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BFI Canada Income Fund Second Quarter Report
For the period ended June 30, 2003

The following is a discussion of the consolidated financial condition and results of operations of the BFI Canada Income Fund (the "Fund") for the three and six month periods ended June 30, 2003. This discussion should be read in conjunction with the Fund's MD&A for the period from April 25, 2002 to December 31, 2002 included in its annual report. Comparative operating results for the three and six month periods ended June 30, 2002, include the results of 3743276 Canada Inc., one of the predecessors of BFI Canada Holdings Inc., for the period from January 1, 2002 to April 24, 2002. 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.

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 in the provinces of British Columbia, Alberta, Manitoba, Ontario and Quebec. The Fund operates one and 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. 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.

Highlights for the three and six month periods ended June 30, 2003

- Revenues and EBITDA^(A) increased 10% and 11%, respectively, for the comparative three month period ended June 30
- Revenues and EBITDA^(A) increased 14% each, for the comparative six month period ended June 30
- Free cash flow available for distribution^(B) increased by \$0.8 million to \$10.4 million versus the three month period ended March 31, 2003
- Distributions for the three and six month periods ended June 30, 2003, and the distribution declared payable to unitholders of record on July 31, 2003 payable August 15, 2003, continued at an annualized rate of \$1.20 per trust unit
- Future distributions will increase 6.25% to an annualized rate of \$1.275 per trust unit beginning with the distribution payable on September 15, 2003 to unitholders of record on August 31, 2003

(in millions except for per unit amounts)	Three months ended		Six months ended	
	2003 ⁽¹⁾	2002 ⁽²⁾	2003 ⁽¹⁾	2002 ⁽²⁾
Revenues	\$ 42.8	\$ 38.8	\$ 81.1	\$ 71.1
Operating expenses	22.4	20.9	42.2	37.8
Selling, general and administration expenses	6.3	5.2	12.7	10.4
Income before the undernoted	14.1	12.7	26.2	22.9
Amortization	10.4	9.5	20.3	16.7
Interest on long-term debt	1.3	1.8	2.6	4.8
Other expenses	—	1.6	—	1.5
Income before income taxes	2.4	(0.2)	3.3	(0.1)
Income tax recovery	(1.3)	(2.8)	(3.1)	(2.8)
Net income	\$ 3.7	\$ 2.6	\$ 6.4	\$ 2.7
Net income per trust unit, basic & diluted	\$ 0.14	\$ 0.10	\$ 0.24	\$ 0.10
Number of units outstanding (thousands)	26,500	26,500	26,500	26,500
Maintenance capital expenditures	\$ 2.2	\$ 1.4	\$ 3.2	\$ 5.1
Growth capital expenditures	0.5	1.0	2.5	1.0
Total capital expenditures	\$ 2.7	\$ 2.4	\$ 5.7	\$ 6.1
Free cash flow available for distribution ⁽³⁾	\$ 10.4	\$ 6.9	\$ 20.0	\$ 6.9
Free cash flow available for distribution per trust unit ⁽³⁾	\$ 0.39	\$ 0.26	\$ 0.75	\$ 0.26
Aggregate distributions declared ⁽³⁾	\$ 8.0	\$ 5.7	\$ 15.9	\$ 5.7
Aggregate distributions declared per trust unit ⁽³⁾	\$ 0.30	\$ 0.22	\$ 0.60	\$ 0.22

(1) Effective March 2003, the Canadian Institute of Chartered Accountants 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 June 30, 2003 consolidated financial statements will be 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 free cash flow available for distribution.

(2) 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. 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.

(3) Free cash flow available for distribution in aggregate and per trust unit and aggregate distributions declared and per trust unit for the comparative three-and-six-month periods are for the period from April 25, 2002 to June 30, 2002.

Revenues

Revenues for the three months ended June 30, 2003 increased \$4.0 million or 10% to \$42.8 million, of which the collection and landfill segments each contributed \$2.0 million to the increase. The increase in collection revenues is comprised of \$0.7 million from new collection contracts that commenced in the first quarter of 2003 and a combination of price increases and organic growth totalling \$1.7 million, net of \$0.4 million in expired low margin residential collection contracts. The increase in landfill revenues during the period is attributable to the City of Lethbridge landfill operating contract, which began on February 1, 2003, together with an increase in the rate per tonne charged for disposal and higher volumes of waste entering Fund-owned landfills.

Revenues for the six months ended June 30, 2003 increased \$10.0 million or 14% to \$81.1 million. Approximately \$6.3 million of the period over period increase relates to the collection segment. Consolidation of Entreprise Sanitaire F.A. Ltee's ("F.A.") collection operations for the six month period ended June 30, 2003 versus the four month period March 1, 2002 to June 30, 2002 resulted in additional revenues of \$2.3 million. New collection contracts that commenced in the first quarter of 2003 contributed revenue of \$1.5 million in the period, while the balance of the collection segment increase is attributable to a combination of price increases and organic growth totalling \$3.5 million, net of \$1.0 million in expired low margin residential collection contracts. The Fund's landfill segment accounted for \$3.7 million of the period over period increase. Accepting higher volumes of non-hazardous solid waste at Fund-owned landfills, a rise in the rate per tonne charged for disposal, and operating the City of Lethbridge landfill, effective February 1, 2003, all contributed to the increase in landfill segment revenues year to date.

Operating expenses

Operating expenses for the three months ended June 30, 2003 increased \$1.5 million or 7% to \$22.4 million. Operating expenses incurred in the collection segment increased \$0.7 million period over period. Approximately \$1.1 million of the increase relates to higher costs incurred to service new collection contracts which began in the first quarter of 2003, organic revenue growth, and higher period over period costs to service existing customers, partially offset by approximately \$0.4 million in cost savings associated with the expiration of low margin residential collection contracts. The landfill segment experienced a \$0.8 million increase period over period. This increase was attributable to operating expenses specific to the City of Lethbridge landfill operating contract, together with higher costs incurred to handle increased volumes of non-hazardous solid waste entering Fund-owned landfills.

Operating expenses for the six months ended June 30, 2003 increased \$4.4 million or 12% to \$42.2 million. The collection and landfill segments experienced increases for the period of \$3.3 million and \$1.1 million, respectively. The consolidation of F.A.'s collection operations for two additional months contributed \$1.4 million to the collection segment increase. Higher costs incurred to service new collection contracts commencing in the first quarter of 2003, organic revenue growth, and higher period over period costs to service existing customers totalling \$2.9 million were partially offset by approximately \$1.0 million in cost savings associated with the expiration of low margin residential collection contracts. Higher landfill operating costs were incurred to service the City of Lethbridge landfill and to handle increased volumes of non-hazardous solid waste entering Fund-owned landfills.

Selling, general and administration expenses

Selling, general and administration expenses for the three month period ended June 30, 2003 increased by \$1.1 million to \$6.3 million. Approximately \$0.4 million of the increase relates to higher senior management salaries to levels commensurate with like public companies, the hiring of additional corporate personnel to meet the administrative demands of functioning as a public company and accrued public company costs. The balance of the increase is comprised of several immaterial variances including a rise in employee compensation and facility operating and communication costs.

Selling, general and administration expenses for the six months ended June 30, 2003 increased \$2.3 million to \$12.7 million. The increase is attributable to the consolidation of F.A.'s collection operations for two additional months in the six month period ended June 30, 2003, \$0.2 million, an increase in senior management compensation, the addition of corporate employees and public company costs, \$0.9 million, and other immaterial variances totalling \$1.2 million, including an increase in field management and staff compensation and higher facility operating costs.

Income before amortization, interest on long-term debt and income taxes (“EBITDA^(A)”)

EBITDA^(A) of \$14.1 million was \$1.4 million or 11% higher than the comparative three month period ended June 30. Operating the Lethbridge landfill and accepting higher volumes of non-hazardous solid waste at Fund-owned landfills, coupled with new collection contracts, organic growth, price increases and the expiration of low margin residential collection contracts, contributed to the period over period EBITDA^(A) improvement.

EBITDA^(A) for the six months ended June 30, 2003 increased \$3.3 million or 14% to \$26.2 million compared to the six month period ended June 30, 2002. The consolidation of F.A.’s collection operations for six months in 2003 versus four months in 2002 added to the EBITDA^(A) improvement achieved from the same items noted above for the three month period ended June 30, 2003. Management of the Fund remains committed to growing the business, realizing operating efficiencies and managing selling, general and administration expenses.

AMORTIZATION, INTEREST ON LONG-TERM DEBT, OTHER EXPENSES AND INCOME TAXES ARE NOT COMPARABLE FOR THE FOLLOWING REASONS:

Amortization expense

Amortization expense is not comparable due primarily to the change in 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

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 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 BFI Canada Holdings Inc., \$41.9 million was paid in full satisfaction of the principal and interest outstanding on the non-revolving loan, \$17.6 million was paid in partial satisfaction of the principal together with all interest outstanding on the term and bridge loans and a \$12.5 million 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 made concurrently with the closing of the initial public offering.

Other expenses

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 the initial public offering. Other expenses were exclusive to 3743276 Canada Inc. and are therefore not directly comparable

Income taxes

Income taxes are not comparable due to the change in the taxable structure of the Fund versus its predecessor.

OTHER PERFORMANCE MEASURES

Capital expenditures

Capital expenditures, which include maintenance and growth capital expenditures, totalled \$2.7 million for the three months ended June 30, 2003. Maintenance capital expenditures, representing the replacement of capital in order to sustain current business operations, were higher in the current period due to expenditures for the replacement of landfill equipment totalling \$0.7 million. 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, were lower than the comparative period by \$0.5 million and is due to the timing of container and vehicle expenditures in the current period.

Capital expenditures for the six month period ended June 30, 2003 were lower than the comparative period by \$0.4 million. Growth capital expenditures exceeded the prior period by \$1.5 million, due primarily to vehicle purchases to service the new collection contracts which commenced in the first quarter of 2003. Maintenance capital expenditures are down \$1.9 million from the prior period due to the curtailment of cell development activities at the Lachenaie landfill, largely due to the timing of the vertical expansion permit received in March 2003, coupled with delayed delivery of replacement vehicles.

Free cash flow available for distribution^(B)

Free cash flow available for distribution^(B) totalled \$10.4 million for the three month period ended June 30, 2003 representing an increase of \$0.8 million from the previous three month period ended March 31, 2003. The increase is attributable to a \$2.0 million improvement in income before the undernoted, partially offset by the rise in maintenance capital expenditures of \$1.2 million. Free cash flow available for distribution^(B) in aggregate and per trust unit for comparative purposes is for the period from April 25, 2002 to June 30, 2002. To date, excess free cash flow available for distribution has been utilized to offset the demands of growth capital expenditures, working capital uses, deferred costs and other receivables.

FINANCIAL CONDITION

Accounts receivable

Accounts receivable increased by \$1.2 million from December 31, 2002. Approximately, \$0.8 million of the increase relates to the timing of cash receipts from significant landfill customers. The collection quality of receivables remains high with less than five percent of total trade receivables in excess of ninety days. Total current period bad debt charges are less than one percent of revenues.

Other receivables

The increase in other receivables relates specifically to the City of Terrebonne collection contract which commenced January 1, 2003. The receivable is financed over 5 years and is repayable monthly in aggregate annual payments of \$0.7 million.

Capital assets

The decline in capital assets is due principally to amortization exceeding capital assets purchased by \$2.8 million. Maintenance and growth capital expenditures are forecasted to increase in the periods ending September and December 2003. Significant capital expenditures in the coming periods include replacement vehicle purchases and cell development related specifically to the Lachenaie north expansion.

Landfill assets

Landfill assets represent the largest balance sheet asset of the Fund and total \$117.2 million at June 30, 2003. Landfill permits together with original cost and incurred construction and development costs are being amortized as landfill airspace is consumed.

Working capital position

The Fund has a current working capital position, representing total current assets less current liabilities, of approximately \$10.7 million, an improvement of \$5.6 million from the December 31, 2002 position of \$5.1 million. The increase is primarily due to the Fund's draws on its revolving loan facility to pay for growth capital expenditures and to finance other receivables incurred in the preceding periods.

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 three months ended June 30, 2003 totalled \$11.0 million and is \$3.2 million higher than the three month period ended March 31, 2003. Higher net income contributed by landfill operations, new collection service contracts, organic and price growth, and expired low margin residential contracts in the collection segment, offset by a \$1.8 million increase in non-cash working capital contributed to the period over period increase. Lower investment in other receivables, directly attributable to the City of Terrebonne contract, and marginally lower capital expenditures contributed to the decline in cash utilized in investing activities. The Fund did not borrow from its revolving loan facility in the three month period ended June 30, 2003, compared to \$6.3 million of borrowings for the three months ended March 31, 2003. The \$6.3 million draw on the revolving loan facility was used primarily to finance growth capital and other receivables in the preceding periods and is directly related to the City of Terrebonne and districts 3 and 4 (formerly North York and Scarborough) in the City of Toronto contracts.

DISTRIBUTIONS

The Fund paid cash distributions to unitholders of \$0.30 and \$0.60 per unit for the three and six month periods ended June 30, 2003, respectively, and declared a distribution payable to unitholders of record on June 30, 2003, payable July 15, 2003 of \$0.10 per unit. A distribution of \$0.10 per unit was also declared payable to unitholders of record on July 31, 2003 payable August 15, 2003. Subsequent monthly distributions will increase by 6.25% or \$0.00625 per unit to \$0.10625 per unit beginning with the distribution payable on September 15, 2003 to unitholders of record on August 31, 2003.

SEASONALITY

Revenues are generally higher in the 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 closure and post-closure costs, which are accrued for on a per unit basis, and higher collection operating expenses, respectively.

RISKS AND UNCERTAINTIES

The risks and uncertainties disclosed in the Fund's Initial Annual Information Form for the period ended December 31, 2002 remain substantially unchanged.

OUTLOOK

The remaining permitted airspace capacity at the Lachenaie landfill is expected to be exhausted by April 2004. However, the Fund has received local and provincial zoning by-law approval to expand the footprint of the existing landfill by 500 additional acres. The Fund's predecessor applied for and successfully received landfill airspace expansions for the Lachenaie site prior to reaching permitted capacities in each of 1985 and 1995. The Fund recently applied for and received vertical expansion over existing placed waste providing an additional 1.1 million tonnes capacity. This additional capacity will provide airspace to April 2004. While the granting of the permit is entirely within the discretion of the Quebec Government, management is confident that final approval will be obtained prior to the expiry of the Fund's current permit, because:

- there will be a critical shortage of sanitary landfills in the Province of Quebec, especially in the Montreal metropolitan area, by 2005;
- the Fund's sophisticated operations have an excellent environmental track record; and
- the expansion design is similar to the Fund's current operations.

The potential available airspace capacity at this expansion site, if approved, is estimated to be approximately 39.5 million additional tonnes which would equate to an operating life span of approximately 40 years, based on current disposal volumes and a six day per week operation. The Fund will commence construction and development of the expansion site as soon as it is permitted. Based on the current plan, which allows for contingencies, management expects to continue landfill operations through construction of the proposed expansion without interruption.

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

Looking ahead, management's principal objective is to increase free cash flow available for distribution 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 and, accordingly, distributions. Future strategic initiatives may be financed with borrowings, the additional issuance of units, from working capital or from cash flow generated from operations.

Management expects that the Fund will be able to progressively increase future distributions as free cash flow available for distribution increases. All increases will be considered by the Trustees as appropriate.

NEW ACCOUNTING POLICIES

Effective March 2003, the Canadian Institute of Chartered Accountants 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 June 30, 2003 consolidated financial statements will be 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 or free cash flow available for distribution.

Effective May 2003, the Canadian Institute of Chartered Accountants amended CICA 1540, cash flow statements, and CICA 3500, earnings per share. The amendment to CICA 1540 prohibits the disclosure of cash flow amounts per share in financial statements, except for dividends or similar cash distributions to owners and the amendment to CICA 3500 prohibits the disclosure of income per share amounts other than earnings per share disclosure required by CICA 3500 in financial statements, except as specifically provided for by another handbook section. Adopting the amendments does not impact the Fund's financial statement disclosures.

Effective June 2003, the Canadian Institute of Chartered Accountants 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 is not expected to have a material impact on the Fund's selection of accounting policies or its disclosures.

Effective June 2003, the Canadian Institute of Chartered Accountants issued a new Canadian accounting standard for general standards of financial statement presentation. The section revises and replaces general standards of financial statement presentation, CICA 1500, and clarifies what constitutes fair presentation in accordance with GAAP. The standard removes the ability for an entity to depart from a handbook recommendation when that recommendation would result in misleading financial statements. Adopting the new accounting standard is not expected to have a material impact on the Fund's financial statement presentation.

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 the Fund's Initial Annual Information Form for the period ended December 31, 2002. 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.

(A) All references to "EBITDA" 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 are detailed in the consolidated statement 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 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 be considered as an alternative to cash flow as a measure of liquidity. All references to "free cash flow available for distribution" have the meaning set out in this note.

Consolidated Balance Sheets | June 30, 2003 (unaudited) and December 31, 2002 (audited)
(in thousands of dollars)

	June 30, 2003	December 31, 2002
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 6,163	\$ 5,666
Accounts receivable	26,162	24,962
Other receivables	1,273	415
Prepaid expenses	2,871	3,959
	36,469	35,002
OTHER RECEIVABLES	3,890	1,509
INTANGIBLES	71,613	77,805
GOODWILL	49,171	49,171
DEFERRED COSTS	2,595	1,832
DEFERRED FINANCING COSTS	1,617	2,058
CAPITAL ASSETS	86,784	89,665
LANDFILL ASSETS (Note 5)	117,176	122,399
	\$ 369,315	\$ 379,441
LIABILITIES		
CURRENT		
Accounts payable	\$ 10,650	\$ 15,410
Accrued charges	5,633	6,076
Distribution payable	2,650	2,650
Income taxes payable	164	157
Deferred revenue	6,406	5,360
Current portion of long-term debt	261	252
	25,764	29,905
LONG-TERM DEBT	83,101	76,985
LANDFILL CLOSURE AND POST-CLOSURE COSTS	8,843	8,013
FUTURE INCOME TAX LIABILITIES	21,848	25,298
	139,556	140,201
UNITHOLDERS' EQUITY	229,759	239,240
	\$ 369,315	\$ 379,441

Consolidated Statements of Operations | For the period ended June 30, 2003 (unaudited)
(in thousands of dollars, except net income per trust unit amounts)

	Three months ended		Six months ended	
	2003	2002 (Note 3)	2003	2002 (Note 3)
REVENUES	\$ 42,769	\$ 28,971	\$ 81,093	\$ 28,971
OPERATING EXPENSES	22,406	15,759	42,233	15,759
SELLING, GENERAL AND ADMINISTRATION EXPENSES	6,302	4,059	12,748	4,059
INCOME BEFORE THE FOLLOWING AMORTIZATION	14,061	9,153	26,112	9,153
INTEREST ON LONG-TERM DEBT	1,321	827	2,551	827
INCOME BEFORE INCOME TAXES	2,415	872	3,319	872
INCOME TAX EXPENSE (RECOVERY)				
Current	175	127	350	127
Future	(1,435)	(3,044)	(3,450)	(3,044)
	(1,260)	(2,917)	(3,100)	(2,917)
NET INCOME	\$ 3,675	\$ 3,789	\$ 6,419	\$ 3,789
Net income per trust unit, basic and diluted	\$ 0.14	\$ 0.14	\$ 0.24	\$ 0.14
Weighted average number of units outstanding (thousands)	26,500	26,500	26,500	26,500

Consolidated Statements of Cash Flows | For the period ended June 30, 2003 (unaudited)

(in thousands of dollars)

	Three months ended		Six months ended	
	2003	2002 (Note 3)	2003	2002 (Note 3)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES				
OPERATING				
Net income	\$ 3,675	\$ 3,789	\$ 6,419	\$ 3,789
Items not affecting cash				
Amortization of intangibles	3,064	2,092	6,192	2,092
Amortization of deferred financing costs	221	147	441	147
Amortization of capital assets	4,035	3,215	8,249	3,215
Amortization of landfill assets	3,005	2,000	5,360	2,000
Gain on disposal of capital assets	(9)	–	(16)	–
Provision for landfill closure and post-closure costs	819	513	1,423	513
Future income taxes	(1,435)	(3,044)	(3,450)	(3,044)
Landfill closure and post-closure expenditures	(593)	(670)	(593)	(670)
	12,782	8,042	24,025	8,042
Changes in non-cash working capital items	(1,809)	940	(5,287)	940
Cash generated from operating activities	10,973	8,982	18,738	8,982
INVESTING				
Acquisitions	–	(158,660)	–	(158,660)
Investment in other receivables	–	–	(2,850)	–
Proceeds from other receivables	273	–	511	–
Purchase of capital assets	(2,586)	(830)	(5,518)	(830)
Landfill assets	(102)	(1,610)	(137)	(1,610)
Proceeds on disposal of capital assets	158	–	166	–
Deferred costs	(371)	(138)	(763)	(138)
Cash utilized in investing activities	(2,628)	(161,238)	(8,591)	(161,238)
FINANCING				
Proceeds from revolving loan	–	–	6,250	–
Issue of trust units	–	176,609	–	176,609
Trust units purchased for cancellation	–	(17,170)	–	(17,170)
Distributions paid to unitholders	(7,950)	(3,092)	(15,900)	(3,092)
Cash (utilized in) generated from financing activities	(7,950)	156,347	(9,650)	156,347
NET CASH INFLOW	395	4,091	497	4,091
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,768	–	5,666	–
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 6,163	\$ 4,091	\$ 6,163	\$ 4,091
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash and cash equivalents are comprised of:				
Cash	\$ 3,494	\$ –	\$ 3,494	\$ –
Cash equivalents	2,669	4,091	2,669	4,091
	\$ 6,163	\$ 4,091	\$ 6,163	\$ 4,091
Cash paid during the period for:				
Income taxes	\$ 93	\$ –	\$ 136	\$ –
Interest	\$ 914	\$ 3,357	\$ 2,636	\$ 3,357

Consolidated Statements of Unitholders' Equity | For the period ended June 30, 2003 (unaudited)

(in thousands of dollars)

	Three months ended		Six months ended	
	2003	2002 (Note 3)	2003	2002 (Note 3)
BALANCE, BEGINNING OF PERIOD	\$ 234,034	\$ —	\$ 239,240	\$ —
Issue of trust units	—	272,167	—	272,167
Cancelled	—	(17,507)	—	(17,507)
Contributed surplus	—	337	—	337
Net income	3,675	3,789	6,419	3,789
Distributions	(7,950)	(5,742)	(15,900)	(5,742)
BALANCE, END OF PERIOD	\$ 229,759	\$ 253,044	\$ 229,759	\$ 253,044

- 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. INTERIM FINANCIAL STATEMENTS** | The unaudited interim consolidated financial statements do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements and should therefore be read in conjunction with the audited consolidated financial statements and notes thereto included in the Fund's annual report for the period from April 25, 2002 to December 31, 2002. The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles applicable to interim consolidated financial statements and follow the same accounting policies and methods in their applications as the most recent annual financial statements, except as indicated in Note 4.
- 3. COMPARATIVE INTERIM FINANCIAL STATEMENTS** | The Fund commenced operations on April 25, 2002. Accordingly comparative consolidated statements of operations, of cash flows and of unitholders' equity are for the period from April 25, 2002 to June 30, 2002 for the three and six month periods ended June 30. The comparative interim financial statements reflect an adjustment to the computation of future income tax liabilities, made in the consolidated financial statements for the period ended September 30, 2002, representing the tax effect of the differences between the financial reporting and tax bases of assets and liabilities acquired, due to the filing of income tax returns required on the change of control. The offsetting adjustment was reflected in goodwill.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates | The preparation of the unaudited consolidated financial statements in conformity with Canadian generally accepted accounting principles applicable to interim financial statements requires the Fund to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 adjustment in a future period: goodwill, \$24,354, deferred costs, \$2,535 and landfill assets (Note 5), \$81,687. 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.

Other receivables | Other receivables include a direct finance lease and a long-term finance 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.

(in thousands of dollars)

Long-term finance receivables are carried at cost and discounted at the underlying rate implicit in the receivable. The fair value of the finance receivable is estimated using discounted cash flow analysis applying interest rates consistent with the credit quality of the borrower. Long-term finance receivables are periodically reviewed for impairment and any resulting write-down to the net recoverable amount is recorded in the period in which the impairment occurs.

Impairment of long-lived assets | Effective January 1, 2003, the Fund adopted the new Canadian accounting standard for impairment of long-lived assets, which requires that an impairment loss should be recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value.

Long-lived assets are tested for impairment when events or changes in circumstances indicate that their carrying amount may not be recoverable and, as necessary, any resulting impairment loss, representing the difference between the carrying amount and fair value, is recognized in the period it is known.

Adopting the new accounting standard has had no impact on the consolidated financial statements of the Fund.

Asset retirement obligations | Effective March 2003, the Canadian Institute of Chartered Accountants 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 June 30, 2003 consolidated financial statements will be 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.

5. LANDFILL ASSETS

	Cost	Accumulated Amortization	Net Book Value
June 30, 2003	\$ 129,917	\$ 12,741	\$ 117,176
December 31, 2002	\$ 129,780	\$ 7,381	\$ 122,399

The Fund owns and operates landfills in the provinces of Quebec ("Lachenaie"), Alberta and Manitoba, which have estimated remaining operating lives of approximately 0.75, 5 and 44 years, respectively, based on current disposal volumes and a six day per week operation at each site. Effective March 26, 2003, the Fund received an emergency decree from the Quebec government approving the Fund's request to vertically expand the Lachenaie landfill. Receipt of this decree ensures that there will be no interruption to the operation of the Lachenaie landfill and provides approximately one million tonnes or approximately one year of capacity. An application is in process to expand the Lachenaie landfill (the north expansion) which will increase its operating life from 0.75 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 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 emergency decree for vertical expansion and is amortizing the Lachenaie landfill costs over the combined permitted and deemed permitted airspace. The net book value of the Lachenaie landfill at June 30, 2003 is \$81,687.

(in thousands of dollars)

6. SEGMENTED REPORTING | As disclosed in Note 15 to the Fund's consolidated financial statements for the period from April 25, 2002 to December 31, 2002, the Fund formalized changes to its internal reporting structure which resulted in the aggregation of commercial, industrial and other collection segments into one solid waste collection segment. The aggregation aligns the internal reporting requirements of the Chief Operating Decision Maker with the reportable business segments of the Fund.

The Fund carries out business through two separate business segments: landfills and solid waste collection. The Fund owns and operates three landfills, which service Montreal, Calgary and Winnipeg and their respective surrounding communities and operates one landfill for the City of Lethbridge. The Fund's landfill gas to energy facility, located at its Lachenaie landfill, is also included in this business segment. The solid waste collection segment consists of the collection and disposal of non-hazardous solid waste and recyclable products, transfer collection 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 note included in the Fund's consolidated financial statements for the period from April 25, 2002 to December 31, 2002. Corporate selling, general and administration 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.

Estimates used in the calculation of fair value for identified reporting units have been adjusted. The adjustments resulted in the reallocation of goodwill between business segments totalling \$2,354. The December 31, 2002 comparative information has been adjusted to reflect this change. The Fund does not have any customers for which the sales exceed 10% of total revenues.

For the period ended June 30, 2003

	Three months ended		Six months ended	
	2003	2002 (Note 3)	2003	2002 (Note 3)
Gross Revenues				
Landfills and energy	\$ 12,423	\$ 7,754	\$ 22,131	\$ 7,754
Collection	34,570	24,093	66,290	24,093
	46,993	31,847	88,421	31,847
Intercompany Revenues				
Landfills and energy	(3,807)	(2,463)	(6,560)	(2,463)
Collection	(417)	(413)	(768)	(413)
	\$ (4,224)	\$ (2,876)	\$ (7,328)	\$ (2,876)
Revenues				
Landfills and energy	8,616	5,291	15,571	5,291
Collection	34,153	23,680	65,522	23,680
	\$ 42,769	\$ 28,971	\$ 81,093	\$ 28,971
Income before amortization, interest on long-term debt and income taxes				
Landfills and energy	5,896	3,981	11,460	3,981
Collection	8,165	5,172	14,652	5,172
	\$ 14,061	\$ 9,153	\$ 26,112	\$ 9,153

Notes to the Consolidated Financial Statements | For the period ended June 30, 2003(unaudited)
(in thousands of dollars)

<u>June 30, 2003</u>	<u>Landfills and Energy</u>	<u>Collection</u>	<u>Total</u>
Goodwill	\$ 27,086	\$ 22,085	\$ 49,171
Total Assets	\$ 179,002	\$ 190,313	\$ 369,315

<u>December 31, 2002</u>	<u>Landfills and Energy</u>	<u>Collection</u>	<u>Total</u>
Goodwill	\$ 27,086	\$ 22,085	\$ 49,171
Total Assets	\$ 184,861	\$ 194,580	\$ 379,441

7. **GUARANTEES** | Effective January 1, 2003, the Fund adopted the new Canadian accounting guideline AcG-14, which requires certain disclosures of guarantees.

In the normal course of business, the Fund enters into agreements that meet the definition of a guarantee. The Fund's primary guarantees subject to the disclosure requirements of AcG-14 are as follows:

- (a) The Fund has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements the Fund agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, damage and existence of hazardous substances arising during, on or after the term of the agreement. Changes in environmental laws or in the interpretation thereof may require the Fund to compensate the counterparties. The maximum amount of any potential future payment cannot be reasonably estimated.
- (b) Indemnity has been provided to all trustees and directors and or officers of the Fund and its subsidiaries for various items including, but not limited to, all costs to settle suits or actions due to association with the Fund and its subsidiaries, subject to certain restrictions. The Fund has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined and the maximum amount of any potential future payment cannot be reasonably estimated.
- (c) The Fund has indemnified parties for the disposal of hazardous, toxic or radioactive wastes or substances at third party landfills and the Fund has indemnities for the receipt of hazardous, toxic or radioactive wastes or substances. Hazardous, toxic or radioactive wastes or substances are defined by applicable federal, provincial or local laws and regulations. Changes in environmental laws or in the interpretation thereof may require the Fund to compensate or be compensated by the counterparties. The term of the indemnity is generally restricted to the duration of the agreement. The maximum amount of any potential future reimbursement or payment cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Fund from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Fund and its predecessor have not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the Consolidated Balance Sheets with respect to these agreements.

The Fund has been indemnified for actions or claims initiated by third parties for various environmental and real property matters, the existence of liabilities including taxes and various other items that existed on or prior to June 30, 2000. Changes to various legislation and changes in or the interpretation of various laws may result in the Fund being compensated by the counterparties. The term of the indemnity is unlimited and not subject to maximum potential future reimbursement except for various other items for which the maximum reimbursement is limited in amount, but not term, to \$132,375, subject to various restrictions.

8. **SEASONALITY** | Revenues are generally higher in the 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 closure and post-closure costs, which are accrued for on a per unit basis, and higher collection operating expenses, respectively.

Corporate Information

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