Alberta

“I would like to take this opportunity to thank you and your staff for the pleasurable experience that my staff has had since BFI Canada has taken over the front-end contract in the East & North Districts.”

Gerry Martell
Manager, Operational Support
East & North Districts
Toronto Works and Emergency Services
Toronto, Ontario

“Just a quick note to say thank you to BFI Canada for your support of our school age awareness program, *The Fourth 'R'*. The recycling stencils and mini toters you have supplied us for giveaways have been a huge hit with the kids! Their eyes just light up when I tell them that they are each getting something to remind them and their parents to Reduce, Reuse, Recycle and Rethink their waste producing habits.”

Gina MacArthur
Public Education Coordinator
Operations Department
City of Kingston, Ontario

“I am writing this letter to thank you and your company for your kindness in allowing us to visit your business. This visit has made the students aware of the many things that affect the environment, the economy and society, and this concrete awareness is very important for us...”

Inés Escriva
École secondaire Le Sentier
Mirabel, Quebec

“Thank you very much for the wonderful visit... it is such a treat every year. Our students came back to the school brimming with project ideas. At lunch, they couldn't look at their plastic forks the same way!!”

Esther Sauro and Danielle Cossette
École Val des Arbres
Duvernay, Laval, Quebec

“What a great team you guys have. THANK-YOU, THANK-YOU, THANK-YOU... Special thanks to dispatch (Karen) and your drivers for fitting Ethan Allen Home Interiors in on such short notice and making additional pick-ups on such short notice. Your team is exceptional... drivers and dispatch inclusive... THE BEST IN CANADA.”

Gary Thibault
Ethan Allen,
Calgary, Alberta

What they said about

