



Strength, Stability and **Commitment**





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▲ Frank Bernard, Operations Manager – Toronto District

BFI Canada Snapshot | BFI Canada Income Fund is one of Canada's largest non-hazardous full-service solid waste management companies, and our 670 employees serve more than 36,000 residential, commercial and industrial customers in 18 markets in British Columbia, Alberta, Manitoba, Ontario and Quebec.

The Fund carries on business through its wholly-owned subsidiaries, BFI Canada Inc., BFI Usine de Triage Lachenaie Ltd. and Entreprise Sanitaire F.A. Ltée.

BFI Canada owns and operates three landfill sites – in Alberta, Manitoba and Quebec – as

well as two transfer-collection stations, seven material recovery collection stations and one landfill gas-to-energy facility.

BFI Canada's business does not include the management, collection or disposal of hazardous or liquid waste.

BFI Canada Income Fund is an open ended, limited purpose trust established under the laws of Ontario. An initial public offering of the Fund's trust units closed on April 25, 2002. The Fund's units are listed on the Toronto Stock Exchange under the symbol BFC.UN, and further information is available on our website, at www.bficanada.com.

Stability and Predictability: Why BFI Canada is Well Suited to an Income Fund Structure

BFI Canada Income Fund's solid waste management business exemplifies the characteristics suited to an income fund structure.

Businesses suited to the income fund structure have highly stable, reliable revenue streams, earnings and cash flows, and hold leadership positions in their industries. Unlike conventional corporations, income funds appeal to investors by providing tax-efficient distribution of a significant portion of their free cash flow available for distribution⁽¹⁾.

Revenue stability | Our waste management business is inherently stable and largely recession-resistant, as waste collection services are still necessary during slower economic times, and because many of BFI Canada's customer relationships are secured by long-term contracts.

Internalization | BFI Canada enjoys a significant degree of stability due to its high degree of internalization – also known as vertical integration – through ownership of its landfills. This feature protects BFI Canada's earnings, since in several markets we do not pay other operators for the use of their landfill sites. In fact, others pay BFI Canada to use its landfills. BFI Canada also benefits from its size as one of Canada's largest solid waste management companies as this provides it with opportunities to negotiate price discounts on supplies through its high volume purchasing power.

Predictable capital expenditures | The ability to foresee future replacement capital requirements contributes to the stable nature of BFI Canada's business model.

We therefore believe that BFI Canada is an ideal business for an income fund. These factors, combined, provide the foundation for our primary objective: to increase free cash flow available for distribution for our unitholders and build value in the Fund.

(1) BFI Canada Income 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 Canadian generally accepted accounting principles ("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(2) less interest on long-term debt, current income taxes and maintenance capital expenditures. Free cash flow available for distribution is not necessarily indicative of cash available to fund cash needs and should not, therefore, be considered as an alternative to cash flow as a measure of liquidity. All references in this annual report to "free cash flow available for distribution" have the meaning set out in this note.



Financial and Operating Highlights

For the Period from April 25, 2002 to December 31, 2002 (the “period”)

BFI Canada’s focus on core operations resulted in a **solid financial performance** for the period with strong revenue growth and cash flow generation across all business segments.

Revenue (in millions)

PERIOD ACTUAL **\$108.5**

PERIOD FORECAST **\$102.2**

EBITDA⁽²⁾ (in millions)

PERIOD ACTUAL **\$35.1**

PERIOD FORECAST **\$34.4**

(2) All references to “EBITDA” in this annual report are to “income before the following” on the consolidated statement of operations, or more explicitly, to “earnings before interest on long-term debt, amortization and income taxes.” EBITDA is a term used by the Fund that does not have a standardized meaning prescribed by 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 expenses (specifically amortization, interest on long-term debt and income taxes). These expenses are viewed by management as either non-cash (in the case of both amortization and future income taxes) or non-operating (in the case of both interest on long-term debt and current income taxes). EBITDA is a useful financial metric for investors as it represents a starting point in the determination of free cash flow available for distribution. The underlying reasons for exclusion of each item are as follows:

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.

Amortization | As a non-cash item amortization has no impact on the determination of free cash flow available for distribution.

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 (loss) are detailed in the consolidated statement of operations beginning with “income before the following” and ending with “net income.”


BFI Canada enjoyed strong operating and financial results for the period ended December 31, 2002. The following highlight BFI Canada's key successes:

- During the period, BFI Canada increased revenues in landfill and industrial collection operations and realized higher commodity selling prices for recovered materials. These gains were not fully offset by the increased variable costs of the activity, and the net impact was an increase in free cash flow available for distribution and net income compared to forecast.
- BFI Canada completed all required regulatory filings for expansion of the Lachenaie landfill site serving the Montreal market.
- BFI Canada was awarded new collection contracts for Districts 3 and 4 (former North York and Scarborough) in the City of Toronto, and for the City of Terrebonne, Quebec that are expected to generate annual revenues of approximately \$3.4 million.
- BFI Canada completed two small acquisitions. These established businesses complemented operations in the Vancouver and Montreal-area markets, helped solidify BFI Canada's market position, and were immediately accretive to free cash flow available for distribution and net income.


BFI Canada's success for the period can be attributed to the solid operating performance of its employees. BFI Canada is committed to providing them with the tools and techniques necessary to continue to deliver outstanding service, and increase free cash flow available for distribution.

Free cash flow available for distribution⁽¹⁾ (in millions)

PERIOD ACTUAL **\$24.4**




PERIOD FORECAST **\$22.1**




Distributions – Aggregate and per unit

AGGREGATE DISTRIBUTIONS DECLARED (IN MILLIONS) **\$21.6**



DISTRIBUTIONS PER UNIT DECLARED **82¢**





^ An aerial view of the Lachenaie landfill

President's Message to Unitholders

To the Unitholders of BFI Canada Income Fund:

I am pleased to report that BFI Canada delivered a solid operating performance and surpassed the financial objectives outlined in our initial public offering prospectus issued April 16, 2002. As a result, we have delivered our target unitholder cash distributions, and set the stage for growth in our business.

Operationally, BFI Canada's 2002 performance is attributable to our employees' success in managing higher industrial collection and landfill volumes while containing the associated growth in variable costs. In addition, our performance benefited from higher realized commodity prices earned on materials reclaimed from the solid waste stream.

BFI Canada's impressive operating performance was reflected in our financial results. We surpassed our targets for revenue growth, productivity and cost efficiency. Our financial performance was also aided by lower than anticipated interest rates, which also helped reduce costs and improve the bottom line.

Solid waste management is a straightforward and mature industry. Everyone generates waste daily, and this has to be collected and transported to a recycling depot or a disposal facility, such as a landfill.

BFI Canada and its predecessor have been in the business of collecting and transporting waste to recycling or disposal facilities since 1973. Unlike most other Canadian participants in the solid waste management business, BFI Canada also owns landfill sites – in three locations – and these provide the benefit of internalization, or vertical integration. Having its own landfills enables BFI Canada to avoid paying other companies for disposal of collected materials. In fact, with its own landfills, BFI Canada lowers its disposal costs and earns revenue by charging other haulers for their use of its landfills.

Managing the fundamentals of this business – such as customer service, environmental leadership, revenue growth, productivity, low-cost operations and effective use of fixed assets – continues to drive our success. These fundamentals are at the heart of all BFI Canada operations.

As you will read throughout this report, BFI Canada employees remain focused on applying these fundamentals to increase the value of the Fund and to increase free cash flow available for distribution.

We surpassed our targets for revenue growth, productivity and cost efficiency.

President's Message to Unitholders

FOCUS ON RETURN ON CAPITAL | The solid operating and financial results achieved by BFI Canada throughout the period are the direct result of effective planning by our management teams and the diligent implementation of those plans by their front-line employees, all of whom are focused on improving BFI Canada's return on capital.

Each market in which BFI Canada operates has a plan that addresses operating issues and opportunities, such as route or landfill densifications and cost reductions, to improve our return on capital. In turn, positive results from these efforts have allowed us to develop and implement successful market strategies.

We gain further advantage in improving returns by centrally managing capital assets and bulk purchases to maximize discounts, minimize prices and optimize quantities, warranties and product performance.

BFI Canada measures success by free cash flow available for distribution and return on capital, and that applies to local and regional business operations, prospective acquisitions and the development of new technologies and service offerings.

FOCUS ON IMPLEMENTATION | Combining the right goals and the best assets does not guarantee delivery of the intended results without equal attention to how the job gets done. So, at BFI Canada we invest significant time planning, reviewing and improving our implementation process to ensure we meet our operating and financial targets.

We also understand that good results are delivered not by goals, assets and processes, but by the efforts of individual people.

Throughout the period, BFI Canada has been committed to supplying its employees with the best tools and techniques. Our people have responded by applying their experience, skill and dedication and the result has been a great year of outstanding, cost efficient service for our customers.

BFI Canada has a grass-roots focus on its business. We monitor all marketing, sales, operational and maintenance activity daily. This daily scrutiny is echoed weekly and monthly, at higher levels throughout our organization, to ensure that BFI Canada is making progress toward its goal: becoming the most productive, environmentally responsible, cost efficient solid waste management company in the Canadian marketplace.

In striving to achieve this objective we recognize that our customers always need us to do better, and we are cognizant that customers always have options in their choice of a solid waste management service provider.



To do better for our customers and ourselves, we encourage all employees to work smart:

- Conducting regular regional and district management work-out sessions to generate and share new ideas and new opportunities across the country and to reward employees' contributions to our business success;
- Challenging our operations group constantly to enhance productivity and work with our sales team to maximize return on capital;
- Concentrating purchasing power to minimize operating costs through best-price supplies for items such as fuel, parts and other consumables;
- Purchasing capital assets centrally to minimize our investment and optimize the cost-benefit equation; and
- Actively sharing information to avoid silo thinking and narrow solutions. For example, through regular problem-solving sessions, our regional vehicle maintenance managers identified a common problem each had previously thought was an isolated incident. As a result, senior managers headed off a small problem before it grew, and approached the supplier for a superior solution – one that resulted in a major warranty extension and significant cost savings to BFI Canada.

FOCUS ON CUSTOMERS AND GROWTH | BFI Canada recognizes that our business depends on creating and maintaining excellent relationships through superior service, as judged by our customers.

We strive to be acknowledged as the provider of choice for all solid waste management requirements, and many of our 36,000-plus customers have long-standing relationships with BFI Canada.

To remain the first-choice provider, BFI Canada distinguishes itself from others by adding value through our commitment to Blue Ribbon service.

Each BFI Canada district has developed local service standard commitments specifically designed to raise the bar on service for its customers and ensure that BFI Canada sets the standard to which others aspire.

In addition, we have created an expanded package of Blue Ribbon service commitments for national accounts that includes individually tailored waste management and recycling strategies, customized reporting, centralized billing and account management, and conducting waste stream audits and analysis.

At BFI Canada we work hard to make it easier for customers to do business with us, and enhancing our services even further remains a priority that will benefit BFI Canada and customers alike.

Our business depends on creating and maintaining excellent relationships through superior service, as judged by our customers.

President's Message to Unitholders

Business growth | During the period we exceeded our internal growth expectations and were successful in growing our customer base. We also successfully completed two small acquisitions. These businesses complemented our established operations in Vancouver and Montreal, while further consolidating our market leadership there. They were immediately accretive to free cash flow available for distribution and net income.

The Canadian solid waste management industry continues to present attractive consolidation opportunities and BFI Canada is well positioned to take advantage of these. We will continue our acquisition strategy going forward, subject, as always, to the requirement that prospective targets fit strategically with our current business and be accretive to free cash flow available for distribution and net income.

Business development is a continuing process. We will continue to identify new acquisition targets and other business development opportunities that will help us grow free cash flow available for distribution and the Fund's value.

FOCUS ON THE ENVIRONMENT & SAFETY | Continuing care for the environment and concern for the safety of employees are cornerstones of all BFI Canada activities.

Our environmental health and safety team, with 19 field personnel, works to ensure that all BFI Canada operations meet the highest standards of environmental protection, and comply with – or exceed – government environmental regulations. This group also introduces state of the art engineered environmental designs and ensures safe practices for all employees and safe operation of all of BFI Canada's equipment and other assets.

New cells were developed at all BFI Canada landfill sites during calendar 2002. We achieved complete containment by incorporating techniques developed and engineered from best practices observed around the world. For even greater assurance of their long-term suitability, these cells were subjected to quality testing by independent engineers. All filled cells have also been submitted to the same rigorous testing protocol. We can take pride in reporting that independent third party monitoring and government inspections of our sites continue to demonstrate the environmental integrity of BFI Canada's landfills.

Our environmental group is never satisfied with current performance. We will continue to search out and develop new technologies to improve the environmental performance of all BFI Canada activities. This past period BFI Canada enhanced its methane gas capturing technology at the Lachenaie landfill, and now captures more than 90 per cent of total emissions. This performance is significantly above industry standards, and helps reduce greenhouse gas emissions. The captured gas is converted at our landfill gas to energy plant to generate enough electricity for more than 2,500 homes. In addition, BFI Canada has been working with the University of Alberta and consultants to reduce methane greenhouse gas emissions through enhanced oxidation.

Respect for our environment is good business and the right thing to do.

In the community | BFI Canada's landfills are designed in park-like settings, with extensive landscaping and buffer zones to provide an attractive, open view of the countryside. Recognizing that local support is key to establishing and maintaining successful long-term relationships, BFI Canada works hard with its landfills' host communities and residents' associations.

BFI Canada is recognized as a good neighbour in the communities with BFI Canada landfills, and has often won the enthusiastic endorsement of local elected officials.

On the road | BFI Canada demonstrates its commitment to respect the environment in the operation of its solid waste collection vehicles.

BFI Canada is committed to use the cleanest and most fuel-efficient technologies. In fact, the average age of BFI Canada's vehicle fleet is just 4.5 years. Maintenance is an active priority to optimize major component life and to minimize emissions.

Respect for our environment is good business and the right thing to do.

OUTLOOK | The management of BFI Canada is committed to increase free cash flow available for distribution and the value of the Fund. Over the coming year, we will continue our efforts to become more efficient by increasing route density, maximizing landfill airspace, and introducing productivity-enhancing new technologies, such as satellite-based vehicle navigation, which has shown promising test results. We will continue to manage unit costs which, together with productivity gains, will flow through to benefit net income.

Based on current marketplace dynamics, we anticipate continued organic growth, which will be supported by existing resources, and we remain confident that final permitting for the expansion of our Lachenaie landfill will be completed without interruption to our business.

BFI Canada will also continue to grow through acquisition and the development of new services. Where there are strategically complementary companies that meet our financial criteria, we will target them for acquisition. Our research and analysis indicates that attractive candidates are available in markets where BFI Canada now operates, as well as in new markets.

I thank all employees of BFI Canada not only for their achievements over the past year but also for their commitment and dedication towards fulfilling our operating and financial objectives for the coming year.

signed

Keith Carrigan | President and Chief Executive Officer



The following is a discussion of the consolidated financial condition and results of operations of BFI Canada Income Fund (the "Fund") for the period from April 25, 2002 to December 31, 2002 (the "period"). This discussion should be read in conjunction with the Consolidated Financial Statements of BFI Canada Income Fund and notes thereto for the period from April 25, 2002 to December 31, 2002. The Fund's quarterly financial results for the reporting period ended December 31, 2002 are included in the Fund's 2002 Annual Information Form.

Corporate Overview

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 for commercial, industrial and residential customers in the provinces of British Columbia, Alberta, Manitoba, Ontario and Quebec. The Fund owns and operates three landfills, carries on collection operations in 18 markets and operates two transfer collection stations, seven material recovery facilities ("MRFs") and one landfill gas to energy facility. The Fund makes cash distributions to its unitholders based on all amounts received from its subsidiaries, including interest, dividends, redemption proceeds, purchase for cancellation proceeds, returns of capital and repayments of indebtedness net of reasonable expenses, as determined by the trustees, and amounts related to the redemption of units payable in cash and interest expense. 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.

The Fund, through BFI Canada Holdings Inc., acquired all of the outstanding common shares, convertible debentures and warrants of 3743276 Canada Inc. effective April 25, 2002. Operating results of the Fund are for the period from April 25, 2002 to December 31, 2002.

Performance Summary | (For the period from April 25, 2002 to December 31, 2002)

Operating results for the period were strong for all business segments and exceeded the eight-month forecast set out in the prospectus.

The Fund earned revenues of \$108.5 million, income before amortization, interest on long-term debt and income taxes ("EBITDA"⁽¹⁾) of \$35.1 million and net income of \$5.9 million or \$0.22 per unit. Distributions declared of \$0.82 per unit for the period are consistent with the Fund's final prospectus filed April 16, 2002. Management of the Fund currently expects annual distributions to be maintained at \$1.20 per unit. Future increases will be considered by the trustees as appropriate.

The Fund's prospectus included a forecast for the four and eight month periods ending April 30, 2002 and December 31, 2002, respectively. For comparative purposes only, the table below compares operations and free cash flow available for distribution⁽²⁾ for the period to a 251-day equivalent of the eight-month forecast ("period forecast"⁽³⁾).

(1) All references to "EBITDA" in the Management's Discussion and Analysis are to "income before the following" on the consolidated statement of operations, or more explicitly, to "earnings before interest on long-term debt, amortization 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 expenses (specifically amortization, interest, on long-term debt and income taxes). These expenses are viewed by management as either non-cash (in the case of both amortization and future income taxes) or non-operating (in the case of both interest on long-term debt and current income taxes). EBITDA is a useful financial metric for investors as it represents a starting point in the determination of free cash flow available for distribution. The underlying reasons for exclusion of each item are as follows:

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.

Amortization | As a non-cash item amortization has no impact on the determination of free cash flow available for distribution.

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 (loss) are detailed in the consolidated statement of operations beginning with "income before the following" and ending with "net income."

(2) BFI Canada Income 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 less interest on long-term debt, current income taxes and maintenance capital expenditures. Free cash flow available for distribution is not necessarily indicative of cash available to fund cash needs and should not, therefore, be considered as an alternative to cash flow as a measure of liquidity. All references in the Management's Discussion and Analysis to "free cash flow available for distribution" have the meaning set out in this note.

(in millions except for per unit amounts)	Period Ended	
	December 31, 2002	Period Forecast
Revenues	\$ 108.5	\$ 102.2
Operating expenses	56.9	52.0
Selling, general and administration expenses	16.5	15.8
Income before the following	35.1	34.4
Amortization	30.2	30.7
Interest on long-term debt	3.1	3.4
Income before income taxes	1.8	0.3
Income tax (recovery) expense	(4.1)	1.1
Net income (loss)	\$ 5.9	\$ (0.8)
Net income (loss) per trust unit, basic & diluted	\$ 0.22	\$ (0.03)
Number of units outstanding (thousands)	26,500	26,500
Maintenance capital expenditures	\$ 6.8	\$ 7.8
Growth capital expenditures	6.6	3.6
Total capital expenditures	\$ 13.4	\$ 11.4
Free cash flow available for distribution	\$ 24.4	\$ 22.1
Free cash flow available for distribution per trust unit	\$ 0.92	\$ 0.83
Aggregate distributions declared	\$ 21.6	
Aggregate distributions declared per trust unit	\$ 0.82	

Review of Operations | (For the period ended December 31, 2002)

Revenues | Revenues of \$108.5 million were \$6.3 million or 6.2% higher than the period forecast. The increase is primarily attributable to higher landfill and industrial collection revenues and realized commodity prices totalling approximately \$2.2, \$1.6 and \$2.2 million, respectively.

Operating expenses | Operating expenses were \$56.9 million versus the comparative period forecast of \$52.0 million. Higher landfill costs account for \$1.1 million of the variance, of which \$0.7 million relates principally to higher volumes of solid waste entering Fund- owned landfills and \$0.4 million relates to landfill development activities in markets where the Fund operates. The balance of the variance relates primarily to higher collection efforts to service organic revenue growth.

Selling, general and administration expenses | Selling, general and administration expenses were \$16.5 million versus the comparative period forecast of \$15.8 million. The increase is comprised of several immaterial variances.

(3) The compilation of the forecast included in the prospectus characterized facility rent and selling, general and administration expenses for Entreprise Sanitaire F.A. Ltée ("F.A.") as operating expenses. Actual results for the period ending December 31, 2002 include both expense items in selling, general and administration expenses. The period forecast has been adjusted to reflect this change as follows:

Operating expenses		
Period forecast, before adjustments	\$	53.5
Less adjustments		(1.5)
Period forecast adjusted	\$	52.0
Selling, general and administration expenses		
Period forecast, before adjustments	\$	14.3
Add adjustments		1.5
Period forecast adjusted	\$	15.8

All references to "period forecast" in the Management's Discussion and Analysis include the adjustments herein.

Management's Discussion and Analysis

Income before amortization, interest on long-term debt and income taxes ("EBITDA") | EBITDA of \$35.1 million was \$0.7 million higher than the period forecast of \$34.4 million. Revenue gains in the landfill and collection segments were partially offset by variable operating costs, landfill development expenses and higher than forecast selling, general and administration expenses, as discussed above.

Interest on long-term debt | The variance is the result of lower realized borrowing rates on bankers' acceptances.

Income taxes | Income taxes recovered totalled \$4.1 million for the period. Income tax recovered consists of current income tax expense of \$0.8 million and future income tax recoveries of \$4.9 million. Tax recoveries recognized for the period are in excess of those assumed in the period forecast due to an adjustment to the recognition of interest deductibility.

Capital expenditures | Capital expenditures, which include maintenance and growth capital expenditures, totalled \$13.4 million for the period. Maintenance capital expenditures, representing the replacement of capital in order to sustain current business operations, were lower than the comparative period forecast due to higher than forecast maintenance capital expenditures incurred in the period from January 1 to April 24, 2002. Growth capital expenditures, representing capital required to meet the demands of acquired or organic growth or capital which specifically benefits a future period or periods, exceeded the period forecast by \$3.0 million. Growth capital expenditures in excess of forecast are principally due to capital requirements to service recently awarded collection contracts (*see "Liquidity and Capital Resources" and "Outlook"*).

Free cash flow available for distribution | Free cash flow available for distribution was \$24.4 million and \$2.3 million higher than the comparative period forecast. Exceeding operating earnings targets coupled with marginally lower interest on long-term debt, current income taxes and maintenance capital expenditures has resulted in additional free cash flow available for distribution.

Financial Condition

Accounts receivable totalled \$25.0 million at December 31, 2002. The collection quality of receivables is high with less than five percent of total trade receivables in excess of 90 days and current period bad debt charges totalled less than one percent of revenues.

Capital assets consist primarily of buildings, vehicles and containers and have a carrying amount of \$89.7 million at December 31, 2002. In connection with the Fund's acquisition, through BFI Canada Holdings Inc. ("Holdings"), of BFI Canada Inc. ("BFI Canada"), BFI Usine de Triage Lachenaie Ltd. ("BFI Usine") and Entreprise Sanitaire F.A. Ltée ("F.A."), the capital assets of the three primary operating companies were purchased at fair value. Accordingly the historical cost of assets acquired has been revalued to reflect this change.

Customer collection contracts represent approximately 95 percent of the \$77.8 million in recorded intangibles at December 31, 2002 and were recorded on the Fund's acquisition of BFI Canada, BFI Usine and F.A. Customer collection contracts were initially recognized and measured at cost and are being amortized on a modified straight-line basis over the useful life of the underlying intangible asset. Amounts specifically ascribed to BFI Canada collection contracts are being amortized over eight years and total amortization related thereto will approximate \$10.7 million in 2003. All intangible assets are tested for recoverability when events arise that indicate the carrying amount may not be recoverable.

Goodwill totals \$49.2 million and is not amortized. Goodwill is tested annually for impairment and an impairment loss is recognized when the carrying amount of goodwill, or any portion thereof, exceeds the fair value of goodwill. Management has selected April 24th as its annual date for impairment testing and does not anticipate the need to recognize any significant impairment losses in the coming year. (*For further details see "summary of significant accounting policies – use of estimates" provided in the Consolidated Financial Statements of BFI Canada Income Fund for the period ended December 31, 2002.*)

Deferred costs relate principally to landfill permitting costs associated with the Lachenaie landfill. Deferred costs will be capitalized to landfill assets upon successful completion of the permitting process and amortized on a basis consistent with the Fund's current stated policy. *(For further details see "summary of significant accounting policies – use of estimates" provided in the Consolidated Financial Statements of BFI Canada Income Fund for the period ended December 31, 2002.)*

Deferred financing costs are amortized over three years, which is consistent with the term of the underlying debt. In the event that the existing facility is changed in favour of new long-term financing, the then carrying value of deferred financing costs will be charged to operations.

Landfill assets represent the largest balance sheet asset of the Fund and total \$122.4 million at December 31, 2002. The Fund's acquisition of the aforementioned operating companies resulted in significant revaluation, to fair value, of the permit values of the Fund's three landfills. Landfill permits together with original cost and incurred construction and development costs are being amortized as landfill airspace is consumed. *(For further details see "summary of significant accounting policies – use of estimates and landfill assets" provided in the Consolidated Financial Statements of BFI Canada Income Fund for the period ended December 31, 2002.)*

The Fund has a working capital position, representing total current assets less current liabilities of approximately \$5.1 million, which is consistent with the Fund's working capital position on acquisition of BFI Canada, BFI Usine and F.A.

Unitholders' equity totalled \$239.2 million at December 31, 2002. Unitholders' equity includes net income less distributions declared. Because amortization of intangible, capital and landfill assets is expected to exceed maintenance capital expenditures for the foreseeable future, net income is expected to be significantly less than free cash flow available for distribution. Consequently, unitholders' equity is expected to decline significantly in the coming years as a result of the variance between net income and distributions declared.

Liquidity and Capital Resources

The Fund has available a revolving loan to a maximum of \$28.6 million, of which \$8.6 million relates specifically to a letter of credit required to operate one of the Fund's landfills. The remaining \$20.0 million is available to fund changes in working capital and non-operating liquidity requirements including acquisitions and growth capital expenditures. Cash generated from operations for the period totalled \$33.3 million. Excluding acquisitions, cash utilized in investing activities totalled \$14.7 million for the period and is principally due to vehicle and container purchases and landfill cell development. Excluding the issue and cancellation of trust units, cash utilized in financing activities consists of distributions paid to unitholders net of proceeds from the revolving loan to fund growth related expenditures. During the period the Fund utilized \$5.3 million from its revolving loan facility to finance growth related expenditures.

During the period, the Fund made two "tuck-in" acquisitions for total cash consideration \$0.3 million. Both acquisitions were financed from cash flow generated from operations.

The Fund has recently been awarded the City of Blainville and City of Terrebonne, Quebec collection contracts. These contracts require the Fund to supply containers totalling approximately \$3.7 million to residents of the respective cities. All containers will be financed through the Fund's revolving loan facility and will be repaid by the cities in equal monthly installments over the five year term of the underlying contracts.

Distributions

The Fund paid cash distributions to unitholders of \$0.72 per unit for the period and declared a distribution payable to unitholders of record on December 31, 2002, payable January 15, 2003 of \$0.10 per unit.

New Accounting Developments

Impairment of long lived assets (CICA 3063) | The new standard replaces existing requirements for impairment under CICA 3061 – Property, Plant and Equipment and is effective for fiscal years beginning on or after April 1, 2003. Under the new standard, a two-step process is completed to determine whether an impairment exists. Impaired assets are written-down to their fair value, which may be calculated using a present value technique. Management is of the opinion that adopting CICA 3063 will not have a significant impact on the Fund's consolidated financial statements.

Disposal of long lived assets and discontinued operations (CICA 3475) | This amended standard replaces existing requirements on the disposal of assets and discontinued operations and applies to disposal activities initiated on or after May 1, 2003. Significant changes include specific criteria to determine whether assets are considered to be held for sale, the related financial statement measurements and presentation implications, a broader definition of what constitutes a discontinued operation, and no longer permitting accruals for future operating losses prior to the date of disposal being no longer permitted. Management is of the opinion that adopting CICA 3475 will not have a significant impact on the Fund's consolidated financial statements.

Accounting for costs associated with exit and disposal activities | Additional guidance issued as to the timing and recognition of an expense and corresponding liability for exit costs including severance, contract termination and other costs will likely delay the recognition of certain costs. New guidance is to be applied prospectively to exit and disposal activities initiated after December 31, 2002. Management is of the opinion that adoption of this guidance will not have a significant impact on the Fund's consolidated financial statements.

Disclosure of guarantees | The new standard is effective for annual and interim periods beginning on or after January 1, 2003. This guideline will require the guarantor to disclose significant information about guarantees it has provided to third parties, without regard to its evaluation of whether it will have to make any payments under the guarantees. Management is of the opinion that adoption of this guidance will require disclosure of indemnification agreements associated with its current lending facility and surety agreement, but will not have a significant impact on the Fund's consolidated financial statements.

Asset retirement obligations (CICA 3110) | The new standard will require the recognition of the discounted value of the liability for asset retirements in the period that the liability is deemed to arise and is effective for years beginning on or after January 1, 2004. The new standard will require that discounting and inflation be taken into account in estimating future closure and post-closure costs associated with landfills. The Fund will be required to recognize the present value of all closure and post-closure costs associated with landfills. Management has not yet determined the impact of adopting this standard on the Fund's consolidated financial statements, but the impact is expected to be significant.

Generally accepted accounting principles | A new standard is proposed which will provide guidance on the sources of generally accepted accounting principles ("GAAP") and their relative authority. The standard will also explain what is meant by the term "fair presentation in accordance with GAAP". This guidance will clarify the applicability of standards issued in other countries, including U.S. GAAP, when guidance is not otherwise provided under Canadian GAAP.

Risks and Uncertainties

The risks and uncertainties disclosed in the Risk Factors section in the Fund's final prospectus dated April 16, 2002 remain substantially unchanged (*see the Fund's 2002 Annual Information Form for additional details*).

Outlook

The Lachenaie landfill expansion permit approval process remains on track with management's expectations. Management has completed all regulatory requirements to date and remains confident that approval will be obtained under the Environment Quality Act (Quebec) without interruption to operations. The Provincial zoning by-law approval process is complete. *(Further details are provided in "Note 7 – landfill assets" to the Consolidated Financial Statements of BFI Canada Income Fund for the period ended December 31, 2002.)*

With respect to expansion permit approval under the Environment Quality Act (Quebec), processing of the environmental impact assessment for the site, which was filed with the Quebec Ministry of the Environment on April 2, 2002, continues without interruption. The public hearing process is complete and no unexpected issues have arisen from the hearing process.

The Fund has been awarded collection contracts for Districts 3 and 4 (former North York and Scarborough) in the City of Toronto and for the City of Terrebonne, Quebec, which are expected to generate aggregate annual revenues of approximately \$3.4 million. At December 31, 2002, the Fund was committed to purchase vehicles and containers for these contracts totalling approximately \$1.0 and \$1.3 million, respectively, to meet its service obligations under these new collection contracts. The commitments represent growth capital which will be financed through the Fund's revolving loan facility.

Management is actively reviewing financing alternatives to finance all its future growth initiatives efficiently.

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

Management expects that the Fund will be able to maintain the current distribution level. Future increases will be considered by the Trustees as appropriate.

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 operations, 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 other public filings (*see the Fund's 2002 Annual Information Form for additional details*). 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.

Management's Responsibility for Financial Reporting

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 on behalf of the unitholders. The external auditors have full and free access to the Audit Committee.

signed

Keith Carrigan
President and Chief Executive Officer

signed

Joseph D. Quarin
Chief Financial Officer

Auditors' Report

To the Unitholders of BFI Canada Income Fund

We have audited the consolidated balance sheet of BFI Canada Income Fund as at December 31, 2002 and the consolidated statements of operations, unitholders' equity and cash flows for the period from April 25, 2002 to December 31, 2002. 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 audit.

We conducted our audit 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, 2002 and the results of its operations and its cash flows for the period from April 25, 2002 to December 31, 2002 in accordance with Canadian generally accepted accounting principles.

signed (Deloitte & Touche LLP)

Chartered Accountants

Toronto, Canada

February 21, 2003

(in thousands of dollars)	2002
ASSETS	
Current	
Cash and cash equivalents	\$ 5,666
Accounts receivable	24,962
Other receivables (Note 4)	415
Prepaid expenses	3,959
	35,002
Other receivables (Note 4)	1,509
Intangibles (Note 5)	77,805
Goodwill	49,171
Deferred costs	1,832
Deferred financing costs	2,058
Capital assets (Note 6)	89,665
Landfill assets (Note 7)	122,399
	\$ 379,441
LIABILITIES	
Current	
Accounts payable	\$ 15,410
Accrued charges	6,076
Distribution payable	2,650
Income taxes payable	157
Deferred revenue	5,360
Current portion of long-term debt (Note 8)	252
	29,905
Long-term debt (Note 8)	76,985
Landfill closure and post-closure costs (Note 9)	8,013
Future income tax liabilities (Note 10)	25,298
	140,201
Unitholders' equity (Note 11)	239,240
	\$ 379,441

(in thousands of dollars, except income per unit amounts)	2002
Revenues	\$ 108,506
Operating expenses	56,933
Selling, general and administration expenses	16,505
Income before the following	35,068
Amortization	30,217
Interest on long-term debt	3,118
Income before income taxes	1,733
Income tax expense (recovery) (Note 10)	
Current	830
Future	(4,982)
	(4,152)
Net income	\$ 5,885
Net income per trust unit, basic and diluted	\$ 0.22
Weighted average number of units outstanding (thousands)	26,500

(in thousands of dollars)	2002
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES	
Operating	
Net income	\$ 5,885
Items not affecting cash	
Amortization of intangibles	8,357
Amortization of deferred financing costs	588
Amortization of capital assets	13,891
Amortization of landfill assets	7,381
Provision for landfill closure and post-closure costs	1,899
Future income taxes	(4,982)
Landfill closure and post-closure expenditures	(1,826)
	31,193
Changes in non-cash working capital items	2,146
Cash generated from operating activities	33,339
Investing	
Acquisitions	(158,660)
Investment in other receivables	(987)
Proceeds from other receivables	50
Purchase of capital assets	(9,497)
Landfill assets	(3,880)
Deferred costs	(396)
Cash utilized in investing activities	(173,370)
Financing	
Proceeds from revolving loan	5,250
Issue of trust units	176,609
Trust units purchased for cancellation	(17,170)
Distributions paid to unitholders	(18,992)
Cash generated from financing activities	145,697
Net cash inflow	5,666
Cash and cash equivalents, beginning of period	-
Cash and cash equivalents, end of period	\$ 5,666
Supplemental cash flow information:	
Cash and cash equivalents are comprised of:	
Cash	\$ 2,652
Cash equivalents	3,014
	\$ 5,666
Cash paid during the period for:	
Income taxes	\$ 493
Interest	\$ 3,410

Consolidated Statement of Unitholders' Equity | For the period from April 25, 2002 to December 31, 2002

(in thousands of dollars)

	2002
Balance, beginning of period	\$ —
Issue of trust units	272,167
Cancelled	(17,507)
Contributed surplus	337
Net income	5,885
Distributions	(21,642)
Balance, end of period	\$ 239,240

(in thousands of dollars)

1 Organization | The BFI Canada Income Fund (the “Fund”) is an open ended, limited purpose trust established under the laws of the Province of Ontario by an amended and restated declaration of trust dated April 15, 2002. The Fund holds the common shares and notes of BFI Canada Holdings Inc. (“Holdings”) and through its operating subsidiary BFI Canada Inc. (“BFI Canada”) and its two subsidiaries BFI Usine de Triage Lachenaie Ltd. (“BFI Usine”) and Entreprise Sanitaire F.A. Ltée (“F.A.”), provides non-hazardous solid waste collection and landfill disposal services for commercial, industrial and residential customers in the provinces of British Columbia, Alberta, Manitoba, Ontario and Quebec. The Fund makes cash distributions to unitholders based on all amounts received by the Fund, including interest, dividends, redemption proceeds, purchase for cancellation proceeds, returns of capital and repayments of indebtedness net of reasonable expenses, as determined by the trustees, and amounts related to the redemption of units payable in cash and interest expense. The declaration of trust provides that monthly cash distributions are to be paid on or about the fifteenth day of the succeeding month.

2 Summary of significant accounting policies | These consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

Basis of presentation | The consolidated financial statements include the accounts of the Fund and its wholly owned subsidiaries, Holdings, BFI Canada, BFI Usine and F.A. All intercompany accounts and transactions have been eliminated on consolidation. The consolidated financial statements are for the period from the date of Holdings’ acquisition of all outstanding share capital, convertible debentures and warrants of 3743276 Canada Inc. (“BFI Holdco”), April 25, 2002, to December 31, 2002.

Use of estimates | The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires the Fund to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

In the event that the Fund is not successful in obtaining the Lachenaie landfill expansion permit, the following assets would be subject to material adjustment: goodwill, \$17,488, deferred costs, \$1,828 and landfill assets (Note 7), \$83,966 in 2003. Management remains confident that final approval will be obtained prior to the expiry of the Fund’s current permit and accordingly no provision for impairment has been recorded.

Cash and cash equivalents | Cash and cash equivalents include cash and short-term, highly liquid money market investments that have an original maturity of three months or less.

Other receivables | Other receivables include a direct finance lease receivable.

Assets leased under terms which transfer substantially all of the benefits and risks and rewards of ownership to customers are accounted for as direct financing lease receivables. The direct finance lease receivable is carried at cost and discounted at the underlying rate implicit in the receivable. The fair value of the direct finance lease receivable is estimated using discounted cash flow analysis applying interest rates consistent with the credit quality of the borrower. The direct finance lease receivable is periodically reviewed for impairment and any resulting write-down to the net recoverable amount is recorded in the period in which the impairment occurs.

Intangible assets | Intangible assets include customer collection contracts, transfer station permits and trade-names and are deemed to have finite lives. Finite life intangibles are amortized on a straight-line basis as follows:

Customer collection contracts	Average term of the contract plus one renewal period after giving effect to estimated annual customer attrition of 3%
Transfer station permits	Length of the permit
Trade-names	10–13 years

Goodwill | Goodwill is not amortized, is tested at least annually for impairment and, as necessary, written down to reflect the difference between fair value and the carrying amount.

Deferred costs | Deferred costs relate to the development of landfills, including landfill permitting costs, and other capital projects for which amortization has not yet commenced. Management periodically reviews the carrying values of deferred costs for possible impairment and any resulting write-down to the net recoverable amount is recorded in the period in which the impairment occurs.

Deferred financing costs | Deferred financing costs represent fees and costs in connection with securing long-term debt. The Fund amortizes these costs over the term of the debt.

Capital assets | Capital assets are recorded at cost and are amortized over their estimated useful lives on a straight-line basis as follows:

Buildings and improvements	20–40 years
Vehicles and equipment	3–8 years
Containers and compactors	5–10 years
Furniture, fixtures and computer equipment	3–10 years

Landfill assets | Landfill assets represent the cost of landfill airspace, including original acquisition cost and incurred landfill construction and development costs. The cost of landfill permits, together with projected landfill construction and development costs, is being amortized on a per unit basis as landfill airspace is consumed. Management annually updates landfill capacity estimates based on survey information provided by independent engineers. The impact on annual amortization expense of changes in estimated capacity and construction costs is accounted for prospectively.

Total available disposal capacity for the purpose of amortizing landfill assets represents the sum of estimated permitted airspace capacity (having received the final permit from the governing authorities) plus deemed permitted airspace capacity, which represents an estimate of airspace capacity that management believes is probable of ultimately being permitted based on the following criteria:

- Personnel are actively working to obtain the permit or permit modifications necessary for expansion of an existing landfill, and progress is being made on the project;
- It is probable that the required approvals will be received within the normal application and processing time periods for approvals in the jurisdiction in which the landfill is located;
- The Fund has a legal right to use or obtain land associated with the expansion plan;
- There are no significant known political, technical, legal or business restrictions or issues that could impair the success of such expansion;
- A financial feasibility analysis has been completed, and the results demonstrate that the expansion has a positive financial and operational impact such that management is committed to pursuing the expansion; and
- Additional airspace capacity and related costs have been estimated based on the conceptual design of the proposed expansion.

Generally, BFI Canada and its predecessor have been successful in receiving approvals for expansions pursued; however, there can be no assurance that the Fund will be successful in obtaining landfill expansions in the future.

Management periodically reviews the carrying values of landfill assets for possible impairment and any resulting write-down to the net recoverable amount is recorded in the period in which impairment occurs.

(in thousands of dollars)

Landfill closure and post-closure costs | Accrued landfill closure and post-closure costs relate to the remediation, monitoring and maintenance costs to be incurred at the Fund's operating landfills after the sites cease accepting waste. Closure costs include the costs required to cap the filled cells of the landfill and dismantle and remove certain structures. Post-closure costs include substantially all costs that are required to be incurred subsequent to the closure of the landfill, including groundwater monitoring and leachate management. Current estimates of these costs are determined at least annually by the Fund's engineers and accounting personnel based on the landfill regulations governing each facility. A per unit cost is determined by dividing the remaining costs not yet accrued by the remaining permitted airspace capacity to be consumed. The annual charge to expense represents the per-unit cost multiplied by the number of units consumed during the year. Changes in estimated capacity that impact the per-unit cost are accounted for prospectively.

Estimating the cost of closure and post-closure obligations requires management to make a number of assumptions about potential technological or regulatory developments in the future. The ultimate costs may differ from current estimates.

Income taxes | Future income taxes are calculated using the liability method of tax allocation accounting. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Revenues | Revenues consist primarily of waste collection fees from commercial, industrial and residential customers and transfer and landfill disposal fees charged to third parties. For waste collection and disposal activities, revenue is recognized when service is provided, which is upon disposal of the waste collected. Deferred revenue relates to long-term collection contracts, under which advanced billing occurs prior to the services being performed.

Revenue from the direct finance lease receivable is recognized in a manner that produces a constant rate of return on the lease investment.

Employee future benefits | The costs of retirement benefits, other than pensions and certain post-employment benefits, are recognized over the period in which the employee renders services in return for those benefits. Other post-employment benefits are recognized when the event giving rise to the obligation occurs.

The Fund maintains both defined contribution and defined benefit pension plans and accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Fund has adopted the following policies:

- The cost of pensions earned by employees is actuarially determined using the projected unit credit cost method pro rated on service and management's best estimate of expected plan investment performance for funded plans, salary escalation and retirement ages of employees.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 10.7 years.

3 Acquisitions | (i) On April 25, 2002, the Fund, through Holdings, acquired all of the outstanding common shares, convertible debentures and warrants of BFI Holdco using the purchase method of accounting, for total consideration of \$249,439. BFI Holdco was incorporated under the Canada Business Corporations Act and through its three primary operating subsidiaries, BFI Canada, BFI Usine and F.A. provided non-hazardous solid waste collection and landfill disposal services for commercial, industrial and residential customers in the Provinces of British Columbia, Alberta, Manitoba, Ontario and Quebec.

Net assets acquired:

Current assets, including cash of \$1,081	\$	22,551
Intangibles		86,007
Goodwill		51,175
Deferred costs		1,436
Deferred financing costs		2,646
Capital assets		93,912
Landfill assets		125,900
Other long-term assets		986
Current liabilities		(17,405)
Long-term debt		(71,987)
Landfill closure and post-closure costs		(7,940)
Future income tax liabilities		(37,842)
	\$	249,439
<hr/>		
Consideration:		
Cash	\$	148,879
Units		90,000
		238,879
Acquisition and related costs		10,560
	\$	249,439

Future income tax relief associated with the acquisition and related costs amounted to \$2,004, which has been credited to goodwill.

The results of this acquisition have been included in these consolidated financial statements from April 25, 2002.

The following acquisition transactions were completed concurrently and have been reflected in the determination of the amounts above:

- (a) BFI Holdco amalgamated with Holdings and continued operating as Holdings.
- (b) Holdings paid \$41,812, representing principal and accrued interest, owing on the non-revolving loan of BFI Holdco.
- (c) Holdings paid \$17,551, representing principal and accrued interest, owing on the term and bridge loans of BFI Holdco. The remaining long-term debt of \$71,987 represents the value of the renegotiated term loan, amounting to \$71,000, and loans in the name of F.A., amounting to \$987.
- (d) Holdings paid \$12,500, representing principal and imputed interest, owing on the subordinated debenture of BFI Holdco.
- (e) Holdings paid \$2,000, representing a one time payment made in lieu of all remaining royalty payments which would otherwise be payable under the agreement to use the trade name "BFI" and the related logo with respect to the initial 15 year term (see Note 12).
- (f) Holdings wrote-off \$5,886 in deferred financing costs.

(in thousands of dollars)

(ii) Effective April 30, 2002, the Fund entered into a purchase and sale agreement to acquire a front-end solid waste and recycling collection business in Vancouver for cash consideration of \$217. The purchase price is allocated as follows:

Capital assets	\$	102
Intangible assets – customer collection contracts		115
	\$	217

(iii) Effective June 30, 2002, the Fund entered into a purchase and sale agreement to acquire a front-end solid waste collection business in Montreal for cash consideration of \$85. The purchase price is allocated as follows:

Capital assets	\$	45
Intangible assets – customer collection contracts		40
	\$	85

- 4 **Other receivables** | Included in other receivables is a direct finance lease receivable due from the City of Blainville for containers. The receivable returns interest at 11% and is receivable in 60 equal monthly installments of \$21 to August 31, 2007. The receivable is unsecured.

	Direct Finance Lease Receivable
Total minimum finance payments receivable	\$ 1,202
Less unearned finance revenue	265
Finance receivable	937
Less current portion	163
	\$ 774
Finance revenue amounted to	\$ 36

Minimum direct finance lease payments receivable in each of the next five years ending December 31 are as follows:

	Direct Finance Lease Receivable
2003	\$ 258
2004	258
2005	258
2006	258
2007	170
	\$ 1,202

The balance of other receivables represent notes due from the City of La Plaine and the City of Terrebonne (Note 8).

5 Intangibles

	Cost	Accumulated Amortization	Net Book Value	Additions
Customer collection contracts	\$ 82,270	\$ 8,128	\$ 74,142	\$ 82,270
Transfer station permits	1,592	108	1,484	1,592
Trade-names	2,300	121	2,179	2,300
	\$ 86,162	\$ 8,357	\$ 77,805	\$ 86,162

6 Capital assets

	Cost	Accumulated Amortization	Net Book Value
Land and improvements	\$ 14,962	\$ –	\$ 14,962
Buildings and improvements	28,303	703	27,600
Vehicles and equipment	34,638	8,222	26,416
Containers and compactors	21,029	2,592	18,437
Furniture, fixtures and computer equipment	3,664	1,414	2,250
	\$ 102,596	\$ 12,931	\$ 89,665

7 Landfill assets

	Cost	Accumulated Amortization	Net Book Value
Landfill assets	\$ 129,780	\$ 7,381	\$ 122,399

The Fund operates landfills in the province of Quebec (“Lachenaie”), Alberta and Manitoba, which have estimated remaining operating lives of 0.3, 5.2 and 44 years, respectively, based on current disposal volumes and a six day per week operation at each site. An application is in process to expand the Lachenaie landfill (the north expansion) which will increase its operating life from 0.3 to 40 years. The permit for the north expansion is expected to be issued for a term less than the 40 year operating life of the site. An application for extension of any permits issued for a period less than the 40 year operating life will be required to complete the filling of the then remaining unfilled airspace capacity at the Lachenaie landfill. Management expects to receive the necessary permit prior to the expiry of the current permit and is amortizing the Lachenaie landfill costs over the combined permitted and deemed permitted airspace. The net book value of the Lachenaie landfill at December 31, 2002 is \$83,966.

(in thousands of dollars)

8 Long-term debt

Term loan	\$ 71,000
Revolving loan	5,250
Other	987
	77,237
Less current portion of long-term debt	252
	\$ 76,985

The term loan is available to a maximum of \$71,000 and at Holdings' option, bears interest at bank prime or the 30 day rate on bankers' acceptances, plus 1%, plus an additional 2% on either interest rate option, payable monthly in arrears. Holdings, at its option, may prepay all or any portion of the term loan in an amount not less than \$2,000 and is subject to an additional charge on the principal amount of the term loan prepaid equal to 2% prior to April 25, 2003, 1% between April 26, 2003 and October 25, 2003 and nil thereafter. The term loan is repayable in full the earlier of April 25, 2005 and an event of default and is secured by a first priority security interest on the assets of the Fund and its subsidiaries. Prepaid interest, representing the discount on bankers' acceptances, amounted to \$338 and is included in prepaid expenses.

Holdings also has available a revolving loan to a maximum of \$28,600, of which \$8,600 relates specifically to a letter of credit required to operate a landfill. To the extent the revolving loan is utilized, the loan bears interest, at the option of Holdings, at bank prime or the 30 day rate on bankers' acceptances, plus 1%, plus an additional 2% on either interest rate option, payable monthly in arrears. Unutilized portions of the revolving loan are subject to a 0.5% standby fee payable quarterly in arrears. The aggregate unpaid principal and interest is due and payable no later than the earlier of April 25, 2005 and an event of default. Revolving loan advances are not to exceed \$10,000 for permitted acquisitions and \$17,000, \$18,000 and \$15,000 for capital expenditures in fiscal years ending 2002, 2003 and thereafter, respectively. The revolving loan is secured by a first priority security interest on the assets of the Fund and its subsidiaries. Prepaid interest, representing the discount on bankers' acceptances, amounted to \$24 and is included in prepaid expenses.

Other long-term debt represents two bank loans of \$249 and \$738, due May 15, 2005, bearing interest at 7.9% and secured by the City of La Plaine and due March 12, 2007, bearing interest at 7.0% and secured by the City of Terrebonne, respectively. The purpose of the loans was for F.A to acquire containers to be furnished to the respective cities. The loans are repaid directly by the City of La Plaine and the City of Terrebonne to the lender in monthly amounts of principal and interest. Included in current and long-term other accounts receivable are notes due from the City of La Plaine and the City of Terrebonne having the same terms and conditions as the underlying loan.

Interest on long-term debt amounted to \$3,118 for the period from April 25, 2002 to December 31, 2002.

Principal repayments required in each of the next five years ending December 31 are as follows:

2003	\$ 252
2004	271
2005	76,475
2006	190
2007	49
	\$ 77,237

9 Landfill closure and post-closure costs | The Fund currently operates 3 solid waste landfills and is responsible for closure and post-closure monitoring and maintenance costs in respect of each site. Estimated aggregate closure and post-closure costs will be fully accrued for these landfills at the time that such facilities cease to accept waste and are closed. Considering existing accruals of \$8,013 at December 31, 2002, approximately \$19,025 of additional accruals are to be provided over the remaining lives of these landfill facilities, which includes environmental costs and methane gas control identified under existing facility permits. Included in additional accruals is approximately \$2,170 representing closure accruals related to the Lachenaie vertical expansion which management expects to be permitted prior to the expiry of the current permit. The Lachenaie vertical expansion is expected to provide an additional 1.2 years of site life. Environmental reviews by external consultants are carried out several times each year. The expected future payments for closure and post-closure costs as of December 31, 2002 are as follows:

2003	\$	2,635
2004		2,668
2005		450
2006		800
2007		1,050
Thereafter		19,435
	\$	27,038

No post-closure costs are accrued for the Lachenaie landfill, since the site possesses a landfill gas to energy facility that is expected to generate sufficient revenue after waste placement has ended to offset post-closing costs.

10 Income taxes | The Fund is taxed as a “mutual fund trust” for income tax purposes. Pursuant to the Declaration of Trust, the Trustees will distribute all taxable income directly earned by the Trust to the Unitholders and deduct such distributions for income tax purposes. Canadian-based corporate subsidiaries are subject to tax on their taxable income at a rate of approximately 38%.

The following table reconciles the difference between the income taxes that would result solely by applying statutory rates to the Fund’s pre-tax income and the recovery of income taxes in the consolidated financial statements.

From April 25, 2002 to December 31, 2002

Income before income taxes	\$	1,733
Income tax expense at the combined basic rate		659
Tax on income attributable to Unitholders		(7,506)
Large corporations tax		513
Tax on non-deductible amortization of intangibles		701
Tax on other non-deductible expenses		57
Effect of tax rate reduction between current combined rate and expected rate reversal of future tax liability		938
Other		486
Income tax recovery	\$	(4,152)

(in thousands of dollars)

Significant components of the Fund's future income taxes are as follows:

Future income tax assets	
Unutilized tax loss carry forwards	\$ 7,857
Deferred financing costs and offering expenses	5,894
Carrying value of capital assets in excess of tax value	718
Accounting provisions not currently deductible for tax	1,291
	15,760
Future income tax liabilities	
Carrying value of intangible assets in excess of tax value	24,898
Carrying value of landfill assets in excess of tax value	16,160
	41,058
Net future income tax liabilities	\$ 25,298

11 Unitholders' equity | An unlimited number of trust units may be issued. Each unit is transferable, voting and represents an equal and undivided beneficial interest in any distributions from the Fund whether of income, net realized capital gains or other amounts and in any net assets of the Fund in the event of termination or winding-up of the Fund.

On April 25, 2002, the Fund issued 17,500,000 units at \$10.00 per unit for cash and 9,000,000 units in exchange for \$90,000 of notes in Holdings. Offering expenses amounted to \$15,561.

On May 21, 2002, the Fund issued 1,821,800 units at \$10.00 per unit which were subsequently cancelled at a cost of \$17,170. The cancellation of units resulted in a net gain of \$337 which has been credited to contributed surplus. Offering expenses amounted to \$1,048.

After deducting total offering expenses of \$16,609, less tax relief thereon of \$5,558, total proceeds from the issue of trust units amounted to \$272,167.

	Units	\$
Issue of trust units	28,321,800	\$ 272,167
Cancelled	(1,821,800)	(17,507)
Contributed surplus		337
Net income		5,885
Distributions		(21,642)
	26,500,000	\$ 239,240

12 Commitments and contingencies | The Fund leases buildings and equipment under operating leases. Future lease payments for periods ending December 31 and thereafter are as follows:

2003	\$ 1,005
2004	932
2005	906
2006	762
2007	606
Thereafter	2,567
	\$ 6,778

The Fund is committed to purchase vehicles and containers totalling approximately \$1,000 and \$1,300 to meet its service obligations under new collection contracts.

The Fund is the successor to a license agreement to use the trade name “BFI” and the related logo in relation to its solid waste management business, subject to certain restrictions. The agreement was amended on February 22, 2002, whereby a one-time payment of \$2,000 was made on April 25, 2002 in full satisfaction of all royalty obligations under the license agreement for the balance of the initial 15-year term. The Fund has two optional extensions pursuant to the agreement of 10 years each subsequent to the original 15-year term, for \$600 and \$1,500 respectively per annum.

The Fund will be required to pay a royalty of \$1.50 per tonne of waste brought into the Lachenaie landfill to a maximum of \$1,500 per annum upon accessing the north expansion. This royalty agreement has a life of 4 years and a maximum cumulative payment of \$6,000 over the life of the agreement.

The Fund enters into various commitments in the normal course of business. At December 31, 2002, the Fund has issued letters of credit of \$11,890 and performance bonds of \$20,048.

13 Employee future benefits | The Fund’s defined contribution pension plan is non-contributory and requires all eligible employees to join the plan following one year of service.

An actuarial valuation is performed every three years. The most recent actuarial valuation was performed on December 31, 2000.

The net pension expense for the period from April 25, 2002 to December 31, 2002 amounted to \$221.

Information on the Fund’s defined benefit pension plan is as follows:

Plan Assets

Fair value at beginning of period	\$	291
Expected return on plan assets		16
Employers contributions		60
Benefits paid		(2)
Actuarial loss during the period		(40)
Fair value, end of period	\$	325
Accrued benefit obligation		
Beginning of period	\$	397
Current service cost		28
Interest cost		19
Benefits paid		(2)
Accrued benefit obligation, end of period	\$	442
Benefit plan expense		
Current service cost	\$	28
Expected return on plan assets		(16)
Interest cost		19
Amortization of transition asset		(2)
Amortization of net actuarial losses		(3)
Net benefit plan expense	\$	26
Funded status – plan deficit	\$	117
Unamortized transitional asset		25
Unamortized actuarial losses		(100)
Accrued benefit liability, end of period	\$	42

(in thousands of dollars)

The significant actuarial assumptions adopted in measuring the Fund's accrued benefit obligation are as follows:

Discount rate	6.5%
Expected long-term rate of return on plan assets	7.5%
Rate of compensation increase	4.5%

14 Financial instruments

Estimated fair value | The carrying value of cash equivalents, accounts receivable, accounts payable, accrued charges and income taxes approximates fair value due to the relatively short-term maturities of these instruments.

At December 31, 2002, the estimated fair value of the direct finance lease receivable applying an interest rate consistent with the credit quality of the borrower is \$1,023, compared to the carrying amount of \$937.

At December 31, 2002 the estimated fair value of long-term debt approximates fair value.

Credit risk | The Fund provides credit to its customers in the normal course of operations. The Fund carries out, on a continuing basis, credit checks on its customers and maintains provisions for credit losses. The Fund minimizes its credit risk by dealing with a large number of customers in various industries.

Interest rate risk | The Fund has a term and revolving loan with interest rates subject to fluctuations with bank prime or the 30 day rate on bankers' acceptances.

15 Segmented reporting | The Fund carries out business through four separate business segments: landfills (including landfill gas to energy facilities); commercial solid waste collection; industrial solid waste collection; and other collection. The Fund owns and operates three landfills which service Montreal, Calgary and Winnipeg and their respective surrounding communities. The Fund's energy plant located at its Lachenaie landfill is also included in this business segment. The commercial solid waste collection business segment consists of the collection and disposal of non-hazardous solid waste and recyclable products using front-end loader trucks, rear-end loader trucks and side-loader trucks. The industrial solid waste collection business segment consists of the collection and disposal of non-hazardous solid waste using roll-off trucks. The other collection business segment includes residential collection services, transfer collection station operations, material recovery facilities and compactor rentals.

The accounting policies used in these business segments are the same as those described in the summary of significant accounting policies. Selling, general and administration costs are distributed to the segments based on the gross revenues generated by each segment. Corporate costs are allocated to the segments based on various factors, including revenues. The Fund evaluates segment performance based on gross revenues, less operating and selling, general and administration expenses.

Effective January 1, 2003, the Fund formalized changes to its internal reporting structure which resulted in the aggregation of commercial, industrial and other collection segments into one collection segment. The aggregation aligns the internal reporting requirements of the Chief Operating Decision Maker with the reportable business segments of the Fund. All future disclosures will reflect this reporting change.

The Fund does not have any customers for which the sales exceed 10% of total revenues.

For the period from April 25, 2002 to December 31, 2002

	Landfills and Energy	Collection			Total
		Commercial	Industrial	Other	
Gross Revenues	\$ 29,589	\$ 51,186	\$ 20,323	\$ 17,915	\$ 119,013
Intercompany Revenues	(9,125)	–	–	(1,382)	(10,507)
Revenues	20,464	51,186	20,323	16,533	108,506
Income before amortization, interest on long-term debt and income taxes	\$ 16,778	\$ 13,925	\$ 2,200	\$ 2,165	\$ 35,068
			Landfills and Energy	Collection	Total
Goodwill			\$ 29,440	\$ 19,731	\$ 49,171
Assets			\$ 187,215	\$ 192,226	\$ 379,441

16 Subsequent event | Effective January 1, 2003, the Fund entered into a five-year long-term finance receivable agreement for containers with the City of Terrebonne, Quebec, covering the sectors of Terrebonne and La Plaine. The receivable has a discounted cost, applying rates implicit in the receivable, of \$2,605 and is unsecured.



From left to right | Joseph H. Wright, Keith Carrigan, Daniel Milliard, T. Iain Ronald, Douglas W. Knight and James Temple (not shown)

Management and Trustees

Keith Carrigan has been the Chief Executive Officer of BFI Canada Inc. since June 2000. Mr. Carrigan has been involved in the solid waste industry for most of his career. Most notably, he was Vice President of Waste Management Inc. in the United States and President of WMI Waste Management of Canada Inc.

T. Iain Ronald retired in February 1995 from the position of Vice Chairman of Canadian Imperial Bank of Commerce. He currently serves on the Board of Directors of several Canadian public and private companies, including Canada Life Assurance Company, Loblaw Companies Limited, Strongco Inc. and the North West Company Inc.

Douglas W. Knight is President and Chief Executive Officer of Knight Paton Media Corporation. A senior media executive for 25 years, Mr. Knight served as Publisher and Chief Executive Officer of The Financial Post from 1992 to 1997 and of The Toronto Sun from 1997 to 2000.

Daniel Milliard was the Chief Executive Officer of GT Group Telecom Inc. from September 1999 to February 2003. Prior to that time, Mr. Milliard was Vice Chairman, President and a director of Hyperion Communications (now Adelphia

Business Solutions) from March 1999 to September 1999. Prior to that time, Mr. Milliard held the position of President and Chief Operating Officer of Hyperion Communications from May 1992 to March 1999. In addition Mr. Milliard was also the Senior Vice-President, Secretary and a director of Adelphia Communications from February 1982 until September 1999.

James Temple was formerly president of WMI Waste Management of Canada Inc. During the past few years he has served on the board of several public companies, and is currently a director of Sherritt Power Corporation as well as BFI Canada.

Joseph H. Wright has been the Managing Partner of Barnagain Capital since February 2001. He was formerly Managing Partner of Crosbie & Company Inc., and prior to that he was President and Chief Executive Officer for Swiss Bank Corporation (Canada). Mr. Wright is currently the Chairman and Trustee of O&Y REIT and serves on the Board of Directors of several Canadian companies, including Loblaw Companies Limited, President's Choice Bank, Call-Net Enterprises Inc., Hip Interactive Inc., Sarnia Hydro/Bluewater Power and Alert Holdings Corporation.

Corporate Information

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Toronto Stock Exchange
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TRANSFER AGENT AND REGISTRAR

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ANNUAL MEETING

The Annual Meeting of Unitholders will be held on
Friday May 9th, 2003, 2:00 pm
at The TSX Conference Centre
The Exchange Tower, 130 King Street West,
Toronto, Ontario





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