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BFI Canada Income Fund Second Quarter Report
For the period ended June 30, 2004

BFI Canada Income Fund – MD&A for the three and six months ended June 30, 2004

The following is a discussion of the consolidated financial condition and results of operations of BFI Canada Income Fund (the “Fund”) for the three and six months ended June 30, 2004 and has been prepared with all information available up to and including July 29, 2004. The unaudited interim consolidated financial statements (“financial statements”) of the Fund have been prepared in accordance with Canadian generally accepted accounting principles applicable to interim financial statements and are reported in Canadian dollars. This discussion should be read in conjunction with the Consolidated Financial Statements of BFI Canada Income Fund, including notes thereto, and Management’s Discussion and Analysis (“MD&A”) for the first quarter ended March 31, 2004 and year ended December 31, 2003.

Effective January 1, 2004, the Fund adopted CICA handbook section 3110, asset retirement obligations (“ARO”). The MD&A for the first quarter ended March 31, 2004 included the impact of adopting ARO on the comparative results of operations for the three months ended March 31, 2003 and June 30, 2003. Accordingly this discussion should be read in conjunction with the MD&A for the first quarter ended March 31, 2004.

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 solid waste collection operations in 19 markets and operates three 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 months ended June 30, 2004

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

- Revenues and EBITDA^(A) increased 15.5% and 14.9%, respectively, over the comparative three months ended June 30, 2003
- Revenues and EBITDA^(A) increased 12.9% and 13.6%, respectively, over the comparative six months ended June 30, 2003
- Free cash flow available for distribution^(B) for the six months ended June 30, 2004 is marginally lower than the comparative period ended June 30, 2003 due to the timing of maintenance capital expenditures period over period partially offset by a \$3,728 increase in EBITDA^(A)
- Aggregate distributions declared totalled \$8,446 and \$16,892 for the three and six months ended June 30, 2004, respectively, representing payout ratios of 99% and 86% of free cash flow available for distribution^(B). The payout ratios are higher than the comparative three and six months ended June 30, 2003 due to a \$4,026 and \$4,118 increase in maintenance capital expenditures over the respective comparative periods. Management of the Fund remains confident that total maintenance capital expenditures for fiscal 2004 will approximate \$12,000 in aggregate. Achieving this maintenance capital expenditure target will result in a decline in maintenance capital expenditures and have a positive impact on free cash flow available for distribution^(B) for the remaining six months of 2004
- Acquisitions and volume and price growth are the principal reasons for the Fund’s revenue and EBITDA^(A) growth

(in thousands, except per trust unit amounts)	Three months ended		Six months ended	
	2004	2003	2004	2003
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
		(1)		(1)
Revenues	\$ 49,386	\$ 42,769	\$ 91,561	\$ 81,093
Operating expenses	25,306	21,612	46,758	40,869
Selling, general and administration expenses	7,026	6,311	13,615	12,764
Income before the following	17,054	14,846	31,188	27,460
Amortization	11,564	11,271	22,130	21,832
Interest on long-term debt	1,280	1,321	2,456	2,551
Write-off of deferred financing costs	748	-	748	-
Gain on sale of capital assets	-	(9)	(24)	(16)
Gain on settlement of bond forward contracts	(1,550)	-	(1,550)	-
Income before income taxes	5,012	2,263	7,428	3,093
Income tax recovery	(796)	(1,308)	(1,742)	(3,040)
Net income	\$ 5,808	\$ 3,571	\$ 9,170	\$ 6,133
Net income per trust unit, basic & diluted	\$ 0.22	\$ 0.13	\$ 0.35	\$ 0.23
Number of trust units outstanding	26,500	26,500	26,500	26,500
Maintenance capital expenditures	\$ 6,260	\$ 2,234	\$ 7,365	\$ 3,247
Growth capital expenditures	2,276	454	3,627	2,408
Total capital expenditures	\$ 8,536	\$ 2,688	\$ 10,992	\$ 5,655
Free cash flow available for distribution ^(B)	\$ 8,537	\$ 10,170	\$ 19,450	\$ 19,722
Free cash flow available for distribution ^(B) per trust unit	\$ 0.32	\$ 0.38	\$ 0.73	\$ 0.74
Aggregate distributions declared	\$ 8,446	\$ 7,950	\$ 16,892	\$ 15,900
Aggregate distributions declared per trust unit	\$ 0.32	\$ 0.30	\$ 0.64	\$ 0.60

Notes:

⁽¹⁾ Operating results, net income per trust unit, basic & diluted, and free cash flow available for distribution^(B) and per trust unit have been restated to reflect the adoption of the new accounting standard for asset retirement obligations. The impact of adopting the new accounting standard on the comparative quarterly results are detailed in the BFI Canada Income Fund first quarter report for the period ended March 31, 2004.

Review of Operations - For the three and six months ended June 30, 2004

(all amounts are in thousands of Canadian dollars)

Revenues

Revenues for the three months ended June 30, 2004 increased \$6,617 or 15.5% to \$49,386. The solid waste collection ("collection") segment contributed approximately \$5,400 to the increase. The acquisition of Twin Oaks Environmental Ltd. ("Twin Oaks") combined with other strategic acquisitions completed in August 2003 contributed approximately \$2,400 to the period over period increase while price increases, organic growth and favourable commodity prices combined to account for the remainder of the increase. The landfill and energy ("landfill") segment contributed approximately \$1,200 to the increase. Additional volumes of accepted non-hazardous solid waste entering the Lachenaie landfill is the principal reason for the period over period increase.

Revenues for the six months ended June 30, 2004 increased \$10,468 or 12.9% to \$91,561. The collection segment contributed approximately \$9,000 to the increase, of which strategic acquisitions contributed approximately \$3,100 to the period over period increase while price increases, organic growth and favourable commodity prices combined to account for the remainder of the increase. The landfill segment contributed approximately \$1,400 to the increase. Additional volumes of accepted non-hazardous solid waste entering the Lachenaie landfill is the principal reason for the period over period increase.

Operating expenses

Operating expenses for the three months ended June 30, 2004 increased \$3,694 to \$25,306. Strategic acquisitions in the collection segment contributed approximately \$1,900 to the total collection segment increase of approximately \$3,600. The balance of the increase in collection segment operating expenses is a function of higher disposal and labour expenditures, related principally to the collection of additional volumes of waste, and higher year over year costs to service new and existing customers. The landfill segment experienced a marginal increase in operating expenses period over period. The increase is attributable to higher labour and vehicle operating costs incurred to place additional volumes of non-hazardous solid waste.

Operating expenses for the six months ended June 30, 2004 increased \$5,889 to \$46,758. Strategic acquisitions in the collection segment contributed approximately \$2,200 to the total collection segment increase of approximately \$5,900. Higher disposal expenditures and higher year over year costs to service new and existing customers account for the balance of the increase. The landfill segment experienced a marginal increase in operating expenses period over period, which is not attributable to any one significant variance.

Selling, general and administration expenses

Selling, general and administration ("SG&A") expenses for the three months ended June 30, 2004 increased \$715 to \$7,026. The increase is principally a function of the Twin Oaks acquisition and current period long-term incentive plan ("LTIP") accruals totalling \$100.

Selling, general and administration ("SG&A") expenses for the six months ended June 30, 2004 increased \$851 to \$13,615. The increase is principally related to activities in the three month period ended June 30, 2004 as explained above, plus the addition of \$100 in LTIP accruals for the three months ended March 31, 2004.

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

EBITDA^(A) of \$17,054 was \$2,208 or 14.9% higher than the comparative three months ended June 30, 2003. The collection and landfill segments contributed approximately \$400 and \$1,800 to the period over period increase, respectively. Strategic acquisitions and price and volume growth coupled with an increase in accepted non-hazardous solid waste at BFI Canada-owned landfills were the principal contributors to the collection and landfill segment increases. Effective January 1, 2004, management of the Fund elected to have collection and landfill segment operating districts bear certain costs that were previously borne by the corporate office and allocated to the collection and landfill segments based on various factors, including revenues, and to increase the internal gate rate charged by the landfill segment to certain collection segment operations. The impact of these allocation changes has resulted in collection segment operating districts incurring a greater share of historically corporate allocated charges, as well as incurring higher disposal expenditures charged by landfill segment operating districts. The allocation changes has resulted in an approximately \$500 reduction in EBITDA^(A) for the collection segment in favour of the landfill segment for the three months ended June 30, 2004.

EBITDA^(A) of \$31,188 was \$3,728 or 13.6% higher than the comparative six months ended June 30, 2003. Contributions from both the collection and landfill segments for the six month period ended are consistent with those detailed for the three months ended June 30, 2004.

Amortization expense

Amortization expense was \$293 higher than the comparative three months ended June 30, 2003. The period over period increase is principally due to the amortization of intangibles recorded on the acquisition of Twin Oaks.

Amortization for the six months ended June 30, 2004 increased \$298. The increase is the result of a rise in landfill asset amortization, due largely to an increase in non-hazardous solid waste accepted at BFI Canada-owned landfills over the comparative period, an increase in intangible asset amortization due principally to the acquisition of Twin Oaks, offset by a decline in capital asset amortization, due principally to fully amortized vehicles and equipment acquired by 3743276 Canada Inc. (one of the predecessors of BFI Canada Holdings Inc.).

Interest on long-term debt

Interest on long-term debt was \$41 and \$95 lower than the comparative three and six months ended June 30, 2003. The decline is principally the result of a decrease in the 30 day rate on bankers' acceptances versus the comparative period.

Write-off of deferred financing costs

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

Gain on sale of capital assets

During the six months ended June 30, 2004, the Fund disposed of various vehicles and containers, generally for scrap, which resulted in a gain on sale of \$24.

Income taxes

Income taxes recovered for the three and six months ended June 30, 2004 decreased by \$512 and \$1,298, respectively. The decrease is principally on account of an increase in tax attributable to higher income before income taxes versus the comparative three and six months ended June 30, 2003.

Other Performance Measures

(all amounts are in thousands of Canadian dollars)

Capital expenditures

Capital expenditures, which include maintenance and growth capital expenditures, totalled \$8,536 for the three months ended June 30, 2004. Maintenance capital expenditures, representing the replacement of capital in order to sustain current business operations, increased \$4,026 due principally to Lachenaie landfill cell development and the replacement of various containers, vehicles and equipment. 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 higher than the comparative period by \$1,822. The increase in growth capital expenditures is due largely to infrastructure spending and the development of future airspace at the Lachenaie landfill and vehicle and container purchases in 2004 to service new customer collection contracts.

Total capital expenditures for the six months ended June 30, 2004 were \$5,337 higher than the comparative period ended June 30, 2003. Lachenaie cell development, equipment purchased to operate the City of Lethbridge landfill and purchases of containers, vehicles and various equipment are the primary contributors to the period over period increase in total capital expenditures.

Free cash flow available for distribution^(B)

Free cash flow available for distribution^(B) totalled \$8,537 and \$19,450 for the three and six months ended June 30, 2004, respectively, versus \$10,170 and \$19,722 for the comparative three and six months ended June 30, 2003. Management of the Fund has elected to define and calculate free cash flow available for distribution^(B) using an operations approach, calculated as follows:

(in thousands)

	Three months ended June 30	
	2004	2003
	(unaudited)	(unaudited)
EBITDA ^(A)	\$ 17,054	\$ 14,846
Less: amortization of capitalized landfill asset closure and post-closure costs	(872)	(946)
Less: interest on long-term debt	(1,280)	(1,321)
Less: current income taxes	(105)	(175)
Less: maintenance capital expenditures	(6,260)	(2,234)
Free cash flow available for distribution ^(B)	\$ 8,537	\$ 10,170

(in thousands)

	Six months ended June 30	
	2004	2003
	(unaudited)	(unaudited)
EBITDA ^(A)	\$ 31,188	\$ 27,460
Less: amortization of capitalized landfill asset closure and post-closure costs	(1,707)	(1,590)
Less: interest on long-term debt	(2,456)	(2,551)
Less: current income taxes	(210)	(350)
Less: maintenance capital expenditures	(7,365)	(3,247)
Free cash flow available for distribution ^(B)	\$ 19,450	\$ 19,722

In anticipation of completing the debt private placement, the Fund entered into two bond forward contracts to manage the risk of interest rate fluctuations prior to closing the debt private placement on June 25, 2004. The settlement of these contracts resulted in a gain totalling \$1,550. The bond forward contracts did not qualify for hedge accounting and accordingly the gain has been recorded in current period income. The cash received will be amortized to free cash flow available for distribution^(B), commencing July 2004, over the remaining terms of the senior secured debentures as follows:

(in thousands)

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

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

Summary of Quarterly Results – *quarterly results for 2002 and 2003 have been restated for a change in accounting policy⁽²⁾*

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

(in thousands, except per trust unit amounts)

	2004		
	Q2	Q1	Total
	(unaudited)		
Revenues			
Collection segment	\$ 39,513	\$ 35,038	\$ 74,551
Landfill segment	9,873	7,137	17,010
	\$ 49,386	\$ 42,175	\$ 91,561
Net income	\$ 5,808	\$ 3,362	\$ 9,170
Net income per trust unit, basic and diluted	\$ 0.22	\$ 0.13	\$ 0.35
Free cash flow available for distribution ^(B)	\$ 8,537	\$ 10,913	\$ 19,450
Distributions declared	\$ 8,446	\$ 8,446	\$ 16,892

(in thousands, except per trust unit amounts)

	2003 ⁽²⁾				
	Q4	Q3	Q2	Q1	Total
	(unaudited)				
Revenues					
Collection segment	\$ 35,061	\$ 34,554	\$ 34,153	\$ 31,369	\$ 135,137
Landfill segment	8,309	8,609	8,616	6,955	32,489
	\$ 43,370	\$ 43,163	\$ 42,769	\$ 38,324	\$ 167,626
Net income	\$ 3,681	\$ 3,323	\$ 3,571	\$ 2,562	\$ 13,137
Net income per trust unit, basic and diluted	\$ 0.14	\$ 0.13	\$ 0.13	\$ 0.10	\$ 0.50
Free cash flow available for distribution ^(B)	\$ 7,806	\$ 9,151	\$ 10,170	\$ 9,552	\$ 36,679
Distributions declared	\$ 8,447	\$ 8,281	\$ 7,950	\$ 7,950	\$ 32,628

(in thousands, except per trust unit amounts)

	2002 ⁽²⁾				
	Q4	Q3	Q2 ^{(3) (4)}	Q1 ⁽³⁾	Total
	(unaudited)				
Revenues					
Collection segment	\$ 32,015	\$ 32,347	\$ 31,824	\$ 27,488	\$ 123,674
Landfill segment	7,673	7,500	7,036	4,792	27,001
	\$ 39,688	\$ 39,847	\$ 38,860	\$ 32,280	\$ 150,675
Net income	\$ 447	\$ 1,566	\$ 2,592	\$ 65	\$ 4,670
Net income per trust, basic and diluted	\$ 0.02	\$ 0.06	\$ 0.10	N/A	\$ 0.18
Free cash flow available for distribution ^(B)	\$ 8,621	\$ 8,752	\$ 6,726	N/A	\$ 24,099
Distributions declared	\$ 7,950	\$ 7,950	\$ 5,742	N/A	\$ 21,642

Notes:

⁽²⁾ Operating results have been restated to reflect the adoption of the new accounting standard for asset retirement obligations. The impact of adopting the new accounting standard on the comparative quarterly results are detailed in the BFI Canada Income Fund first quarter report for the period ended March 31, 2004.

⁽³⁾ 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.

⁽⁴⁾ Free cash flow available for distribution^(B) and distributions declared are for the period from April 25, 2002 to June 30, 2002.

The increase in collection segment revenues from Q2 2002 to Q2 2004, is due principally to the following: new collection contracts that commenced in the first quarter of 2003, approximately \$700, two strategic “tuck-in” acquisitions completed late in Q3 2003 coupled with the Twin Oaks acquisition completed on April 6, 2004, approximately \$2,400, with the balance due from price increases and organic growth.

The increase in landfill and energy segment revenues from Q2 2002 to Q2 2004, is due to the following: the City of Lethbridge landfill operating contract which began in Q1 2003, approximately \$400, with the balance due to higher volumes and disposal rates charged for non-hazardous solid waste entering BFI Canada-owned landfills.

Financial Condition

(all amounts are in thousands of Canadian dollars)

<i>Selected Consolidated Balance Sheets Information</i> (in thousands)	June 30 2004 <u>(unaudited)</u>	December 31, 2003
Accounts receivable	\$ 30,625	\$ 25,838
Other receivables - current and long-term	\$ 4,136	\$ 4,487
Deferred costs	\$ -	\$ 3,069
Capital assets	\$ 86,122	\$ 84,359
Landfill assets	\$ 113,661	\$ 113,084
Working capital position (current assets less current liabilities)	\$ 25,998	\$ 8,291

Accounts receivable

Accounts receivable increased \$4,787 from December 31, 2003. The increase is principally attributable to accounts receivable acquired on the acquisition of Twin Oaks and seasonality in both the collection and landfill segments, evidenced by the increase in revenues for the three month period ended June 30, 2004 which totalled \$49,386 compared to \$39,688 for the three months ended December 31, 2003. The collection quality of receivables remains high with less than five percent of total trade receivables in excess of ninety days. Total bad debt charges remain less than one percent of revenues.

Other receivables

The \$351 decline in other receivables from December 31, 2003 relates specifically to the collection of direct finance lease and long-term finance receivables, net of a \$262 investment in a direct financing lease receivable due from a city in the Province of Quebec during the current six month period.

Deferred costs

The \$3,069 decline in deferred costs from December 31, 2003 is the result of approximately \$1,000 in current period additions, representing Lachenaie north expansion efforts, debt private placement costs and other corporate acquisition and development initiatives, offset by approximately \$3,400 of deferred cost amounts capitalized to landfill assets, approximately \$400 of deferred cost amounts capitalized to deferred financing costs, and the write-off of approximately \$300 of deferred costs associated with corporate acquisition and development initiatives during the three months ended June 30, 2004.

Capital assets

The increase in capital assets from December 31, 2003, is due to total additions totalling \$7,900 and acquired assets totalling approximately \$1,600 exceeding total amortization of approximately \$7,700. Significant current period capital expenditures include vehicles, containers and equipment required to sustain and grow current operations. Capital expenditures anticipated in the remainder of the year include replacement and growth vehicle, container and equipment purchases. Management of the Fund remains confident that total maintenance capital expenditures for 2004, including replacement airspace development, will approximate \$12,000 in aggregate. Therefore, total maintenance capital expenditures, including replacement airspace development, for the balance of 2004 will approximate \$4,600. The expected decline in maintenance capital expenditures, including replacement airspace development, for the remaining six months of 2004 versus the six months ended June 30, 2004 is expected to have a positive impact on free cash flow available for distribution^(B).

Landfill assets

Landfill assets increased \$577 and total \$113,661 at June 30, 2004. The increase is attributable to approximately \$3,100 in cell construction and infrastructure expenditures for the Lachenaie landfill, the capitalization of approximately \$3,400 of deferred costs associated with the permitting of the Lachenaie north expansion and the capitalization of approximately \$1,700 of landfill closure and post-closure costs, offset by amortization totalling approximately \$7,600. Landfill permits together with projected construction and development costs and capitalized landfill asset closure and post-closure costs are being amortized as landfill airspace is consumed. Significant landfill asset expenditures expected in the remainder of the year include infrastructure and airspace development related specifically to the Lachenaie north expansion.

Working capital position

The Fund has a current working capital position, representing total current assets less current liabilities, of \$25,998, an increase of \$17,077 from the December 31, 2003 position of \$8,291. The increase is primarily due to a \$16,614 increase in cash and cash equivalents which is the direct result of the Fund closing its \$105,000 debt private placement on June 25, 2004. The increase in accounts receivable totalling \$4,787, due principally to seasonality and strong operating performance in the current period, was offset by a combined increase in accounts payable and accrued charges totalling \$4,611, due largely to the timing and payment of significant capital and landfill asset expenditures. The \$643 increase in prepaid expenses is principally on account of the timing of prepaid vehicle licenses and insurance.

Disclosure of outstanding trust unit data

(in thousands)

	Units	\$
Trust units	26,500	254,997

Trust units represent an equal and undivided beneficial interest in the Fund and any distributions. Trust units rank equally and ratably without discrimination, preference or priority. The Fund is authorized to issue an unlimited number of trust units under the terms of the Amended and Restated Declaration of Trust. At June 30, 2004, 26,500 trust units are issued and outstanding.

Liquidity and Capital Resources

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

Contractual obligations

	Payments due (in thousands)				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	\$ 105,601	\$ 271	\$ 330	\$ 47,000	\$ 58,000
Operating leases	9,441	2,120	3,828	1,685	1,808
Other long-term obligations ⁽⁵⁾	27,000	1,500	3,000	1,500	21,000
Total contractual obligations	\$ 142,042	\$ 3,891	\$ 7,158	\$ 50,185	\$ 80,808

Notes:

⁽⁵⁾ Other long-term obligations include the following: a \$1.50 per tonne royalty at the Fund's Lachenaie landfill site, estimated at the maximum annual and cumulative payouts of \$1,500 and \$6,000, respectively, over the 4 year life of the agreement, and payments on account of a license agreement to use the trade name "BFI" and the related logo for the period from June 30, 2015 to June 30, 2034.

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

Cash generated from operations for the three months ended June 30, 2004 totalled \$17,794 and is \$6,821 higher than the three months ended June 30, 2003. Higher net income coupled with lower demands on working capital uses, due principally to increases in accounts payable and accrued charges which were partially offset by increases in accounts receivable, is the principal cause of the increase. Adding back two non-cash charges, representing the \$748 write-off of deferred financing costs on closing of the debt private placement and the write-off of various corporate development and acquisition initiatives totalling \$287, also contributed to the increase in cash generated from operations for the three months ended June 30, 2004. Cash utilized in investing activities increased significantly in the three months ended June 30, 2004 compared

to June 30, 2003. The acquisition of Twin Oaks totalling approximately \$4,600 together with the increase in capital and landfill asset purchases totalling approximately \$5,800 are the primary reasons for the period over period change. The increase in capital and landfill asset expenditures is due in large part to Lachenaie cell development and infrastructure spending and the timing of vehicles, equipment and container purchases. Cash generated from investing activities is due in large part to the closing of the \$105,000 debt private placement, which was offset by current period distributions and the repayment of pre-existing debt facilities and debt acquired in connection with the purchase of Twin Oaks. Cash distributions totalling \$8,446 for three months ended June 30, 2004 increased \$496 due to a 6.25% increase in distributions, effective August 31, 2003.

Cash generated from operations for the six months ended June 30, 2004 totalled \$28,207 and is \$9,469 higher than the six months ended June 30, 2003. Higher net income coupled with lower demands on working capital uses, as detailed above for the three months ended June 30, 2004, is the principal cause of the increase. Purchases of capital and landfill assets increased in the six months ended June 30, 2004 by \$5,337, due in large part to landfill cell construction and infrastructure expenditures and vehicle, equipment and container purchases to sustain and grow landfill and collection segment operations. The acquisition of Twin Oaks, together with the increase in capital and landfill expenditures supports the increase in cash utilized in investing activities. The closing of the \$105,000 debt private placement offset by the 6.25% increase in distributions effective August 31, 2003 and the repayment of pre-existing debt facilities and debt acquired in connection with the purchase of Twin Oaks, accounts for the \$14,137 increase in cash generated from financing activities.

In 2004 the Fund expects to use its excess cash resources to purchase growth capital assets, to develop excess airspace and infrastructure projects at the Lachenaie landfill, and to finance strategic "tuck-in" acquisitions.

The 5 and 10 year senior secured debentures bear interest at fixed rates of 6.123% and 7.015%, respectively. Management of the Fund is reviewing alternatives to swap its fixed rate interest charge on its 5 year debentures to a floating rate charge. Management of the Fund expects to complete an interest rate swap on its 5 year debentures prior to September 30, 2004 and expects the transaction to satisfy all requirements for hedge accounting.

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

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

In order to maintain the Fund's current and future operating performance, the Fund is required to replace capital assets (maintenance capital expenditures) at a rate of approximately \$11,500 to \$12,500 annually. As governed by the terms of the Fund's revolving credit facility, the Fund is required to finance maintenance capital expenditures from cash generated from operations. The Fund is restricted to total capital expenditures (where total capital expenditures includes both maintenance and growth capital expenditures) not to exceed 40% of EBITDA^(A) at the end of any fiscal quarter plus the preceding three quarters. If opportunities are presented that require growth capital expenditures that are in excess of the current restrictive covenant, the Fund would seek a waiver of this covenant. Failure to receive the waiver could accelerate the repayment of the relevant indebtedness or result in the postponement of purchasing growth capital. If the indebtedness were to be accelerated, there can be no assurance that the assets of the Fund would be sufficient to repay such indebtedness in full.

Distributions

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

The Fund paid cash distributions to unitholders of \$0.31875 and \$0.6375 per trust unit for the three and six months ended June 30, 2004, respectively, and declared a distribution payable to unitholders of record on June 30, 2004, payable July 15, 2004, of \$0.10625 per trust unit.

Seasonality

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

Risks and Uncertainties

Details with respect to risks and uncertainties are contained in the Fund's 2003 Annual Information Form ("AIF") filed on SEDAR, which can be found at www.sedar.com.

Outlook

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

Overview

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

Landfill segment

The Fund is required to deposit into a social utility trust an amount to be established by the Quebec Government for each cubic metre of waste accepted at the Lachenaie landfill, payable quarterly. The Fund is accruing for this funding requirement at an estimated rate of \$0.50 per cubic metre of waste placed in the approved expansion area. Final funding rate approvals are pending from the Quebec Government. Accordingly, future funding rates may be subject to change and will be accounted for on a prospective basis.

The Fund has received significant volumes of non-hazardous solid waste at its Calgary landfill, and the volumes of waste accepted may not continue at a similar rate. The revenue increase for fiscal 2003 attributable to the Calgary landfill was approximately \$4,000.

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

Other

Management of the Fund remains confident that total maintenance capital expenditures for 2004, including replacement airspace development, will approximate \$12,000 in aggregate. Therefore, total maintenance capital expenditures for the balance of 2004, including maintenance airspace development, will approximate \$4,600. The expected decline in maintenance capital expenditures, including maintenance airspace development, for the remaining six months of 2004 versus the six months ended June 30, 2004 is expected to have a positive impact on free cash flow available for distribution^(B).

Management of the Fund is reviewing alternatives to swap its fixed rate interest charge on its 5 year debentures to a floating rate charge. Management of the Fund expects to complete an interest rate swap on its 5 year debentures prior to September 30, 2004 and expects the transaction to satisfy all requirements for hedge accounting.

Looking ahead, management's principal objective is to increase free cash flow available for distribution^(B) by continuing to enhance the Fund's service offerings, improving efficiencies and growing through strategic acquisitions. In this regard, management continuously reviews and evaluates potential strategic acquisitions; especially those that can increase free cash flow 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.

Distributions are dependent on free cash flow available for distribution^(B) and the amount of distributions is reviewed by the Trustees from time to time. The next scheduled Trustees review of free cash flow available for distribution^(B) and the amount of distributions is August 2004.

Critical Accounting Estimates

Landfill closure and post-closure costs

The Fund develops its estimates for closure and post-closure costs with input from its engineers and accounting personnel based on the landfill regulations governing each facility, and reviews those estimates at least annually. In connection with the Fund's approval to expand the Lachenaie landfill's capacity and the placement of solid waste in the expansion area effective May 2004, the Fund has reviewed various Lachenaie landfill estimates for purposes of determining landfill closure and post-closure costs. Revisions to estimated density/compaction of placed waste, total site capacity and estimated post-closure cost expenditures for the Lachenaie landfill resulted in a \$139 increase in landfill closure and post-closure costs for the three months ended June 30, 2004 and a \$14,467 decrease in undiscounted closure and post-closure costs.

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

New Accounting Policies

Derivative financial instruments and hedge accounting

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

Disclaimer

This document may contain forward-looking statements relating to the Fund's operations or to the environment in which it operates, which are based on the Fund's estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict, or are beyond the Fund's control. A number of important factors could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. These factors include those set forth in the Fund's AIF for the year ended December 31, 2003. 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” in the Management’s Discussion and Analysis are to “income before the following” on the consolidated statements of operations. Income before the following may include some or all of the following: “amortization, interest on long-term debt, gain on sale of capital assets or net gain on sale of capital and landfill assets, write-off of deferred financing costs, gain on settlement of bond forward contracts and income taxes”. EBITDA is a term used by the Fund that does not have a standardized meaning prescribed by Canadian generally accepted accounting principles (“GAAP”) and is therefore unlikely to be comparable to similar measures used by other issuers. EBITDA is a measure of the Fund’s operating profitability, and by definition, excludes certain items (specifically amortization, interest on long-term debt, gain on sale of capital assets or net gain on sale of capital and landfill assets, write-off of deferred financing costs, gain on settlement of bond forward contracts and income taxes). These items are viewed by management as either non-cash (in the case of amortization, write-off of deferred financing costs and future income taxes) or non-operating (in the case of interest on long-term debt, gain on sale of capital assets or net gain on sale of capital and landfill assets, gain on settlement of bond forward contracts and current income taxes). EBITDA is a useful financial and operating metric for investors as it represents a starting point in the determination of free cash flow available for distribution^(B). The underlying reasons for exclusion of each item are as follows:

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

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

Gain on sale of capital assets - the gain on sale of capital assets has no impact on the determination of free cash flow available for distribution^(B), because the proceeds were reinvested in other capital assets.

Net gain on sale of capital and landfill assets – the net gain on sale of capital and landfill assets has no impact on the determination of free cash flow available for distribution^(B), because the proceeds were used to repay the Fund’s revolving loan facility.

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

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

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

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

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

(C) Free cash flow available for distribution^(B) applying a cash flow approach is calculated as follows:

(in thousands)	Three months ended June 30	
	2004	2003
	(unaudited)	(unaudited)
Cash generated from operating activities (per statements of cash flows)	\$ 17,794	\$ 10,973
(Less) Add: changes in non-cash working capital items	(919)	1,809
Less: net change in landfill closure and post-closure costs	(241)	(378)
Less: write-off of deferred costs	(287)	-
Less: gain on settlement of bond forward contracts	(1,550)	-
Less: maintenance capital expenditures	(6,260)	(2,234)
Free cash flow available for distribution ^(B)	\$ 8,537	\$ 10,170

(in thousands)	Six months ended June 30	
	2004	2003
	(unaudited)	(unaudited)
Cash generated from operating activities (per statements of cash flows)	\$ 28,207	\$ 18,738
Add: changes in non-cash working capital items	1,494	5,287
Less: net change in landfill closure and post-closure costs	(1,049)	(1,056)
Less: write-off of deferred costs	(287)	-
Less: gain on settlement of bond forward contracts	(1,550)	-
Less: maintenance capital expenditures	(7,365)	(3,247)
Free cash flow available for distribution ^(B)	\$ 19,450	\$ 19,722

BFI CANADA INCOME FUND

Consolidated Balance Sheets

June 30, 2004 (unaudited) and December 31, 2003 - (in thousands of dollars)

	<u>June 30, 2004</u>	<u>December 31, 2003</u>
ASSETS		(Note 3)
CURRENT		
Cash and cash equivalents	\$ 23,318	\$ 6,704
Accounts receivable	30,625	25,838
Other receivables	1,254	1,203
Prepaid expenses	2,724	2,081
	<u>57,921</u>	<u>35,826</u>
OTHER RECEIVABLES	2,882	3,284
FUNDED LANDFILL POST-CLOSURE COSTS (Note 8)	124	-
INTANGIBLES	64,191	66,993
GOODWILL	51,090	49,171
DEFERRED COSTS	-	3,069
DEFERRED FINANCING COSTS	2,007	1,176
CAPITAL ASSETS	86,122	84,359
LANDFILL ASSETS (Note 6)	113,661	113,084
	<u>\$ 377,998</u>	<u>\$ 356,962</u>
LIABILITIES		
CURRENT		
Accounts payable	\$ 15,822	\$ 11,866
Accrued charges	6,491	5,836
Distribution payable	2,816	2,816
Income taxes payable	42	346
Deferred revenues	6,481	6,400
Current portion of long-term debt (Note 7)	271	271
	<u>31,923</u>	<u>27,535</u>
LONG-TERM DEBT (Note 7)	105,330	81,313
LANDFILL CLOSURE AND POST-CLOSURE COSTS (Note 8)	3,691	2,642
FUTURE INCOME TAX LIABILITIES	20,450	21,146
	<u>161,394</u>	<u>132,636</u>
UNITHOLDERS' EQUITY (Note 9)	<u>216,604</u>	<u>224,326</u>
	<u>\$ 377,998</u>	<u>\$ 356,962</u>

BFI CANADA INCOME FUND

Consolidated Statements of Operations

For the period ended June 30 2004 (unaudited) - (in thousands of dollars, except net income per trust unit amounts)

	Three months ended		Six months ended	
	2004	2003 (Note 3)	2004	2003 (Note 3)
REVENUES	\$ 49,386	\$ 42,769	\$ 91,561	\$ 81,093
EXPENSES				
OPERATING	25,306	21,612	46,758	40,869
SELLING, GENERAL AND ADMINISTRATION	7,026	6,311	13,615	12,764
INCOME BEFORE THE FOLLOWING	17,054	14,846	31,188	27,460
AMORTIZATION	11,564	11,271	22,130	21,832
INTEREST ON LONG-TERM DEBT	1,280	1,321	2,456	2,551
WRITE-OFF OF DEFERRED FINANCING COSTS	748	-	748	-
GAIN ON SALE OF CAPITAL ASSETS	-	(9)	(24)	(16)
GAIN ON SETTLEMENT OF BOND FORWARD CONTRACTS (Note 10)	(1,550)	-	(1,550)	-
INCOME BEFORE INCOME TAXES	5,012	2,263	7,428	3,093
INCOME TAX EXPENSE (RECOVERY)				
Current	105	175	210	350
Future	(901)	(1,483)	(1,952)	(3,390)
	(796)	(1,308)	(1,742)	(3,040)
NET INCOME	\$ 5,808	\$ 3,571	\$ 9,170	\$ 6,133
Net income per trust unit, basic and diluted	\$ 0.22	\$ 0.13	\$ 0.35	\$ 0.23
Weighted average number of trust units outstanding (thousands)	26,500	26,500	26,500	26,500

BFI CANADA INCOME FUND

Consolidated Statements of Cash Flows

For the period ended June 30, 2004 (unaudited) - (in thousands of dollars)

	Three months ended		Six months ended	
	2004	2003 (Note 3)	2004	2003 (Note 3)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES				
OPERATING				
Net income	\$ 5,808	\$ 3,571	\$ 9,170	\$ 6,133
Items not affecting cash				
Amortization of intangibles	3,240	3,064	6,337	6,192
Amortization of deferred financing costs	220	221	440	441
Amortization of capital assets	3,930	4,035	7,730	8,249
Amortization of landfill assets	4,174	3,951	7,623	6,950
Gain on disposal of capital assets	-	(9)	(24)	(16)
Write-off of deferred costs	287	-	287	-
Write-off of deferred financing costs	748	-	748	-
Accretion of landfill closure and post-closure costs	51	25	100	59
Future income taxes	(901)	(1,483)	(1,952)	(3,390)
Landfill closure and post-closure expenditures	(682)	(593)	(758)	(593)
	16,875	12,782	29,701	24,025
Changes in non-cash working capital items	919	(1,809)	(1,494)	(5,287)
Cash generated from operating activities	17,794	10,973	28,207	18,738
INVESTING				
Acquisition (Note 5)	(4,627)	-	(4,627)	-
Investment in other receivables	-	-	(262)	(2,850)
Proceeds from other receivables	247	273	480	511
Purchase of capital assets	(6,266)	(2,586)	(7,900)	(5,518)
Purchase of landfill assets	(2,270)	(102)	(3,092)	(137)
Proceeds on disposal of capital assets	2	158	32	166
Deferred costs	(283)	(370)	(708)	(760)
Cash utilized in investing activities	(13,197)	(2,627)	(16,077)	(8,588)
FINANCING				
Deferred costs	(164)	(1)	(282)	(3)
Payment of deferred financing costs	(1,648)	-	(1,648)	-
Proceeds from revolving loan	5,800	-	5,800	6,250
Proceeds from senior secured debentures	105,000	-	105,000	-
Repayment of term, revolving loan and acquired debt	(87,494)	-	(87,494)	-
Distributions paid to unitholders	(8,446)	(7,950)	(16,892)	(15,900)
Cash generated from (utilized in) financing activities	13,048	(7,951)	4,484	(9,653)
NET CASH INFLOW	17,645	395	16,614	497
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD				
	5,673	5,768	6,704	5,666
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 23,318	\$ 6,163	\$ 23,318	\$ 6,163
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash and cash equivalents are comprised of:				
Cash	\$ 6,556	\$ 3,494	\$ 6,556	\$ 3,494
Cash equivalents	16,762	2,669	16,762	2,669
	\$ 23,318	\$ 6,163	\$ 23,318	\$ 6,163
Cash paid during the period for:				
Income taxes	\$ 905	\$ 93	\$ 909	\$ 136
Interest	\$ 846	\$ 914	\$ 1,985	\$ 2,636

BFI CANADA INCOME FUND

Consolidated Statements of Unitholders' Equity

For the period ended June 30, 2004 (unaudited) - (in thousands of dollars)

	Three months ended		Six months ended	
	2004	2003 (Note 3)	2004	2003 (Note 3)
BALANCE, BEGINNING OF PERIOD	\$ 219,242	\$ 238,412	\$ 224,326	\$ 243,800
Net income	5,808	3,571	9,170	6,133
Distributions	(8,446)	(7,950)	(16,892)	(15,900)
BALANCE, END OF PERIOD	\$ 216,604	\$ 234,033	\$ 216,604	\$ 234,033

BFI CANADA INCOME FUND

Notes to the Consolidated Financial Statements

For the period ended June 30, 2004 (unaudited)
(in thousands of dollars, except per trust unit amounts)

1. Organization

BFI Canada Income Fund (the "Fund") is an open ended, limited purpose trust established under the laws of the Province of Ontario and governed 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 three subsidiaries BFI Usine de Triage Lachenaie Ltd. ("BFI Usine"), Entreprise Sanitaire F.A. Ltée ("F.A.") and Twin Oaks Environmental Ltd. ("Twin Oaks"), 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 ("GAAP") 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 year ended December 31, 2003. The unaudited interim consolidated financial statements have been prepared by management in accordance with GAAP applicable to interim consolidated financial statements and follow the same accounting policies and methods in their applications as the most recent audited annual financial statements, except as indicated in Notes 3 & 4.

3. Change in Accounting Policy

Effective January 1, 2004, the Fund adopted CICA Handbook section 3110, asset retirement obligations ("ARO"), retroactively with restatement. The new section establishes standards for the recognition and measurement of liabilities for legal obligations associated with the retirement of tangible long-lived assets that result from acquisition, construction, development or normal operation. The obligation is measured initially at fair value, where fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The resulting costs are capitalized to the carrying amount of the related asset and amortized to income on a systematic and rational basis. In subsequent periods, the obligation is adjusted for the accretion of discount using the interest method of allocation and any changes in the amount or timing of the underlying future cash flows. Upon settlement of the obligation, the Fund will record a gain or loss if actual costs are different than the recorded obligation.

BFI CANADA INCOME FUND

Notes to the Consolidated Financial Statements

For the period ended June 30, 2004 (unaudited)
(in thousands of dollars, except per trust unit amounts)

Adopting this section has resulted in a fundamental change in the Fund's recognition and measurement of landfill closure and post-closure costs. ARO requires that cost estimates should consider the following: the market's assessment of these costs and timing thereof, inflation, markup, technological advancements, probabilities under different scenarios, uncertainties inherent in the obligation and other considerations. These closure and post-closure cost estimates are then discounted back using the credit adjusted risk free rate, which is the risk free interest rate adjusted for the credit standing of the Fund. As the obligation is recognized, an equal and offsetting landfill asset is recognized which is subsequently amortized on a per unit basis. Accretion, representing the increase in the carrying amount of landfill closure and post-closure cost accruals due to the passage of time, is recognized as an operating expense in the consolidated statements of operations. The effect of this change in accounting policy on the 2003 comparative information contained in the consolidated financial statements of the Fund is as follows:

Consolidated Balance Sheets

	December 31, 2003	Change in accounting policy	December 31, 2003 (restated)
Landfill assets - cost	\$ 132,560	\$ 6,815	\$ 139,375
Landfill assets - accumulated amortization	\$ 19,476	\$ 6,815	\$ 26,291
Landfill closure and post-closure costs	\$ 8,870	\$ (6,228)	\$ 2,642
Future income tax liabilities	\$ 19,036	\$ 2,110	\$ 21,146
Unitholders' equity	\$ 220,208	\$ 4,118	\$ 224,326

Consolidated Statements of Operations

	Three months ended June 30, 2003	Change in accounting policy	Three months ended June 30, 2003 (restated)
Operating expenses	\$ 22,406	\$ (794)	\$ 21,612
Amortization	\$ 10,325	\$ 946	\$ 11,271
Income tax recovery - future	\$ (1,435)	\$ (48)	\$ (1,483)
Net income	\$ 3,675	\$ (104)	\$ 3,571
Net income per trust unit, basic and diluted	\$ 0.14	\$ (0.01)	\$ 0.13

Consolidated Statements of Cash Flows

	Three months ended June 30, 2003	Change in accounting policy	Three months ended June 30, 2003 (restated)
Net income	\$ 3,675	\$ (104)	\$ 3,571
Amortization of landfill assets	\$ 3,005	\$ 946	\$ 3,951
Accretion of landfill closure and post-closure costs	\$ -	\$ 25	\$ 25
Provision for landfill closure and post-closure costs	\$ 819	\$ (819)	\$ -
Future income taxes	\$ (1,435)	\$ (48)	\$ (1,483)
Cash generated from operating activities	\$ 10,973	\$ -	\$ 10,973

Consolidated Statements of Unitholders' Equity

	Three months ended June 30, 2003	Change in accounting policy	Three months ended June 30, 2003 (restated)
Balance, beginning of period	\$ 234,034	\$ 4,378	\$ 238,412
Net income	\$ 3,675	\$ (104)	\$ 3,571
Balance, end of period	\$ 229,759	\$ 4,274	\$ 234,033

BFI CANADA INCOME FUND

Notes to the Consolidated Financial Statements

For the period ended June 30, 2004 (unaudited)
(in thousands of dollars, except per trust unit amounts)

Consolidated Statements of Operations

	Six months ended June 30, 2003	Change in accounting policy	Six months ended June 30, 2003 (restated)
Operating expenses	\$ 42,233	\$ (1,364)	\$ 40,869
Amortization	\$ 20,242	\$ 1,590	\$ 21,832
Income tax recovery - future	\$ (3,450)	\$ 60	\$ (3,390)
Net income	\$ 6,419	\$ (286)	\$ 6,133
Net income per trust unit, basic and diluted	\$ 0.24	\$ (0.01)	\$ 0.23

Consolidated Statements of Cash Flows

	Six months ended June 30, 2003	Change in accounting policy	Six months ended June 30, 2003 (restated)
Net income	\$ 6,419	\$ (286)	\$ 6,133
Amortization of landfill assets	\$ 5,360	\$ 1,590	\$ 6,950
Accretion of landfill closure and post-closure costs	\$ -	\$ 59	\$ 59
Provision for landfill closure and post-closure costs	\$ 1,423	\$ (1,423)	\$ -
Future income taxes	\$ (3,450)	\$ 60	\$ (3,390)
Cash generated from operating activities	\$ 18,738	\$ -	\$ 18,738

Consolidated Statements of Unitholders' Equity

	Six months ended June 30, 2003	Change in accounting policy	Six months ended June 30, 2003 (restated)
Balance, beginning of period	\$ 239,240	\$ 4,560	\$ 243,800
Net income	\$ 6,419	\$ (286)	\$ 6,133
Balance, end of period	\$ 229,759	\$ 4,274	\$ 234,033

4. Summary of Significant Accounting Policies

Use of estimates

The preparation of the unaudited consolidated financial statements in conformity with GAAP 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Effective February 10, 2004, the Fund received approval to expand the capacity of the Lachenaie landfill by an additional 6.5 million cubic metres which, depending on the annual volume of non-hazardous solid waste entering the site, is the equivalent of between 5.0 and 6.5 years of operation. In the event that the Fund is not successful in obtaining future Lachenaie landfill expansion permits, the following assets, as at June 30, 2004, would be subject to material adjustment; goodwill, \$19,859 and landfill assets (Note 6), \$85,163. Management remains confident that approval for additional expansions will be obtained prior to the expiry of the Fund's current permit and accordingly no provision for impairment has been recorded.

BFI CANADA INCOME FUND

Notes to the Consolidated Financial Statements

For the period ended June 30, 2004 (unaudited)
(in thousands of dollars, except per trust unit amounts)

Landfill assets

Landfill assets represent the cost of landfill airspace, including original acquisition cost, incurred landfill construction and development costs and capitalized closure and post-closure costs.

The cost of landfill permits, projected landfill construction and development costs, and capitalized closure and post-closure costs are 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, the Fund 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 approvals for landfill expansions in the future.

Landfill closure and post-closure costs

The costs associated with capping, closing and monitoring the landfill after it ceases to accept waste are recognized at fair value over the landfill's operating life; the period over which the landfill accepts non-hazardous solid waste.

BFI CANADA INCOME FUND

Notes to the Consolidated Financial Statements

For the period ended June 30, 2004 (unaudited)
(in thousands of dollars, except per trust unit amounts)

The Fund develops its estimates for closure and post-closure costs with input from its engineers and accounting personnel based on the landfill regulations governing each facility, and reviews those estimates at least annually. The Fund's estimates are developed with the intention of approximating fair value, as quoted market prices are generally absent. In the development of those estimates the Fund uses the expected cash flow approach in the determination of fair value. The expected cash flow approach contemplates multiple cash flow scenarios that reflect a range of possible outcomes. The Fund also considers and incorporates assumptions that marketplace participants would use in the determination of fair value estimates, including inflation, markups, inherent uncertainties due to the timing of work performed, information obtained from third parties, quoted and actual prices paid for similar work and engineering estimates. Once fair value estimates have been established, these amounts are discounted back to their present value using the credit adjusted risk free rate, where the credit adjusted risk free rate is the rate of interest on assets that are essentially free of default risk, adjusted for the credit standing of the Fund. Reliable estimates of market risk premiums are not available as there is no existing market for selling the responsibility of landfill closure and post-closure activities. Accordingly, the Fund has excluded any estimate of market risk premiums in the determination of the fair value of landfill closure and post-closure costs.

Inflation assumptions consider a range of possible outcomes based on management's understanding of the current and anticipated economic conditions and the expected timing of the actual expenditures. Accordingly, the Fund has used various inflation factors which range from 2 to 3%. Due to the inherent uncertainty in making those estimates, actual results could differ from those estimates.

The risk free interest rate and credit adjustment rate consider a range of possible outcomes based on management's understanding of current and anticipated economic conditions and the expected timing of expenditures. Accordingly, the Fund has used various risk free and credit adjusted rates for each landfill that range from 2.7 to 5.5% and 3.0 to 4.0%, respectively. Due to the inherent uncertainty in making those estimates, actual results could differ from those estimates. Future changes in the Fund's credit standing do not change the previously recorded amounts for closure and post-closure costs, but will impact subsequent fair value calculations.

Downward revisions to estimated closure and post-closure costs are discounted using the credit adjusted risk free rate when the estimated closure and post-closure costs were originally established, or a weighted average credit adjusted risk free rate if the period of original recognition cannot be identified.

The Fund records the estimated fair value of closure and post-closure costs as airspace is consumed. The total obligation will be fully accrued at the time these facilities cease to accept non-hazardous solid waste and are closed.

Daily maintenance activities including environmental monitoring, mowing and fertilizing, leachate management, well monitoring, buffer maintenance and other activities are charged to operating expenses during the operating life of the landfill. These costs are estimated and included in the Fund's closure and post-closure accruals for all activities that occur post the landfill's operating life. Maintenance activities are generally required for a period of at least 30 years post site closure.

Accretion, representing the increase in the carrying amount of landfill closure and post-closure cost accruals due to the passage of time, is recognized as an operating expense in the consolidated statements of operations.

The Fund assumed closure and post-closure cost liabilities, from its predecessor 3743276 Canada Inc., when it completed its acquisition thereof on April 25, 2002.

BFI CANADA INCOME FUND

Notes to the Consolidated Financial Statements

For the period ended June 30, 2004 (unaudited)
(in thousands of dollars, except per trust unit amounts)

Derivative financial instruments and hedge accounting

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

Generally accepted accounting principles

Effective January 1, 2004, the Fund adopted the new Canadian standard on 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. Adopting the new accounting standard had no impact on the consolidated financial statements of the Fund.

Disposal of long-lived assets and discontinued operations

Effective January 1, 2004, the Fund adopted CICA section 3475, disposal of long-lived assets and discontinued operations. Long-lived assets, to be disposed of other than by sale, are to be classified as held. Long-lived assets held for sale should be carried at the lower of their carrying amount or fair value less cost to sell. Adopting the new accounting standard had no impact on the consolidated financial statements of the Fund.

5. Acquisition

On April 6, 2004, the Fund acquired all of the outstanding shares of Twin Oaks Environmental Ltd. ("Twin Oaks") for net cash consideration of \$4,627, including acquisition costs of \$200. Twin Oaks operates a solid waste collection business and transfer station in Ontario and its results have been included in the consolidated financial statements from the date of acquisition. The purchase price was allocated, on a preliminary basis, as follows:

Current assets	\$	587
Intangibles - customer collection contracts		3,535
Goodwill		1,919
Capital assets		1,601
Current liabilities		(915)
Long-term debt		(844)
Future income tax liabilities		(1,256)
	\$	4,627

At June 30, 2004, the allocation of the purchase price has not been finalized as the current purchase price allocation is absent fair value adjustments for capital assets. Fair value adjustments that increase or decrease the value of capital assets will be charged to goodwill together with the related change in future income tax liabilities. Goodwill acquired is not deductible for tax purposes and is included in the solid waste collection segment.

BFI CANADA INCOME FUND
Notes to the Consolidated Financial Statements
For the period ended June 30, 2004 (unaudited)
(in thousands of dollars, except per trust unit amounts)

6. Landfill Assets

June 30, 2004

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Landfill assets	\$ 147,575	\$ 33,914	\$ 113,661

December 31, 2003 (restated – Note 3)

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Landfill assets	\$ 139,375	\$ 26,291	\$ 113,084

Effective February 10, 2004, the Fund received approval to expand the capacity of the Lachenaie landfill by an additional 6.5 million cubic metres which, depending on the annual volume of non-hazardous solid waste entering the site, is the equivalent of between 5.0 and 6.5 years of operation. Future approvals to continue operating the Lachenaie landfill are expected to increase its capacity, and accordingly its operating life, an additional 33 million cubic metres and are required to complete the filling of the then remaining unfilled airspace capacity. Management expects to receive the necessary permits prior to the expiry of the then current permit and is amortizing Lachenaie landfill costs over total combined airspace of approximately 28.5 million cubic metres. The prospective change in estimate aligns landfill asset amortization airspace estimates with the estimated airspace used in the determination of landfill closure and post-closure costs for the Lachenaie expansion area. The net book value of the Lachenaie landfill at June 30, 2004 is \$85,163 (December 31, 2003 - \$81,441).

The December 31, 2003 cost and accumulated amortization amounts for landfill assets has been restated to reflect the Fund's adoption of ARO. The effect of a change in accounting policy has resulted in a \$6,815 increase in both landfill assets cost and accumulated amortization.

BFI CANADA INCOME FUND

Notes to the Consolidated Financial Statements

For the period ended June 30, 2004 (unaudited)
(in thousands of dollars, except per trust unit amounts)

7. Long-term Debt

	June 30, 2004	December 31, 2003
Senior secured debentures, series A	\$ 47,000	\$ -
Senior secured debentures, series B	58,000	-
Term loan	-	71,000
Revolving loan	-	9,850
Other	601	734
	105,601	81,584
Less current portion of long-term debt	271	271
	\$ 105,330	\$ 81,313

On June 25, 2004, Holdings issued \$47,000 senior secured, series A debentures, bearing interest at 6.123% and \$58,000 senior secured, series B debentures, bearing interest at 7.015%. Interest on each series of debenture is payable quarterly in arrears, commencing on September 26, 2004. The series A and B debentures are payable in full on June 26, 2009 and June 26, 2014, respectively. The debentures are redeemable in whole or in part from time to time at a price equal to the greater of par and the net present value of all scheduled payments of interest and principal using a discount rate equivalent to the sum of the Government of Canada Yield plus a margin on either series of debenture. Series A and B debentures are secured by a charge over all the personal and real property of Holdings and its subsidiaries and all of the shares and intercompany indebtedness held by the Fund. Senior secured debentures rank pari passu with Holdings' revolving loan facility.

On June 25, 2004, Holdings entered into a revolving credit facility to a maximum of \$60,000 that is principally available to finance working capital requirements, qualifying capital expenditures and acquisitions. The revolving credit facility bears interest at various interest rates plus an applicable margin, is payable monthly in arrears and unutilized portions of the facility are subject to a standby fee. The revolving credit facility matures 364 days from June 25, 2004 and subsequent 364 day extensions are at the discretion of the lenders. The revolving credit facility is secured by a first priority perfected security interest over all personal and real property of Holdings and its subsidiaries and all of the shares and intercompany indebtedness held by the Fund. The revolving credit facility ranks pari passu with Holdings senior secured, series A and B debentures.

Principal repayments required in each of the next five years and thereafter are as follows:

Year 1	\$ 271
Year 2	184
Year 3	146
Year 4	-
Year 5	47,000
Thereafter	58,000
	\$ 105,601

BFI CANADA INCOME FUND

Notes to the Consolidated Financial Statements

For the period ended June 30, 2004 (unaudited)
(in thousands of dollars, except per trust unit amounts)

8. Landfill Closure and Post-Closure Costs

The Fund currently owns and operates 3 non-hazardous solid waste landfills and is responsible for closure and post-closure monitoring and maintenance costs in respect of each site. Closure and post-closure costs arise from the Fund's obligations to ensure that tangible long-lived assets are appropriately remediated, monitored and maintained post their operating lives. The following tables outline the key assumptions used in the determination of fair value for closure and post-closure costs and the expected timing of landfill closure and post-closure expenditures, and reconcile beginning and ending landfill closure and post-closure costs:

	June 30, 2004
Fair value of legally restricted assets	\$ 124
Undiscounted closure and post-closure costs	\$ 105,747
Credit adjusted risk free rate	5.7 to 9.5 %
Expected timing of landfill closure and post-closure expenditures	
2004	\$ 867
2005	435
2006	1,499
2007	991
2008	1,826
Thereafter	100,129
	\$ 105,747

	Three months ended June 30, 2004	Three months ended June 30, 2003
Landfill closure and post-closure costs, beginning of period	\$ 3,450	\$ 1,976
Provision for landfill closure and post-closure costs, during the period	733	946
Accretion expense, during the period	51	25
Landfill closure and post-closure expenditures, during the period	(682)	(593)
Revisions to estimated cash flows	139	-
Closure and post-closure costs, end of period	\$ 3,691	\$ 2,354

	Six months ended June 30, 2004	Six months ended June 30, 2003 <small>(Note 14)</small>
Landfill closure and post-closure costs, beginning of period	\$ 2,642	\$ 1,298
Provision for landfill closure and post-closure costs, during the period	1,568	1,590
Accretion expense, during the period	100	59
Landfill closure and post-closure expenditures, during the period	(758)	(593)
Revisions to estimated cash flows	139	-
Closure and post-closure costs, end of period	\$ 3,691	\$ 2,354

Effective February 10, 2004, the Fund received approval to expand the capacity of the Lachenaie landfill. As a condition of this approval, the Fund is required to deposit into a social utility trust an amount to be established by the Quebec Government for each cubic metre of waste accepted at the Lachenaie landfill, payable quarterly. The Fund is accruing for this funding requirement at an estimated rate of \$0.50 per cubic metre of waste placed in the approved expansion area. At June 30, 2004, final funding rate approvals are pending from the Quebec Government. Accordingly, future funding rates may be subject to change and will be accounted for on a prospective basis. At June 30, 2004, the Fund has \$124 (2003 - \$nil) of legally restricted assets for the purpose of settling post-closure costs which are presented as funded landfill post-closure costs on the consolidated balance sheets.

BFI CANADA INCOME FUND

Notes to the Consolidated Financial Statements

For the period ended June 30, 2004 (unaudited)
(in thousands of dollars, except per trust unit amounts)

In connection with the Fund's approval to expand the Lachenaie landfill's capacity and the placement of solid waste in the expansion area effective May 2004, the Fund has reviewed its estimates for purposes of determining landfill closure and post-closure costs for the Lachenaie expansion area. The impact of management's change in estimate has resulted in a \$139 increase in landfill closure and post-closure costs for the three months ended June 30, 2004 and a \$14,467 decrease in undiscounted closure and post-closure costs.

9. Unitholders' Equity

An unlimited number of trust units may be issued. Each trust 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.

Details of contributed equity and accumulated net income and distributions are as follows:

	June 30, 2004	
	Units	\$
<i>Contributed equity</i>		
Trust units, beginning of year and end of period	26,500,000	\$ 254,997
<i>Accumulated net income</i>		
Net income, beginning of year		19,481
Effect of a change in accounting policy (Note 3)		4,118
Net income, current period		9,170
Net income, end of period		32,769
<i>Accumulated distributions</i>		
Distributions, beginning of year		54,270
Distributions, current period		16,892
Distributions, end of period		71,162
Unitholders' equity		\$ 216,604

10. Gain on Settlement of Bond Forward Contracts

The Fund realized a gain on the settlement of two bond forward contracts. The bond forward contracts were entered into to manage the Fund's risk of interest rate exposure associated with the closing of its debt private placement. The bond forward contracts did not qualify for hedge accounting and accordingly the gain has been recorded in current period income.

BFI CANADA INCOME FUND

Notes to the Consolidated Financial Statements

For the period ended June 30, 2004 (unaudited)
(in thousands of dollars, except per trust unit amounts)

11. Segmented Reporting

The Fund carries out business through two separate business segments: landfills and energy, and solid waste collection. The Fund owns and operates three landfills, which service Montreal, Calgary, 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 in Quebec, 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. 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.

The Fund does not have any customers for which sales exceed 10% of total revenues. Substantially all of the Fund's revenues are earned in Canada.

	Three months ended June 30, 2004	Three months ended June 30, 2003 (restated - Note 3)	Six months ended June 30, 2004	Six months ended June 30, 2003 (restated - Note 3)
<i>Gross Revenues</i>				
Landfills and energy	\$ 13,983	\$ 12,423	\$ 24,347	\$ 22,131
Solid waste collection	40,002	34,570	75,438	66,290
	53,985	46,993	99,785	88,421
<i>Intercompany Revenues</i>				
Landfills and energy	(4,110)	(3,807)	(7,337)	(6,560)
Solid waste collection	(489)	(417)	(887)	(768)
	\$ (4,599)	\$ (4,224)	\$ (8,224)	\$ (7,328)
<i>Revenues</i>				
Landfills and energy	9,873	8,616	17,010	15,571
Solid waste collection	39,513	34,153	74,551	65,522
	\$ 49,386	\$ 42,769	\$ 91,561	\$ 81,093
<i>Income before amortization, interest on long-term debt, write-off of deferred financing costs, gain on sale of capital assets, gain on settlement of bond forward contracts and income taxes</i>				
Landfills and energy	8,509	6,681	14,926	12,808
Solid waste collection	8,545	8,165	16,262	14,652
	\$ 17,054	\$ 14,846	\$ 31,188	\$ 27,460

BFI CANADA INCOME FUND
Notes to the Consolidated Financial Statements
For the period ended June 30, 2004 (unaudited)
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June 30, 2004

	Landfills and Energy	Solid Waste Collection	Total
Goodwill	\$ 19,859	\$ 31,231	\$ 51,090
Total Assets	\$ 164,618	\$ 213,380	\$ 377,998

December 31, 2003

	Landfills and Energy	Solid Waste Collection	Total
Goodwill	\$ 19,859	\$ 29,312	\$ 49,171
Total Assets	\$ 165,333	\$ 191,629	\$ 356,962

12. Employee Future Benefits

The components of net benefit cost included in operating expenses in the consolidated statements of operations are as follows:

	Three months ended June 30, 2004	Three months ended June 30, 2003	Six months ended June 30, 2004	Six months ended June 30, 2003
Current service cost	\$ 13	\$ 13	\$ 26	\$ 21
Interest cost	7	7	14	14
Expected return on plan assets	(7)	(7)	(13)	(11)
Amortization of transition asset	(1)	(1)	(1)	(1)
Amortization of net actuarial losses	1	1	2	4
Net benefit cost	\$ 13	\$ 13	\$ 28	\$ 27

13. 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 landfill asset amortization and higher collection operating expenses, respectively.

14. Comparative Financial Statements

Certain prior period amounts have been reclassified to conform to the current period's presentation.

Corporate Information

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