



*Consolidated Financial Statements of*

**BFI CANADA INCOME FUND**

*Period from April 25, 2002 to  
September 30, 2002*

*(unaudited)*

**BFI CANADA INCOME FUND  
3RD QUARTER**

**MANAGEMENT DISCUSSION AND ANALYSIS**

***Corporate Overview***

BFI Canada Income Fund (the “Fund”) is a full-service waste management company providing non-hazardous solid waste collection and landfill disposal services for commercial, industrial and residential customers in the provinces of British Columbia, Alberta, Manitoba, Ontario and Quebec. Based on revenues, the Fund is the second largest non-hazardous waste management company in Canada. The Fund owns and operates three landfills, carries on collection operations in 18 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 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. The declaration of the Trust provides that monthly cash distributions are to be paid on or about the 15th day of the succeeding month.

The Fund acquired all of the outstanding common shares, convertible debentures and warrants of 3743276 Canada Inc. effective April 25, 2002. Operating results of the Fund are for the period April 25, 2002 to September 30, 2002 (the “period”).

***Performance Summary (For the quarter and period ended September 30, 2002)***

The Fund generated revenues of \$39.8 and \$68.8 million, income before amortization, interest and income taxes (“EBITDA”) of \$13.6 and \$22.8 million and net income of \$1.6 and \$5.4 million or \$0.06 and \$0.20 per unit for the quarter and period ended September 30, 2002, respectively. Distributions declared of \$0.30 and \$0.51667 per unit for the quarter and period ended September, 30, 2002 are consistent with the Fund’s final prospectus filed April 16, 2002. Monthly distributions of \$0.10 per unit are expected to continue for the foreseeable future. Expected

distributions declared per unit for the period April 25, 2002 to December 31, 2002 total \$0.81667, \$1.20 per unit annually.

The Fund's prospectus included a forecast for the four and eight month periods ending April 30, 2002 and December 31, 2002, respectively. The Fund did not prepare or provide quarterly forecasts and as a result no direct comparison can be made for the quarter and period ended September 30, 2002. For comparative purposes only, the table below compares operations and free cash flow available for distribution for the quarter ended September 30, 2002 to three eights of the eight month forecast ("quarter forecast") and for the period ended September 30, 2002 to a 159 day equivalent of the eight month forecast ("period forecast"). The forecast was not prepared as a linear 12 month compilation and the following comparison should be regarded as a measure of business trends excluding seasonality.

	Quarter Ended September 30, 2002	Quarter Forecast	Period Ended September 30, 2002	Period Forecast
	(in millions except for per unit amounts)			
Revenues . . . . .	\$ 39.8	\$ 37.4	\$ 68.8	\$ 64.8
Operating expenses . . . . .	20.3	19.6	36.0	33.9
Selling, general and administration . . . . .	5.9	5.3	10.0	9.1
Income before the underrated . . . . .	13.6	12.5	22.8	21.8
Amortization . . . . .	11.3	11.3	18.8	19.5
Interest . . . . .	1.1	1.2	2.0	2.1
Income before income taxes . . . . .	1.2	0	2.0	0.2
Income tax (recovery) expense . . . . .	(0.4)	0.4	(3.4)	0.7
Net income (loss) . . . . .	<u>\$ 1.6</u>	<u>\$ (0.4)</u>	<u>\$ 5.4</u>	<u>\$ (0.5)</u>
Net income (loss) per trust unit, basic & diluted . . . . .	\$ 0.06	\$ (0.02)	\$ 0.20	\$ (0.02)
Number of units outstanding . . . . .	26,500,000	26,500,000	26,500,000	26,500,000
Maintenance capital expenditures . . . . .	\$ 3.3	\$ 3.5	\$ 4.7	\$ 4.9
Growth capital expenditures . . . . .	1.3	1.4	2.3	2.4
Total capital expenditures . . . . .	<u>\$ 4.6</u>	<u>\$ 4.9</u>	<u>\$ 7.0</u>	<u>\$ 7.3</u>
Free cash flow available for distribution . . . . .	\$ 8.9	\$ 7.4	\$ 15.7	\$ 14.1
Free cash flow available for distribution per trust unit . . . . .	\$ 0.34	\$ 0.28	\$ 0.59	\$ 0.53
Aggregate distributions declared . . . . .	\$ 8.0		\$ 13.7	
Aggregate distributions declared per trust unit . . . . .	\$ 0.30		\$ 0.52	

The Fund follows the Canadian Institute of Chartered Accountants guidance on accounting for goodwill and intangible assets. Goodwill represents the excess of acquisition and incremental costs over the fair value of assets purchased and goodwill will be tested annually for and, as necessary, written down to reflect any impairment.

***Review of Operations (For the quarter and period ended September 30, 2002)***

*Revenues:* Revenues of \$39.8 and \$68.8 million were 6.4% and 6.2% higher than the quarter and period forecasts, respectively. Higher landfill and industrial collection revenues and realized commodity prices are the primary reasons for actual results exceeding the quarter and period forecasts.

*Operating expenses:* Operating expenses were \$20.3 and \$36.0 million versus the comparative quarter and period forecasts of \$19.6 and \$33.9 million, respectively. Operating expenses are consistent with higher revenues for the quarter and period ended September 30, 2002. Operating expenses, including closure and post-closure accruals, labour and disposal costs are directly affected by higher volumes of collected and disposed of solid waste.

*Selling, general and administration expenses:* Selling, general and administration expenses were \$5.9 and \$10.0 million versus the comparative quarter and period forecasts of \$5.3 and \$9.1 million, respectively. No item was singularly responsible for actual results exceeding the comparative forecasts.

*Income before amortization, interest and income taxes:* EBITDA of \$13.6 and \$22.8 million was \$1.1 and \$1.0 million higher versus the quarter and period forecasts of \$12.5 and \$21.8 million. EBITDA, as a percentage of revenues, is consistent with the comparative forecasts.

*Interest expense:* Actual interest expense for the quarter and period ended September 30, 2002, is consistent with the comparative quarter and period forecasts. Marginally lower interest rates account for the variance.

*Income taxes:* Income taxes recovered totalled \$0.4 and \$3.4 million for the quarter and period ended

September 30, 2002. Income tax recovered consists of current tax expense of \$0.3 and \$0.4 million and future tax recoveries of \$0.7 and \$3.8 million, respectively. Tax recoveries recognized for the quarter and period ended September 30, 2002 are in excess of that assumed in the forecast due to an adjustment to the recognition of interest deductibility. Future income tax liabilities are largely the result of differences between the carrying value of intangible and landfill assets in excess of their tax values.

*Capital expenditures:* Capital expenditures, which include maintenance and growth capital expenditures, totalled \$4.6 and \$7.0 million for the quarter and period ended September 30, 2002. Maintenance capital expenditures, representing the replacement of capital in order to sustain current business operations, and growth capital expenditures, representing new capital or capital for future business, are consistent with the comparative forecasts.

*Free cash flow available for distribution:* Free cash flow available for distribution, calculated as EBITDA less interest, current income taxes and maintenance capital expenditures, was \$8.9 and \$15.7 million and \$1.5 and \$1.6 million higher than the comparative quarter and period forecasts. Exceeding operating earnings targets coupled with marginally lower interest, current income tax expense and lower maintenance capital expenditures has resulted in additional free cash flow available for distribution.

#### ***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 quarter and period ended September 30, 2002 totalled \$12.1 and \$20.2 million. Excluding acquisitions, cash utilized in investing activities totalled \$4.9 and \$7.5 million for the quarter and period ended and is directly attributable to vehicle and container purchases and landfill cell development. Excluding the

issue and cancellation of trust units, cash utilized in financing activities consists of distributions paid to unit holders net of proceeds from the revolving loan to fund working capital requirements.

During the period, the Fund made two “tuck-in” acquisitions for total cash consideration \$0.3 million. Both acquisitions were financed through cash flow generated from operations. There were no acquisitions in the current quarter.

***Distributions***

The Fund paid cash distributions to unit holders of \$0.41667 per unit for the period and declared a distribution payable to unitholders of record on September 30, 2002, payable October 15, 2002 of \$0.10 per unit.

***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 Management Discussion and Analysis section in the Fund’s final prospectus filed April 16, 2002 remain substantially unchanged.

***Outlook***

Operating results for the quarter and period ended September 30, 2002 were strong for all business segments and consistent with the eight month forecast set out in the prospectus. Management is confident that maintenance capital expenditures will not exceed the forecast amount included in the Fund’s prospectus.

The Lachenaie landfill expansion permit approval process remains on track with management’s expectations, as disclosed in the Fund’s final prospectus. Management has completed all regulatory requirements to date and remains confident that final approval will be

obtained prior to the expiry of the Fund's current permit. Approval is primarily contingent upon:

- Having the local by-law zoning, which has already been approved locally, approved by the provincial authority as part of its omnibus approval of the local zoning by-law approvals for the region; and,
- Final expansion approval under the Environment Quality Act (Quebec).

The provincial zoning by-law approval process was previously expected to be completed by June 15, 2002. The Fund completed its required actions in connection with this process and received local zoning approval in 2001. In June, the revised zoning plan for the City of Terrebonne, where the Lachenaie landfill is situated, was re-filed by the municipality with the appropriate provincial authority. This filing starts a time-limited approval process by the provincial authority and requires it to approve all zoning changes in the City of Terrebonne before the end of November 2002. Management expects to receive official notice of the provincial approval of local zoning from the City of Terrebonne before the end of November 2002.

With respect to expansion permit approval under the Environment Quality Act (Quebec), processing of the environmental impact assessment for the site, which was filed with the Quebec Ministry of the Environment on April 2, 2002, continues without interruption.

Looking ahead, management's principal objective is to increase distributable cash by continuing to enhance the Fund's service offerings, improving efficiencies and growing through strategic acquisitions. In that 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 is confident that it can maintain the current distribution level. Future increases will be considered by the Trustees as appropriate.

***Disclaimer***

This document may contain forward-looking statements relating to the Fund's operations or to the environment in which it operates, which are based on the Fund's operations, estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict, and/or are beyond the Fund's control. A number of important factors could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. These factors include those set forth in other public filings. Consequently, readers should not place any undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they are made. 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.

**BFI CANADA INCOME FUND**  
**Consolidated Balance Sheet**  
**September 30, 2002**  
(unaudited)  
(in thousands of dollars)

**ASSETS**

**CURRENT**

Cash and cash equivalents . . . . .	\$ 4,966
Accounts receivable . . . . .	23,718
Other receivables . . . . .	247
Prepaid expenses . . . . .	<u>3,222</u>
	32,153

OTHER RECEIVABLES . . . . .	799
INTANGIBLES (Note 4) . . . . .	80,940
GOODWILL . . . . .	49,171
DEFERRED COSTS . . . . .	1,871
DEFERRED FINANCING COSTS . . . . .	2,279
CAPITAL ASSETS (Note 5) . . . . .	91,133
LANDFILL ASSETS (Note 6) . . . . .	<u>122,694</u>
	<u>\$381,040</u>

**LIABILITIES**

**CURRENT**

Accounts payable . . . . .	\$ 10,424
Accrued charges . . . . .	6,122
Distribution payable . . . . .	2,650
Income taxes payable . . . . .	421
Deferred revenue . . . . .	5,162
Current portion of long-term debt (Note 7) . .	<u>247</u>
	25,026

LONG-TERM DEBT (Note 7) . . . . .	73,049
LANDFILL CLOSURE AND POST-CLOSURE COSTS (Note 8) . . . . .	7,715
FUTURE INCOME TAX LIABILITIES (Note 9) . . . . .	<u>28,567</u>
	<u>134,357</u>

**UNITHOLDERS' EQUITY**

TRUST UNITS (Note 10) . . . . .	<u>246,683</u>
	<u>\$381,040</u>

**BFI CANADA INCOME FUND**  
**Consolidated Statements of Operations**  
**For the period from April 25, 2002**  
**to September 30, 2002**  
(unaudited)  
(in thousands of dollars, except income  
per unit amounts)

	Three months ended September 30, 2002	From April 25, 2002 to September 30, 2002
REVENUES .....	<u>\$39,847</u>	<u>\$68,818</u>
OPERATING EXPENSES ..	20,286	36,045
SELLING, GENERAL AND ADMINISTRATION EXPENSES .....	<u>5,954</u>	<u>10,013</u>
INCOME BEFORE THE FOLLOWING .....	13,607	22,760
AMORTIZATION .....	11,288	18,742
INTEREST .....	<u>1,165</u>	<u>1,992</u>
INCOME BEFORE INCOME TAXES .....	1,154	2,026
INCOME TAX EXPENSE (RECOVERY) (Note 9)		
Current .....	261	388
Future .....	<u>(696)</u>	<u>(3,740)</u>
	<u>(435)</u>	<u>(3,352)</u>
NET INCOME .....	<u>\$ 1,589</u>	<u>\$ 5,378</u>
Net income per trust unit, basic and diluted .....	\$ 0.06	\$ 0.20
Number of units outstanding (thousands) .....	26,500	26,500

**BFI CANADA INCOME FUND**  
**Consolidated Statements of Cash Flows**  
**For the period from April 25, 2002**  
**to September 30, 2002**  
(unaudited)  
(in thousands of dollars)

**NET INFLOW (OUTFLOW) OF CASH RELATED  
TO THE FOLLOWING ACTIVITIES**

	Three months ended September 30, 2002	From April 25, 2002 to September 30, 2002
<b>OPERATING</b>		
Net income for the period . . . . .	\$ 1,589	\$ 5,378
Items not affecting cash		
Amortization of intangibles . . . .	3,130	5,222
Amortization of deferred financing costs . . . . .	220	367
Amortization of capital assets . .	4,890	8,105
Amortization of landfill assets . .	3,048	5,048
Provision for landfill closure and post-closure costs . . . . .	718	1,231
Future income taxes . . . . .	(696)	(3,740)
Landfill closure and post-closure expenditures . . . . .	(786)	(1,456)
	12,113	20,155
Changes in non-cash working capital items . . . . .	340	1,280
Cash generated from operating activities . . . . .	12,453	21,435
<b>INVESTING</b>		
Acquisitions . . . . .	—	(158,660)
Purchase of capital assets . . . . .	(4,349)	(5,179)
Landfill assets . . . . .	(232)	(1,842)
Deferred costs . . . . .	(297)	(435)
Cash utilized in investing activities . .	(4,878)	(166,116)
<b>FINANCING</b>		
Proceeds from revolving loan . . . . .	1,250	1,250
Issue of trust units . . . . .	—	176,609
Trust units purchased for cancellation . . . . .	—	(17,170)
Distributions paid to unitholders . .	(7,950)	(11,042)
Cash (utilized in) generated from financing activities . . . . .	(6,700)	149,647
<b>NET CASH INFLOW</b> . . . . .	875	4,966
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b> . . . . .	4,091	—
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b> . . . . .	\$ 4,966	\$ 4,966
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash and cash equivalents are comprised of:		
Cash . . . . .		\$ 2,257
Cash equivalents . . . . .		2,709
		\$ 4,966
Cash paid during the period for:		
Income taxes . . . . .	\$ —	\$ —
Interest . . . . .	\$ 1,174	\$ 2,298

**BFI CANADA INCOME FUND**  
**Consolidated Statement of Unitholders' Equity**  
**For the period from April 25, 2002**  
**to September 30, 2002**  
(unaudited)  
(in thousands of dollars)

BALANCE, BEGINNING OF PERIOD . . .	\$ —
Issue of trust units . . . . .	272,167
Cancelled . . . . .	(17,507)
Contributed surplus . . . . .	337
Net income . . . . .	5,378
Distributions . . . . .	<u>(13,692)</u>
BALANCE, END OF PERIOD . . . . .	<u>\$246,683</u>

**BFI CANADA INCOME FUND**  
**Notes to the Consolidated Financial Statements**  
**For the period from April 25, 2002**  
**to September 30, 2002**  
(unaudited)  
(in thousands of dollars)

**1. ORGANIZATION**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are consistent with those disclosed in the Fund's final prospectus and are as follows:

*Basis of presentation*

The consolidated financial statements include the accounts of the Fund and its wholly owned subsidiaries, Holdings, BFI Canada, BFI Usine and F.A. All intercompany accounts and transactions have been eliminated on consolidation. The consolidated financial statements are for the period from the date of Holdings' acquisition of all outstanding share capital, convertible debentures and warrants of 3743276 Canada Inc. ("BFI Holdco"), April 25, 2002 to September 30, 2002.

**BFI CANADA INCOME FUND**  
**Notes to the Consolidated Financial Statements**  
**For the period from April 25, 2002**  
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*Cash and cash equivalents*

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

*Intangible assets*

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

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

*Goodwill*

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

*Deferred costs*

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

*Deferred financing costs*

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

*Income taxes*

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

**BFI CANADA INCOME FUND**  
**Notes to the Consolidated Financial Statements**  
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*Capital assets*

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

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

*Landfill assets*

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

Total available disposal capacity for the purposes 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.

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

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

*Landfill closure and post-closure costs*

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

*Revenue*

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

*Employee future benefits*

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

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

- The cost of pensions earned by employees is actuarially determined using the projected unit credit cost method pro

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rated on service and management's best estimate of expected plan investment performance for funded plans, salary escalation and retirement ages of employees.

- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 11.3 years.

**3. ACQUISITIONS**

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

Net assets acquired:

Current assets, including cash of \$1,081 ..	\$ 22,551
Intangibles .....	86,007
Goodwill .....	51,175
Deferred costs .....	1,436
Deferred financing costs .....	2,646
Capital assets .....	93,912
Landfill assets .....	125,900
Other long-term assets .....	986
Current liabilities .....	(17,405)
Long-term debt .....	(71,987)
Landfill closure and post-closure costs ....	(7,940)
Future income tax liabilities .....	(37,842)
	<u>\$249,439</u>

Consideration:

Cash .....	\$148,879
Units .....	90,000
	<u>238,879</u>
Acquisition and related costs .....	10,560
	<u>\$249,439</u>

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

The computation of future income tax liabilities, representing the tax effect of the differences between the financial reporting and tax bases of assets and liabilities acquired, has been adjusted since June 30, 2002 following the filing of income tax returns required on the change of control. The offsetting adjustment is made to goodwill.

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

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

- (a) BFI Holdco amalgamated with Holdings and continued operating as Holdings.
  - (b) Holdings paid \$41,812, representing principal and accrued interest, owing on the non-revolving loan of BFI Holdco.
  - (c) Holdings paid \$17,551, representing principal and accrued interest, owing on the term and bridge loans of BFI Holdco. The remaining long-term debt of \$71,987 represents the value of the renegotiated term loan, amounting to \$71,000, and loans in the name of F.A., amounting to \$987.
  - (d) Holdings paid \$12,500, representing principal and imputed interest, owing on the subordinated debenture of BFI Holdco.
  - (e) Holdings paid \$2,000, representing a one time payment made in lieu of all remaining royalty payments which would otherwise be payable under the agreement to use the trade name "BFI" and the related logo with respect to the initial 15 year term (see Note 11).
  - (f) Holdings wrote-off \$5,886 in deferred financing costs.
- (ii) Effective April 30, 2002, the Fund entered into a purchase and sale agreement to acquire a front-end solid waste and recycling collection business in Vancouver for cash

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consideration of \$217. The purchase price is allocated as follows:

Capital assets .....	\$102
Intangible assets – customer collection contracts ..	115
	<u>\$217</u>

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

Capital assets .....	\$45
Intangible assets – customer collection contracts ...	40
	<u>\$85</u>

**4. INTANGIBLES**

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Additions</u>
Customer collection contracts .....	\$82,270	\$5,078	\$77,192	\$82,270
Transfer station permits .....	1,592	68	1,524	1,592
Trade-names .....	2,300	76	2,224	2,300
	<u>\$86,162</u>	<u>\$5,222</u>	<u>\$80,940</u>	<u>\$86,162</u>

Amortization for the period from April 25, 2002 to September 30, 2002 amounted to \$5,222 (three months ended September 30, 2002 – \$3,130).

**5. CAPITAL ASSETS**

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Land and improvements .....	\$14,962	\$ —	\$14,962
Buildings and improvements ...	28,302	525	27,777
Vehicles and equipment .....	31,741	4,830	26,911
Containers and compactors ....	20,323	1,663	18,660
Furniture, fixtures and computer equipment .....	3,684	861	2,823
	<u>\$99,012</u>	<u>\$7,879</u>	<u>\$91,133</u>

**6. LANDFILL ASSETS**

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Landfill assets .....	<u>\$127,742</u>	<u>\$5,048</u>	<u>\$122,694</u>

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The Fund operates three landfills, which have estimated remaining operating lives of 1, 5-6 and 40 years respectively, based on current disposal volumes and a six day per week operation at each site. An application is in process to expand the Lachenaie landfill which will increase its operating life from 1 to 40 years. The permit for the expansion is expected to be issued for a 25 year term, and the application of an extension is required to complete the filling of the then remaining unfilled airspace capacity at the site. Management expects to receive the necessary permit prior to the expiry of the current permit and is amortizing the Lachenaie landfill costs over the combined permitted and deemed permitted airspace. The net book value of the Lachenaie landfill at September 30, 2002 is \$84,291.

**7. LONG-TERM DEBT**

Term loan .....	\$71,000
Revolving loan .....	1,250
Other .....	<u>1,046</u>
	73,296
Less current portion of long-term debt .....	<u>247</u>
	<u>\$73,049</u>

The term loan is available to a maximum of \$71,000 and at Holdings' option, bears interest at bank prime or the 30 day rate on bankers' acceptances, plus 1%, plus an additional 2% on either interest rate option, payable monthly in arrears. Holdings, at its option, may prepay all or any portion of the term loan in an amount not less than \$2,000 and is subject to an additional charge on the principal amount of the term loan prepaid equal to 2% prior to April 25, 2003, 1% between April 26, 2003 and October 25, 2003 and nil thereafter. The term loan is repayable in full the earlier of April 25, 2005 and an event of default and is secured by a first priority security interest on the assets of the Fund and its subsidiaries. Prepaid interest, representing the discount on bankers' acceptances, amounted to \$351 and is included in prepaid expenses.

Holdings also has available a revolving loan to a maximum of \$28,600, of which \$8,600 relates specifically to a letter of credit required to operate a landfill. To the extent the revolving loan is utilized, the loan bears interest, at the option of Holdings, at bank prime or the 30 day rate on bankers' acceptances, plus 1%, plus an additional 2% on either interest rate option, payable monthly in arrears. Unused portions of the revolving loan are subject to a 0.5% charge on principal amounts outstanding, payable quarterly in arrears. The aggregate unpaid principal and interest is due and payable no later than the earlier of April 25,

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2005 and an event of default. Revolving loan advances are not to exceed \$10,000 for permitted acquisitions and \$17,000, \$18,000 and \$15,000 for capital expenditures in fiscal years ending 2002, 2003 and thereafter, respectively. The revolving loan is secured by a first priority security interest on the assets of the Fund and its subsidiaries. Prepaid interest, representing the discount on bankers' acceptances, amounted to \$5 and is included in prepaid expenses.

Other long-term debt represents two bank loans of \$272 and \$774, due May 15, 2005, bearing interest at 7.9% and secured by the City of La Plaine and due March 12, 2007, bearing interest at 7.0% and secured by the City of Terrebonne, respectively. The purpose of the loans was for F.A to acquire containers to be furnished to the respective cities. The loans are repaid directly by the City of La Plaine and the City of Terrebonne to the lender in monthly amounts of principal and interest. Included in current and long-term other accounts receivable are notes due from the City of La Plaine and the City of Terrebonne having the same terms and conditions as the underlying loan.

Interest on long-term debt amounted to \$1,992 for the period from April 25, 2002 to September 30, 2002 (three months ended September 30, 2002 – \$1,165).

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

2002.....	\$ 60
2003.....	252
2004.....	271
2005.....	72,474
2006.....	190
Thereafter .....	49
	<u>\$73,296</u>

**8. LANDFILL CLOSURE AND POST-CLOSURE COSTS**

The Fund currently operates 3 solid waste landfills and is responsible for closure and post-closure monitoring and maintenance costs in respect of each site. Estimated aggregate closure and post-closure costs will be fully accrued for these landfills at the time that such facilities cease to accept waste and are closed. Considering existing accruals of \$7,715 at September 30, 2002, approximately \$17,193 of additional accruals are to be provided over the remaining lives of these landfill facilities, which includes environmental costs and methane gas control identified under existing facility permits.

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Environmental reviews by external consultants are carried out several times each year. The expected future payments for closure and post-closure costs as of September 30, 2002 are as follows:

2002.....	\$ 1,632
2003.....	2,028
2004.....	580
2005.....	930
2006.....	692
Thereafter .....	<u>19,046</u>
	<u>\$24,908</u>

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

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

**9. INCOME TAXES**

The Fund is taxed as a “mutual fund trust” for income tax purposes. Pursuant to the Declaration of Trust, the Trustee will distribute all taxable income directly earned by the Trust to the Unitholders and deduct such distributions for income tax purposes. Canadian-based corporate subsidiaries are subject to tax on their taxable income at a rate of approximately 39%.

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

	<b>Three months ended September 30, 2002</b>	<b>From April 25, 2002 to September 30, 2002</b>
Income before income taxes . . . .	\$1,154	\$ 2,026
Income tax expense at the combined basic rate . . . . .	450	790
Tax on income attributable to Unitholders . . . . .	(2,043)	(4,849)
Large corporations tax . . . . .	261	388
Other . . . . .	<u>897</u>	<u>319</u>
Income tax recovery . . . . .	<u>\$ (435)</u>	<u>\$(3,352)</u>

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

Future income tax assets	
Unutilized tax loss carry forwards . . . . .	\$ 7,410
Deferred financing costs and offering expenses . . . . .	5,966
Carrying value of capital assets in excess of tax value . . . . .	320
Accounting provisions not currently deductible for tax . . . . .	<u>1,195</u>
	<u>14,891</u>
Future income tax liabilities	
Carrying value of intangible assets in excess of tax value . . . . .	25,901
Carrying value of landfill assets in excess of tax value . . . . .	<u>17,557</u>
	<u>43,458</u>
Net future income tax liabilities . . . . .	<u><u>\$28,567</u></u>

**10. TRUST UNITS**

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

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

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

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

	<u>Units</u>	<u>\$</u>
Issue of trust units . . . . .	28,321,800	\$272,167
Cancelled . . . . .	(1,821,800)	(17,507)
Contributed surplus . . . . .		337
Net income . . . . .		5,378
Distributions . . . . .		<u>(13,692)</u>
	<u>26,500,000</u>	<u>\$246,683</u>

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**11. COMMITMENTS AND CONTINGENCIES**

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

2002.....	\$ 262
2003.....	817
2004.....	769
2005.....	741
2006.....	584
Thereafter .....	<u>3,344</u>
	<u>\$6,517</u>

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

The Fund will be required to pay a royalty of \$1.50 per tonne of waste brought into the Lachenaie landfill to a maximum of \$1,500 per annum upon accessing the north expansion, expected in May 2003. This royalty agreement has a life of 4 years and a maximum cumulative payment of \$6,000 over the life of the agreement.

The Fund enters into various commitments in the normal course of business. At September 30, 2002, the Fund has issued letters of credit of \$11,934 and performance bonds of \$10,056.

**12. EMPLOYEE FUTURE BENEFITS**

The Fund’s defined contribution pension plan is non-contributory and requires all eligible employees to join the plan following one year of service. An actuarial valuation is performed every three years. The most recent actuarial valuation was performed on December 31, 2000. The net pension expense for the period from April 25, 2002 to September 30, 2002 amounted to \$124 (three months ended September 30, 2002 – \$74).

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

Plan Assets	
Market value at beginning of period .....	\$ 291
Actual return on plan assets .....	10
Employers contributions .....	54
Benefits paid .....	(2)
Actuarial loss during the period .....	<u>(55)</u>
Market value, end of period .....	<u>\$ 298</u>
Actuarial benefit obligation	
Beginning of period .....	\$ 397
Current service cost .....	18
Interest cost .....	11
Benefits paid .....	(2)
Actuarial loss during the period .....	<u>—</u>
Accrued benefit obligation, end of period .....	<u>\$ 424</u>
Benefit plan expense	
Current service cost .....	\$ 18
Actual return on plan assets .....	(10)
Interest cost .....	11
Amortization of transition asset .....	(1)
Amortization of net actuarial gains .....	<u>(2)</u>
Net benefit plan expense .....	<u>\$ 16</u>
Funded status – plan deficit .....	\$ 126
Unamortized transitional asset .....	25
Unamortized actuarial losses .....	<u>(114)</u>
Accrued benefit liability, end of period .....	<u>\$ 37</u>

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

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

**13. FINANCIAL INSTRUMENTS**

*Estimated fair value*

The carrying value of cash, accounts receivable, accounts payable, accrued charges and income taxes approximates fair value due to the relatively short-term maturities of these instruments. At September 30, 2002 the estimated fair value of long-term debt approximates fair value.

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*Credit risk*

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

*Interest rate risk*

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

**14. SEGMENTED REPORTING**

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

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

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

The Fund has not allocated goodwill to its reporting units. Goodwill is currently recorded in the collection segment.

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*For the three months ended September 30, 2002*

	<u>Landfills and</u> <u>Energy</u>	<u>Collection</u>			<u>Total</u>
		<u>Commercial</u>	<u>Industrial</u>	<u>Other</u>	
Gross					
Revenues ..	\$10,963	\$18,724	\$7,503	\$6,630	\$43,820
Intercompany					
Revenues ..	(3,463)	—	—	(510)	(3,973)
Revenues ....	7,500	18,724	7,503	6,120	39,847
EBITDA <sup>(1)</sup> ...	\$ 6,340	\$ 5,813	\$ 833	\$ 621	\$13,607

(1) Represents income before amortization, interest and income taxes.

*For the period from April 25, 2002 to September 30, 2002*

	<u>Landfills and</u> <u>Energy</u>	<u>Collection</u>			<u>Total</u>
		<u>Commercial</u>	<u>Industrial</u>	<u>Other</u>	
Gross					
Revenues ..	\$18,717	\$32,314	\$12,931	\$11,705	\$75,667
Intercompany					
Revenues ..	(5,926)	—	—	(923)	(6,849)
Revenues ....	12,791	32,314	12,931	10,782	68,818
EBITDA <sup>(1)</sup> ...	\$10,321	\$ 9,204	\$ 1,497	\$ 1,738	\$22,760

	<u>Landfills and</u>			<u>Total</u>
	<u>Energy</u>	<u>Collection</u>		
Assets .....	\$185,325	\$195,715		\$381,040

(1) Represents income before amortization, interest and income taxes.

**15. 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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