

Consolidated Financial Statements of

BFI CANADA INCOME FUND

For the three months ended March 31, 2003

BFI CANADA INCOME FUND

Consolidated Balance Sheets

March 31, 2003 (unaudited) and December 31, 2002 (audited)

(in thousands of dollars)

	<u>March 31,</u> <u>2003</u>	<u>December</u> <u>31, 2002</u>
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 5,768	\$ 5,666
Accounts receivable	22,864	24,962
Other receivables	1,309	415
Prepaid expenses	3,330	3,959
	<u>33,271</u>	<u>35,002</u>
OTHER RECEIVABLES	4,190	1,509
INTANGIBLES	74,677	77,805
GOODWILL	49,171	49,171
DEFERRED COSTS	2,224	1,832
DEFERRED FINANCING COSTS	1,838	2,058
CAPITAL ASSETS	88,382	89,665
LANDFILL ASSETS (Note 4)	120,079	122,399
	<u>\$ 373,832</u>	<u>\$ 379,441</u>
LIABILITIES		
CURRENT		
Accounts payable	\$ 10,869	\$ 15,410
Accrued charges	3,850	6,076
Distribution payable	2,650	2,650
Income taxes payable	751	157
Deferred revenue	6,353	5,360
Current portion of long-term debt	257	252
	<u>24,730</u>	<u>29,905</u>
LONG-TERM DEBT	83,168	76,985
LANDFILL CLOSURE AND POST-CLOSURE COSTS	8,617	8,013
FUTURE INCOME TAX LIABILITIES	23,283	25,298
	<u>139,798</u>	<u>140,201</u>
UNITHOLDERS' EQUITY	<u>234,034</u>	<u>239,240</u>
	<u>\$ 373,832</u>	<u>\$ 379,441</u>

BFI CANADA INCOME FUND
Consolidated Statement of Operations
For the three months ended March 31, 2003
(unaudited)
(in thousands of dollars, except income per unit amounts)

REVENUES	\$ 38,324
OPERATING EXPENSES	19,827
SELLING, GENERAL AND ADMINISTRATION EXPENSES	6,446
INCOME BEFORE THE FOLLOWING	12,051
AMORTIZATION	9,917
INTEREST ON LONG-TERM DEBT	1,230
INCOME BEFORE INCOME TAXES	904
INCOME TAX EXPENSE (RECOVERY)	
Current	175
Future	(2,015)
	(1,840)
NET INCOME	\$ 2,744
Net income per trust unit, basic and diluted	\$ 0.10
Weighted average number of units outstanding (thousands)	26,500

BFI CANADA INCOME FUND
Consolidated Statement of Cash Flows
For the three months ended March 31, 2003
(unaudited)
(in thousands of dollars)

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

OPERATING

Net income	\$ 2,744
Items not affecting cash	
Amortization of intangibles	3,128
Amortization of deferred financing costs	220
Amortization of capital assets	4,214
Amortization of landfill assets	2,355
Gain on disposal of capital assets	(7)
Provision for landfill closure and post-closure costs	604
Future income taxes	(2,015)
Landfill closure and post-closure expenditures	-
	<u>11,243</u>
Changes in non-cash working capital items	(3,478)
Cash generated from operating activities	<u>7,765</u>

INVESTING

Investment in other receivables	(2,850)
Proceeds from other receivables	238
Purchase of capital assets	(2,932)
Landfill assets	(35)
Proceeds on disposal of capital assets	8
Deferred costs	(392)
Cash utilized in investing activities	<u>(5,963)</u>

FINANCING

Proceeds from revolving loan	6,250
Distributions paid to unitholders	(7,950)
Cash utilized in financing activities	<u>(1,700)</u>

NET CASH INFLOW	102
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,666
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 5,768</u>

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash and cash equivalents are comprised of:	
Cash	\$ 2,673
Cash equivalents	3,095
	<u>\$ 5,768</u>
Cash paid during the period for:	
Income taxes	\$ 43
Interest	\$ 1,722

BFI CANADA INCOME FUND

Consolidated Statement of Unitholders' Equity

For the three months ended March 31, 2003

(unaudited)

(in thousands of dollars)

BALANCE, BEGINNING OF PERIOD	\$	239,240
Net income		2,744
Distributions		(7,950)
BALANCE, END OF PERIOD	\$	234,034

BFI CANADA INCOME FUND
Notes to the Consolidated Financial Statements
For the three months ended March 31, 2003
(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. INTERIM FINANCIAL STATEMENTS

The unaudited interim consolidated financial statements do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements and should therefore be read in conjunction with the audited consolidated financial statements and notes thereto included in the Fund's annual report for the period from April 25, 2002 to December 31, 2002. The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles applicable to interim consolidated financial statements and follow the same accounting policies and methods in their applications as the most recent annual financial statements, except as indicated in Note 3. The Fund commenced operations on April 25, 2002 and accordingly there are no comparative consolidated statements of operations or of cash flows.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

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

In the event that the Fund is not successful in obtaining the Lachenaie landfill expansion permit, the following assets would be subject to adjustment in a future period: goodwill, \$17,488, deferred costs, \$2,224 and landfill assets (Note 4), \$83,243. Management remains confident that final approval will be obtained prior to the expiry of the Fund's current permit and accordingly no provision for impairment has been recorded.

BFI CANADA INCOME FUND
Notes to the Consolidated Financial Statements
For the three months ended March 31, 2003
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(in thousands of dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other receivables

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

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

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

Impairment of long-lived assets

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

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

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

Asset retirement obligations

Effective March 2003, the Canadian Institute of Chartered Accountants issued a new Canadian accounting standard for asset retirement obligations, which requires the recognition of an obligation associated with the retirement of a tangible long-lived asset that an entity is legally obligated to settle.

The new standard is effective for fiscal years beginning on or after January 1, 2004 and requires the Fund to retroactively restate all comparative consolidated financial statements. Accordingly, the March 31, 2003 consolidated financial statements will be restated for all future comparative purposes. Adopting the new accounting standard is expected to have a material impact on landfill assets and closure and post-closure costs.

BFI CANADA INCOME FUND
Notes to the Consolidated Financial Statements
For the three months ended March 31, 2003
(unaudited)
(in thousands of dollars)

4. LANDFILL ASSETS

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
March 31, 2003	\$ 129,815	\$ 9,736	\$ 120,079
December 31, 2002	\$ 129,780	\$ 7,381	\$ 122,399

The Fund operates landfills in the provinces of Quebec (“Lachenaie”), Alberta and Manitoba, which have estimated remaining operating lives of 1.0, 5.0 and 44 years, respectively, based on current disposal volumes and a six day per week operation at each site. Effective March 26, 2003, the Fund received an emergency decree from the Quebec government approving the Fund’s request to vertically expand the Lachenaie landfill. Receipt of this decree ensures that there will be no interruption to the operation of the Lachenaie landfill and provides approximately one million tonnes or approximately one year of capacity. An application is in process to expand the Lachenaie landfill (the north expansion) which will increase its operating life from 1.0 to 40 years. The permit for the north expansion is expected to be issued for a term less than the 40 year operating life of the site. An application for extension of any permits issued less than the 40 year operating life will be required to complete the filling of the then remaining unfilled airspace capacity at the Lachenaie landfill. Management expects to receive the necessary permit prior to the expiry of the emergency decree for vertical expansion and is amortizing the Lachenaie landfill costs over the combined permitted and deemed permitted airspace. The net book value of the Lachenaie landfill at March 31, 2003 is \$83,243.

5. SEGMENTED REPORTING

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

The Fund carries out business through two separate business segments: landfills and solid waste collection. The Fund owns and operates three landfills, which service Montreal, Calgary and Winnipeg and their respective surrounding communities and operates one landfill for the City of Lethbridge. The Fund’s landfill gas to energy facility, located at its Lachenaie landfill, is also included in this business segment. The solid waste collection segment consists of the collection and disposal of non-hazardous solid waste and recyclable products, transfer collection operations, material recovery facilities and compactor rentals.

The accounting policies used in these business segments are the same as those described in the summary of significant accounting policies note included in the Fund’s consolidated financial statements for the period from April 25, 2002 to December 31, 2002. Corporate selling, general and administration costs are allocated to the segments based on various factors, including revenues. The Fund evaluates segment performance based on gross revenues, less operating and selling, general and administration expenses.

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

BFI CANADA INCOME FUND
Notes to the Consolidated Financial Statements
For the three months ended March 31, 2003
(unaudited)
(in thousands of dollars)

5. SEGMENTED REPORTING (continued)

For the three months ended March 31, 2003

	Landfills and		
	Energy	Collection	Total
Gross Revenues	\$ 9,708	\$ 31,720	\$ 41,428
Intercompany Revenues	(2,753)	(351)	(3,104)
Revenues	6,955	31,369	38,324
Income before amortization, interest on long-term debt and income taxes	\$ 5,564	\$ 6,487	\$ 12,051

March 31, 2003

	Landfills and		
	Energy	Collection	Total
Goodwill	\$ 29,440	\$ 19,731	\$ 49,171
Total Assets	\$ 180,705	\$ 193,127	\$ 373,832

December 31, 2002

	Landfills and		
	Energy	Collection	Total
Goodwill	\$ 29,440	\$ 19,731	\$ 49,171
Total Assets	\$ 187,215	\$ 192,226	\$ 379,441

6. GUARANTEES

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

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

- (a) The Fund has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements the Fund agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, damage and existence of hazardous substances arising during, on or after the term of the agreement. Changes in environmental laws or in the interpretation thereof may require the Fund to compensate the counterparties. The maximum amount of any potential future payment cannot be reasonably estimated.

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6. GUARANTEES (continued)

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

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

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

7. 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.