LAIDLAW INC
Form 6-K
May 13, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934

Financial Statements for the year ended August 31, 2002,
the three months ended November 30, 2002
and the three and six months ended February 28, 2003
together with Management's Discussion and Analysis of
Financial Condition and Results of Operations

LAIDLAW INC.
(Translation of registrant's name into English)

3221 North Service Road, Burlington, Ontario Canada L7R 3Y8
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F ______ Form 40-F X

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): _____

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): _____

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes X No ______

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-_____

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REPORT OF INDEPENDENT ACCOUNTANTS

TO THE DIRECTORS OF LAIDLAW INC.

We have audited the consolidated balance sheets of Laidlaw Inc. as at August 31, 2002 and 2001 and the consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended August 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as explained in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our

audits provide a reasonable basis for our opinion.

The loss from discontinued operations in the consolidated statement of operations for the year ended August 31, 2000 includes the Company's share of net earnings of Safety-Kleen Corp. (Safety-Kleen) for the three months ended November 30, 1999 and a write-off of the Company's investment in Safety-Kleen, as described in Note 13. On July 9, 2001, Safety-Kleen issued consolidated financial statements for the year ended August 31, 2000 and restated financial statements for prior years. As discussed in Note 13, the Company has not been able to accurately determine the impact, if any, that these restated Safety-Kleen financial statements would have on the Company's previously reported results for the year ended August 31, 2000. Accordingly, we were not able to determine the reduction, if any, which might be necessary in the loss from discontinued operations in 2000 and the corresponding increase in the deficit as at August 31, 1999. Any such adjustment would have no impact on the deficit as at August 31, 2000.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2002 and August 31, 2001 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Also in our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary, had we been able to satisfy ourselves concerning the amount of the increase in the deficit at the beginning of the year and the corresponding reduction in the loss from discontinued operations for the year, the consolidated statements of operations, shareholders' equity and cash flows for the year ended August 31, 2000 present fairly, in all material respects, the results of the Company's operations and cash flows for the year ended August 31, 2000 in accordance with accounting principles generally accepted in the United States.

The accompanying consolidated financial statements have been prepared assuming that Laidlaw Inc. and its subsidiaries will continue as a going concern. As more fully described in Note 1 of the consolidated financial statements, on June 28, 2001, Laidlaw Inc. and five of its subsidiaries filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code. Uncertainties related to the bankruptcy process raise substantial doubt about Laidlaw Inc.'s ability to continue as a going concern. Management's intentions with respect to these matters are also described in the note. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in note 2 to the consolidated financial statements, in fiscal 2000, Laidlaw Inc. changed its method of accounting for start-up costs.

/s/ PRICEWATERHOUSECOOPERS LLP
PricewaterhouseCoopers LLP
Chartered Accountants

Mississauga, Canada
December 17, 2002

LAIDLAW INC.
(DEBTOR-IN-POSSESSION AS OF JUNE 28, 2001 -- NOTE 1)
CONSOLIDATED BALANCE SHEETS

	AUGUST 31, 2002	AUGUST 31, 2001
	(U.S. DOLLARS IN MILLIONS)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 343.5	$ 281.2
Restricted cash and cash equivalents (Note 3)	75.8	37.2
Short-term deposits and marketable securities (Note 3)	16.1	42.4
Trade accounts receivable (Note 27)	490.4	509.7
Other receivables	54.9	62.6
Income taxes recoverable	29.2	20.1
Parts and supplies	50.4	54.4
Other current assets	56.3	62.6
TOTAL CURRENT ASSETS	1,116.6	1,070.2
LONG-TERM INVESTMENTS (Note 4)	417.9	340.5
PROPERTY AND EQUIPMENT (Note 5)	1,677.7	1,680.7
OTHER ASSETS		
Goodwill (net of accumulated amortization and impairments of $776.0; August 31, 2001 -- $689.7) (Note 1)	2,976.8	3,063.3
Pension asset (Note 6)	10.8	45.2
Deferred charges	12.0	19.9
	2,999.6	3,128.4
TOTAL ASSETS	$6,211.8	$6,219.8

The accompanying notes are an integral part of these statements.

LAIDLAW INC.
(DEBTOR-IN-POSSESSION AS OF JUNE 28, 2001 -- NOTE 1)

CONSOLIDATED BALANCE SHEETS -- (CONTINUED)

	AUGUST 31, 2002	AUGUST 31, 2001
	(U.S. DOLLARS IN MILLIONS)	
LIABILITIES		
LIABILITIES NOT SUBJECT TO COMPROMISE		
CURRENT LIABILITIES		
Accounts payable	$ 109.7	$ 127.1
Accrued liabilities (Note 7)	504.1	430.9
Current portion of long-term debt (Note 8)	20.3	31.6
TOTAL CURRENT LIABILITIES	634.1	589.6

LONG-TERM DEBT (Note 8)	204.4	248.6
OTHER LONG-TERM LIABILITIES (Note 9)	442.1	373.6
LIABILITIES SUBJECT TO COMPROMISE (Note 10)	3,977.1	3,978.5
COMMITMENTS AND CONTINGENCIES (Notes 1, 13 and 20)		
TOTAL LIABILITIES	5,257.7	5,190.3
SHAREHOLDERS' EQUITY		
Preference Shares (Note 11)	7.9	7.9
Common Shares; issued and outstanding 325,927,870 (August 31, 2001 -- 325,927,870) (Note 11)	2,222.6	2,222.6
Accumulated other comprehensive loss	(258.7)	(168.4)
Deficit	(1,017.7)	(1,032.6)
TOTAL SHAREHOLDERS' EQUITY (Note 1)	954.1	1,029.5
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 6,211.8	$ 6,219.8

The accompanying notes are an integral part of these statements.

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LAIDLAW INC.

(DEBTOR-IN-POSSESSION AS OF JUNE 28, 2001 -- NOTE 1)

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED AUGUST 31,		
	2002	2001	2000
	(U.S. DOLLARS IN MILLIONS EXCEPT PER SHARE AMOUNTS)		
REVENUE	$4,432.1	$4,418.3	$ 4,273.1
Operating expenses	3,551.8	3,574.2	3,424.8
Selling, general and administrative expenses	459.3	460.7	462.4
Depreciation expense	270.6	261.1	255.8
Amortization expense	88.2	89.2	91.3
INCOME FROM OPERATING SEGMENTS	62.2	33.1	38.8
Interest expense (Note 10)	(27.7)	(270.9)	(275.1)
Other financing related expenses (Note 14)	(44.7)	(63.8)	(101.5)
Other income (loss)	15.3	9.3	(10.7)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	5.1	(292.3)	(348.5)
Income tax recovery (expense) (Note 15)	9.8	45.8	(261.8)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	14.9	(246.5)	(610.3)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS (Note 13)	--	1,672.4	(1,615.5)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (Note 2)	--	--	(27.3)
NET INCOME (LOSS)	$ 14.9	$1,425.9	$(2,253.1)

BASIC EARNINGS (LOSS) PER SHARE (Note 16)			
Continuing operations	$ 0.05	$ (0.76)	$ (1.87)
Discontinued operations	--	5.13	(4.94)
Cumulative effect of change in accounting principle	--	--	(0.08)
Net income (loss)	$ 0.05	$ 4.37	$ (6.89)
DILUTED EARNINGS (LOSS) PER SHARE (Note 16)			
Continuing operations	$ 0.05	$ (0.76)	$ (1.87)
Discontinued operations	--	5.13	(4.94)
Cumulative effect of change in accounting principle	--	--	(0.08)
Net income (loss)	$ 0.05	$ 4.37	$ (6.89)

The accompanying notes are an integral part of these statements.

LAIDLAW INC.
(DEBTOR-IN-POSSESSION AS OF JUNE 28, 2001 -- NOTE 1)
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	COMMON SHARES		PREFERENCE SHARES			ACCUM OT COMPRE LO
	# OF SHARES	AMOUNT	# OF SHARES	AMOUNT	DEFICIT	
	(U.S. DOLLARS IN MILLIONS, EXCEPT SHARE INFORMA					
BALANCE AT AUGUST 31, 1999	330,209,655	$2,246.8	547,070	$ 8.0	$ (173.3)	$(1
Exercise of stock options	8,250	--	--	--	--	
Issuance of shares for the employee stock purchase plan	420,865	1.9	--	--	--	
Repurchase of common shares for cancellation	(4,710,900)	(26.1)	--	--	--	
Repurchase of preference shares for redemption	--	--	(18,300)	(0.1)	--	
Dividends on common shares	--	--	--	--	(31.4)	
Dividends on preference shares	--	--	--	--	(0.4)	
Net loss	--	--	--	--	(2,253.1)	
Other comprehensive income (loss):						
Unrealized holding losses net of reclassification adjustments for losses included in net loss (net of NIL taxes)	--	--	--	--	--	
Foreign currency translation adjustments (net of NIL taxes)	--	--	--	--	--	
Total comprehensive loss						
BALANCE AT AUGUST 31, 2000	325,927,870	$2,222.6	528,770	$ 7.9	$(2,458.2)	$(1
Dividends on preference shares	--	--	--	--	(0.3)	

Net income....................	--	--	--	--	1,425.9	
Other comprehensive income (loss):						
Unrealized holding gains net of reclassification adjustments for losses included in net income (net of NIL taxes).............	--	--	--	--	--	
Foreign currency translation adjustments (net of NIL taxes)....................	--	--	--	--	--	
Total comprehensive income.....						
BALANCE AT AUGUST 31, 2001.....	325,927,870	$2,222.6	528,770	$ 7.9	$(1,032.6)	(1
Net income....................	--	--	--	--	14.9	
Other comprehensive income (loss):						
Unrealized holding gains net of reclassification adjustments for losses included in net income (net of $1.0 in taxes)..........	--	--	--	--	--	
Foreign currency translation adjustments (net of NIL taxes)....................	--	--	--	--	--	
Adjustment for minimum pension obligation (net of NIL taxes)................	--	--	--	--	--	(
Total comprehensive loss.......						
BALANCE AT AUGUST 31, 2002.....	325,927,870	$2,222.6	528,770	$ 7.9	$(1,017.7)	$(2

The accompanying notes are an integral part of these statements.

LAIDLAW INC.

(DEBTOR-IN-POSSESSION AS OF JUNE 28, 2001 -- NOTE 1)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED AUGUST 31,		
	2002	2001	2000
	(U.S. DOLLARS IN MILLIONS)		
NET CASH PROVIDED BY (USED IN):			
Operating activities....................................	$ 433.8	$ 447.7	$ 208.4
Investing activities....................................	(275.7)	(281.5)	(336.3)
Financing activities....................................	(95.8)	7.0	177.7
	62.3	173.2	49.8
CASH AND CASH EQUIVALENTS* -- BEGINNING OF YEAR............	281.2	108.0	58.2
CASH AND CASH EQUIVALENTS* -- END OF YEAR..................	$ 343.5	$ 281.2	$ 108.0

OPERATING ACTIVITIES			
Net income (loss)...	$ 14.9	$ 1,425.9	$(2,253.1)
Add (deduct) items not affecting cash:			
Depreciation and amortization.............................	358.8	350.3	347.1
Other financing related expenses (Note 14)................	44.7	63.8	101.5
Future income taxes.......................................	--	--	255.2
Loss (income) from discontinued operations................	--	(1,672.4)	1,615.5
Cumulative effect of change in accounting policy (Note 2)...	--	--	27.3
Loss (gain) on sale of assets (Note 18)...................	(4.2)	6.6	--
Increase (decrease) in accrued interest...................	(0.5)	246.2	76.5
Increase in claims liability and professional liability insurance accruals..................................	61.6	126.9	51.7
Other...	(10.4)	(6.2)	12.9
Cash provided by (used in financing) other working capital items (Note 17)...	46.2	(43.2)	35.0
Decrease (increase) in restricted cash and cash equivalents (Note 3)...	(38.6)	8.2	(45.4)
Cash used for acquisition accruals..........................	--	--	(5.6)
Cash used in discontinued operations (Note 13)..............	--	--	(2.9)
Cash portion of other financing related expenses (Note 14)..	(38.7)	(58.4)	(7.3)
NET CASH PROVIDED BY OPERATING ACTIVITIES...................	$ 433.8	$ 447.7	$ 208.4

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* Represents the unrestricted cash and cash equivalents of the Company -- Refer to Note 3.

The accompanying notes are an integral part of these statements.

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LAIDLAW INC.
(DEBTOR-IN-POSSESSION AS OF JUNE 28, 2001 -- NOTE 1)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	YEAR ENDED AUGUST 31,		
	2002	2001	2000
	(U.S. DOLLARS IN MILLIONS)		
INVESTING ACTIVITIES			
Purchase of property and equipment..........................	$(283.3)	$(267.3)	$(369.0)
Proceeds from sale of property and equipment................	45.5	21.8	136.6
Purchases of other assets...................................	(1.4)	(8.8)	(5.9)
Expended on acquisitions (Note 19)..........................	(3.6)	(2.0)	(67.5)
Net increase in investments.................................	(37.1)	(45.5)	(32.9)
Proceeds from sale of assets (Note 18)......................	4.2	20.3	2.4
NET CASH USED IN INVESTING ACTIVITIES.......................	$(275.7)	$(281.5)	$(336.3)
FINANCING ACTIVITIES			
Proceeds from issue of long-term debt.......................	$ 172.2	$ 342.2	$ 932.6

Repayments of long-term and other non-current liabilities...	(268.0)	(335.2)	(699.0)
Repurchase of shares for cancellation......................	--	--	(26.1)
Proceeds from share issues.................................	--	--	1.9
Dividends..	--	--	(31.6)
Repurchase of preference shares for redemption.............	--	--	(0.1)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES.........	$ (95.8)	$ 7.0	$ 177.7
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid (received) during the year for:			
Interest...	$ 31.9	$ 30.4	$ 217.1
Income taxes...	$ (10.4)	$ (51.0)	$ (21.2)

The accompanying notes are an integral part of these statements.

LAIDLAW INC.
(DEBTOR-IN-POSSESSION AS OF JUNE 28, 2001)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2002

NOTE 1 -- VOLUNTARY PETITION FOR REORGANIZATION, BASIS OF PRESENTATION AND ABILITY TO CONTINUE OPERATIONS AND GOODWILL IMPAIRMENT

GENERAL

VOLUNTARY PETITION FOR REORGANIZATION

On June 28, 2001, Laidlaw Inc. (the "Company") and five of its direct and indirect subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief under chapter 11 of the United States Bankruptcy Code, 11 U.S.C. 101-1330 (the "Bankruptcy Code"), in the United States Bankruptcy Court for the Western District of New York (the "Bankruptcy Court"). The other Debtors include: Laidlaw USA, Inc. ("Laidlaw USA"), Laidlaw Investments Ltd. ("LIL"), Laidlaw International Finance Corporation ("LIFC"), Laidlaw One, Inc. ("Laidlaw One"), and Laidlaw Transportation, Inc. ("LTI"). In addition, the Company and LIL have commenced Canadian insolvency proceedings under the Canada Companies' Creditors Arrangement Act ("CCAA") in the Ontario Superior Court of Justice in Toronto, Ontario (the "Canadian Court"). None of the Company's operating subsidiaries was included in the filings.

The Debtors remain in possession of their respective properties and are managing their businesses as debtors-in-possession. Pursuant to the Bankruptcy Code and the CCAA, however, the Debtors may not engage in transactions outside the ordinary course of business without the approval of the Bankruptcy Court and the Canadian Court.

The Company is reorganizing its affairs under the protection of the Bankruptcy Code and the CCAA and has proposed a plan of reorganization for itself and the other Debtors. The plan of reorganization must be voted upon by the Company's stakeholders and approved by the Bankruptcy Court and the Canadian Court. A plan of reorganization sets forth the means for satisfying claims against and interests in the Company and the other Debtors, including the liabilities subject to compromise (See Note 10). Generally, prepetition liabilities are subject to settlement or compromise under such a plan of reorganization.

BASIS OF PRESENTATION AND ABILITY TO CONTINUE OPERATIONS

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and all figures are presented in U.S. dollars, as the majority of the Company's operating assets are located in the United States. Except as indicated in Note 28, the consolidated financial statements conform, in all material respects, with accounting principles generally accepted in Canada ("Canadian GAAP").

These consolidated financial statements have been prepared on a "going concern" basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of operations. The appropriateness of the "going concern" assumption is dependent upon, among other things, a successful completion of the proposed reorganization as contemplated by the plan of reorganization, future profitable operations and the ability to generate sufficient cash from operations and obtain financing arrangements to meet obligations. If the "going concern" basis were not appropriate for these consolidated financial statements, significant adjustments would need to be made to the carrying value of the assets and liabilities, the reported revenue and expenses and the balance sheet classifications used.

If the Company successfully completes the proposed reorganization, the Company will be required to adopt "fresh start" accounting. This accounting would require that assets and liabilities be recorded at fair value, based on values determined in connection with the restructuring. Certain reported asset and liability

balances do not yet give effect to the adjustments that may result from the adoption of "fresh start" accounting and as a result, would change materially.

GOODWILL IMPAIRMENT

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS No. 142. The Company is required to adopt the provisions of SFAS No. 142 effective September 1, 2002. The Company believes that substantially all of the goodwill in its Greyhound and healthcare services businesses and a portion of the goodwill in its contract bus services business will be written-off upon the adoption of SFAS No. 142 (see Note 2).

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies followed in the preparation of these consolidated financial statements is as follows:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all of its subsidiary companies. All significant intercompany transactions and balances have been eliminated.

REVENUE RECOGNITION

CONTRACT BUS SERVICES AND GREYHOUND

Revenue is recognized at the time services are provided. Revenue collected on contracts and tickets in advance is deferred and taken into income as the services are provided.

HEALTHCARE SERVICES

Revenue is recognized at the time of service and is recorded at amounts estimated to be recoverable based upon recent experience under reimbursement arrangements with third-party payors, including Medicare, Medicaid, private insurers, managed care organizations and hospitals, or directly from patients. The Company derives approximately 39% of its collections in the healthcare services segment from Medicare and Medicaid, 7% from contracted hospitals, 44% from private insurers, including prepaid health plans and other sources, and 10% directly from patients.

Healthcare reimbursement is complex and may involve lengthy delays. Third-party payors are continuing their efforts to control expenditures for healthcare and may disallow, in whole or in part, claims for reimbursement based on determinations that certain amounts are not reimbursable under plan coverage, were for services provided that were not determined medically necessary, or insufficient supporting information was provided.

As a result, there is a reasonable possibility that recorded estimates could change materially and that retroactive adjustments may change the amounts realized from third-party payors. Such adjustments are recorded in future periods as adjustments become known.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include short-term investments that are part of the Company's cash management portfolio. These investments are highly liquid and have original maturities of three months or less.

PARTS AND SUPPLIES

Parts and supplies are valued at the lower of cost, determined on a first-in, first-out basis and replacement cost.

LONG-TERM INVESTMENTS

In accordance with Financial Accounting Standards Board Statement No. 115, the Company determines the classification of securities as held-to-maturity or available-for-sale at the time of purchase and reevaluates such designation as of each balance sheet date. Securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at cost, adjusted for amortization of premiums and discounts to maturity. Investments not classified as held-to-maturity are classified as available-for-sale. Available-for-sale securities are carried at fair value, with unrealized gains and losses, reported as a separate component of shareholders' equity. The cost of securities sold is based on the specific identification method.

Investments in shares of companies over which the Company has significant influence are accounted for by the equity method. Equity earnings are recorded to the extent that any increase in the carrying value is determined to be realizable. The Company's investment in Safety-Kleen Corp. ("Safety-Kleen") was written off during fiscal 2000 and no equity earnings were recorded after November 30, 1999 (See Note 13). Other long-term investments are carried at cost.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost, including interest during construction, if any. Depreciation of property and equipment is recorded on a straight-line basis over their estimated useful lives, which range from twenty to forty years for buildings, five to eighteen years for vehicles, and three to ten years for all other items. Maintenance costs are expensed as incurred and renewals and improvements are capitalized.

GOODWILL AND DEFERRED CHARGES

Goodwill represents the excess of cost over fair value of assets as prescribed by the purchase method of accounting and is amortized on a straight-line basis over 40 years.

Deferred charges are amortized on a straight-line basis over a two to five-year period depending on the nature of the deferred costs.

IMPAIRMENT OF LONG-LIVED ASSETS

Identifiable intangibles, long-lived assets and goodwill are assessed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Important factors which could trigger impairment review include significant underperformance relative to historical or projected future operating results, significant changes in the use of the acquired assets or the strategy for the overall business, and significant negative industry or economic trends. If indicators of impairment are present,

management evaluates the carrying value of property and equipment and intangibles, including goodwill, in relation to the projection of future undiscounted cash flows of the underlying business. Projected cash flows are based on historical results adjusted to reflect management's best estimate of future market and operating conditions, which may differ from actual cash flow.

DEFINED BENEFIT PENSION PLANS

The costs of pension benefits are actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and mortality tables. For the purpose of calculating the expected return on plan assets, those assets are valued at a market-related value. The net actuarial gain or loss in excess of 10 percent of the greater of the benefit obligation and the market-related value of plan assets is amortized over the average remaining service period of active employees.

CLAIMS LIABILITIES AND PROFESSIONAL LIABILITY RESERVES

The Company discounts the claims liabilities and professional liability reserves of the Company's insurance programs.

Investment income earned on the investments of the wholly owned insurance subsidiaries has been offset against the costs related to the Company's self-insurance program and are included as part of "operating expenses" in the Consolidated Statements of Operations. The accretion of imputed interest from the discounting of the reserves is also included as part of the costs related to the Company's self-insurance program.

FOREIGN CURRENCY TRANSLATION

The financial statements of the Company and its non United States dollar denominated subsidiaries have been translated into U.S. dollars in accordance with the FASB Statement No. 52, Foreign Currency Translation. All balance sheet amounts have been translated using the exchange rates in effect at the applicable year end. Income statement amounts have been translated using the weighted average exchange rate for the applicable year. The gains and losses resulting from the changes in exchange rates from year to year have been reported as a separate component of Shareholders' Equity. Currency transaction gains and losses are immaterial for all periods presented.

FINANCIAL INSTRUMENTS

The Company's accounts receivable, other receivables, accounts payable, accrued liabilities, liabilities subject to compromise, other long-term liabilities and long-term debt constitute financial instruments. The carrying value of these financial instruments, other than long-term debt (See Note 8) and liabilities subject to compromise (See Note 10), approximates their fair value. Concentration of credit risks in accounts receivable is limited, due to the large number of customers comprising the Company's customer base throughout North America. A significant component of the Company's revenue is derived from Medicare and Medicaid. Given that these are government programs, the credit risk for these customers is considered low. The Company performs ongoing credit evaluations of its other customers but does not require collateral to support customer accounts receivable. The Company establishes an allowance for doubtful accounts based on the credit risk applicable to particular customers, historical trends and other relevant information.

The Company may use derivative financial instruments for purposes other than trading to minimize the risk and costs associated with financing and operating activities. Contracts that effectively meet risk reduction and correlation criteria are recorded using hedge accounting. There are no derivative financial instruments used in fiscal 2002 or fiscal 2001 (see Note 14).

USE OF ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and disclosure of contingencies. Future events could alter such estimates (See also Note 9, 13 and 20).

In addition to the use of estimates in the recording of healthcare services revenue as described above, the Company uses third-party actuaries and assumptions of future events, including future settlement costs, in estimating the claims liability reserves. As a result, there is a reasonable possibility that the recorded claims liabilities could change materially.

INCOME TAXES

Income taxes are accounted for using the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. A valuation allowance is provided for those deferred tax assets for which it is more likely than not that the related benefits will not be realized.

STOCK-BASED COMPENSATION

The Company applies APB Opinion 25 and related Interpretations in accounting for its stock-based compensation plans. No compensation cost has been recognized for its stock option plans because the options were granted at the common stock's then current market value.

See Note 26 for pro forma disclosure of the net income (loss) and earnings (loss) per share in accordance with SFAS No. 123 "Accounting for Stock-Based Compensation." The Company has decided not to adopt the fair value method because the approval of the plan of reorganization (see Note 1) will result in the cancellation of all outstanding options.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." The Company is required to adopt the provisions of SFAS No. 142 effective September 1, 2002.

The Company's existing goodwill and intangible assets will continue to be amortized prior to the adoption of SFAS No. 142. Upon adoption of SFAS No. 142, the Company will be required to reassess the useful lives and residual values of all recorded intangible assets. Additionally, the Company will be required to test goodwill and the intangible assets with an indefinite life in accordance with the provisions

of SFAS No. 142. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle.

As of September 1, 2002, the Company's unamortized goodwill will be subject to the transition provisions of SFAS No. 142. The composition of this goodwill

by business segment is as follows: contract bus services -- $656.7 million ($557.7 million in the school bus transportation unit and $99.0 million in the municipal transit and paratransit bus transportation unit), Greyhound -- $482.9 million and healthcare services -- $1,837.2 million ($1,328.7 million in the healthcare transportation services unit and $508.5 million in the emergency management services unit). Amortization expense related to goodwill was $87.1 million, $85.4 million and $86.8 million for the years ended August 31, 2002, 2001 and 2000, respectively. The Company believes it will incur a write-down of substantially all of the goodwill in its Greyhound and healthcare services segments and the municipal transit and paratransit bus transportation unit of its contract bus services segment and a portion of the goodwill in the school bus transportation unit of its contract bus services segment upon the adoption of SFAS No. 142.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 will require, upon adoption, that the Company recognize as a component of asset cost, the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. Under this statement, the liability is discounted and accretion expense is recognized using the credit-adjusted risk-free interest rate in effect when the liability was initially recognized. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company will be required to adopt SFAS No. 143 on September 1, 2002. The Company does not anticipate any impact from the initial adoption of SFAS No. 143.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets." This statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for the disposal of a segment of a business (as previously defined in that opinion). SFAS No. 144 is effective for consolidated financial statements issued for fiscal years beginning after December 15, 2001. The Company will be required to adopt SFAS No. 144 on September 1, 2002. The new rules change the criteria for classifying an asset as held-for-sale. The standard also broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations, and changes the timing of recognized losses on such operations. The Company does not anticipate any impact from the initial adoption of SFAS No. 144.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") issue No. 94-3 -- "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including certain costs incurred in a restructuring)." SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost was recognized at the date of the entity's commitment to the exit plan. SFAS 146 is effective for exit plans initiated after December 31, 2002.

CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

In April 1998, the AICPA issued Statement of Position 98-5, "Accounting for the Costs of Start-Up Activities," ("SOP 98-5"), effective for periods beginning after December 15, 1998. SOP 98-5 requires

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that costs of start-up activities be expensed as incurred. Start-up activities are defined as those one-time activities related to opening a new facility, introducing a new product or service, conducting business with a new class of customer or beneficiary, initiating a new process in an existing facility, or commencing a new operation. Activities related to mergers or acquisitions are not considered start-up activities and, therefore, SOP 98-5 does not change the accounting for such items. During fiscal 2000, the Company expensed $27.3 million in unamortized costs of start-up activities as a change in accounting principle.

NOTE 3 -- RESTRICTED CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Restricted cash and cash equivalents of 75.8 million (August 31, 2001 -- $37.2 million) and short-term deposits and marketable securities of $16.1 million (August 31, 2001 -- $42.4 million) are assets of the Company's wholly owned insurance subsidiaries and are used to support the current portion of claims liabilities under the Company's self-insurance program. If these amounts are withdrawn from the subsidiaries, they will have to be replaced by other suitable financial assurances. Given the recent financial position of the Company, management has concluded that such cash and cash equivalents and short-term deposits and marketable securities of the insurance subsidiaries are restricted.

NOTE 4 -- LONG-TERM INVESTMENTS

	AUGUST 31,	
	2002	2001
	(DOLLARS IN MILLIONS)	
Investments of insurance subsidiaries	$252.3	$213.6
Other restricted investments	142.7	104.5
Other	22.9	22.4
	$417.9	$340.5

The investments of the insurance subsidiaries are used to support the Company's self insurance program. The investments are comprised principally of government securities and investment grade debt securities. If these amounts are withdrawn from the subsidiaries, they will have to be replaced by other suitable financial assurances and are, therefore, considered restricted. Prior to fiscal 2002, these investments were designated to be held to maturity. In fiscal 2002, these investments have been designated as available for sale, which has resulted in the recognition of a gain of $4.4 million in other comprehensive income.

The majority of the other restricted investments relate to collateral required by the entities insuring the Company's bid and performance bonds. The collateral is required given the Company's financial position and status as a debtor-in-possession.

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NOTE 5 -- PROPERTY AND EQUIPMENT

	AUGUST 31,					
	2002			2001		
	COST	ACCUMULATED DEPRECIATION	NET	COST	ACCUMULATED DEPRECIATION	NET
	(DOLLARS IN MILLIONS)					
Land	$ 162.2	$ --	$ 162.2	$ 159.3	$ --	$ 159.3
Buildings	284.3	109.5	174.8	268.8	89.1	179.7
Vehicles	2,128.3	953.0	1,175.3	2,054.0	876.7	1,177.3
Other	417.2	251.8	165.4	389.6	225.2	164.4
	$2,992.0	$1,314.3	$1,677.7	$2,871.7	$1,191.0	$1,680.7

NOTE 6 -- PENSION PLANS

Subsidiaries of the Company sponsor 13 (August 31, 2001 -- 13) defined benefit pension plans. Four plans relate to Greyhound Canada Transportation Corp. and cover employees represented by The Canadian Auto Workers and the Amalgamated Transit Union ("ATU") and all non-unionized employees meeting certain eligibility requirements. A fifth plan is a multi-employer pension plan, instituted in 1992, to cover certain union mechanics of Greyhound Lines, Inc. ("Greyhound") represented by the International Association of Machinists and Aerospace Workers. The remaining eight plans are the following single employer pension plans maintained in the United States by Greyhound (the "Greyhound U.S. Plans"):

- Greyhound Lines, Inc. Salaried Employees Defined Benefit Plan ("Greyhound Salaried Plan");

- Greyhound Lines, Inc. Amalgamated Transit Union Local 1700 Council Retirement & Disability Plan ("ATU Plan");

- Texas, New Mexico and Oklahoma Coaches, Inc. Employees Retirement Plan;

- Vermont Transit Co. Inc. Employees Defined Benefit Pension Plan ("Vermont Transit Plan");

- Carolina Coach Company Pension Plan;

- Carolina Coach Company International Association of Machinist Pension Plan;

- Carolina Coach Company Amalgamated Transit Union Pension Plan; and

- Carolina Coach Company Supplemental Executive Retirement Plan.

The ATU Plan covers approximately 14,000 current and former employees hired before November 1, 1983 by Greyhound, fewer than 1,000 of whom are active employees. The ATU Plan provides retirement benefits to the covered employees based upon a percentage of average final earnings, reduced pro rata for service of less than 15 years. Under the terms of the collective bargaining agreement, participants in this plan accrue benefits as long as no contributions are due from the Company. During fiscal 2002, the ATU Plan actuary advised the Company and the union that the decline in the financial markets had made it likely that contributions to the ATU Plan would be required for the plan in calendar 2003. The Company and union met and agreed to freeze service and wage accruals effective March 15, 2002. The ATU Plan actuary continues to advise that contributions will be required. The Company and the union will meet to discuss the continuation of the freeze. In the event the Company and the union are unable to negotiate a method for avoiding contributions in 2003, or for years after 2003, or the Company is otherwise required to make a contribution, any such contributions could have a material adverse effect on the financial condition

of Greyhound and, as a result, the Company. The Greyhound Salaried Plan covered salaried employees of Greyhound through May 7, 1990, when the plan was curtailed. The Vermont Transit Plan covered substantially all employees at Vermont Transit Company through June 30, 2000, when the plan was curtailed. The other five Greyhound U.S. Plans cover salaried and hourly personnel of other Greyhound subsidiaries. Except as described below, it is the Company's policy to fund the minimum required contribution under existing laws.

POTENTIAL PENSION PLAN FUNDING REQUIREMENTS

For financial reporting and investment planning purposes, the Company currently uses an actuarial mortality table that closely matches the actual experience related to the existing participant population. For funding purposes, United States pension law mandates the use of a prescribed actuarial mortality table and discount rates that differ from those used by the Company for financial reporting and investment planning purposes. The ATU Plan represents approximately 75% of the total plan assets and benefit obligation as at August 31, 2002. Based upon the application of the actuarial mortality table, discount rates and funding calculations prescribed by current regulations, and further assuming a continuation of the freeze of wage and service accruals and that the ATU Plan assets can obtain annual investment returns of 7.5%, estimated Company contributions to the ATU Plan, based on the Company's policy of funding the minimum contributions required by law, will total $187 million through 2007. Lowering the assumed investment return on ATU plan assets to 5% results in estimated contributions through 2007 of $205 million, while a 10% return results in estimated contributions through 2007 of $169 million. Nevertheless, there is no assurance that the ATU Plan will be able to earn the assumed rate of return, new regulations may result in changes in the prescribed actuarial mortality table or discount rates and there may be market driven changes in the discount rates, which would result in the Company being required to make contributions in the future that differ significantly from the estimates above.

Further, in connection with its bankruptcy reorganization, the Company and the Pension Benefit Guaranty Corporation ("PBGC"), a United States government agency that administers the mandatory termination insurance program for defined benefit pension plans under the Employee Retirement Income Security Act

("ERISA"), have agreed orally to the principal economic terms relating to claims asserted by the PBGC against the Debtors regarding the funding levels of the Greyhound U.S. Plans (the "PBGC Agreement"). Under the PBGC Agreement, upon the consummation of the proposed plan of reorganization, the Company and its subsidiaries will contribute $50 million in cash to the Greyhound U.S. Plans and the Company will transfer shares of its post-reorganization common stock equal in value to $50 million to a trust formed for the benefit of such plans (the "Pension Plan Trust"). The PBGC Agreement provides that the PBGC will be granted a first priority lien on the common stock held in the Pension Plan Trust. All proceeds of stock sales will be contributed directly to the Greyhound U.S. Plans. The PBGC will have non-voting participation in these sale decisions. If the proceeds from the sales of common stock exceed $50 million, the excess amount may be credited against the next-due minimum funding obligations of the Company and its subsidiaries, but will not reduce the June 2004 required contribution under the PBGC Agreement. If the proceeds from the sales of common stock do not aggregate $50 million, the Company and its subsidiaries will be required to contribute the amount of the shortfall in cash to the Greyhound U.S. Plans at the end of 2004. Further, the Company and its subsidiaries will contribute an additional $50 million in cash to the Greyhound U.S. Plans in June 2004. These contributions and transfers will be in addition to the contributions to the Greyhound U.S. Plans, if

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any, required under the minimum funding requirements of ERISA. The PBGC also will receive a second priority lien on the assets of the Company's operating subsidiaries (other than Greyhound).

	AUGUST 31,	
	2002	2001
	(DOLLARS IN MILLIONS)	
CHANGE IN BENEFIT OBLIGATION:		
Benefit obligation at beginning of year	$828.6	$828.5
Service cost	6.6	8.3
Interest cost	59.1	59.6
Plan participants' contributions	0.2	0.2
Plan amendments	(8.0)	--
Actuarial loss	3.4	18.2
Benefits paid	(83.6)	(83.5)
Foreign exchange	(0.9)	(2.7)
Benefit obligation at end of year	$805.4	$828.6
CHANGE IN PLAN ASSETS:		
Fair value of plan assets at beginning of year	$838.8	$893.7
Actual return on plan assets	(10.7)	22.8
Employer contributions	4.3	6.9
Plan participants' contributions	1.7	1.7
Benefits paid	(83.6)	(83.5)
Foreign exchange	(1.1)	(2.8)

Fair value of plan assets at end of year	$749.4	$838.8
Funded status	$(56.0)	$ 10.2
Unrecognized transition asset	(10.1)	(12.0)
Unrecognized prior service costs	(8.2)	(0.2)
Unrecognized net loss	112.2	41.2
Prepaid benefit cost	$ 37.9	$ 39.2

	AUGUST 31,	
	2002	2001
	(DOLLARS IN MILLIONS)	
ALLOCATED ON THE BALANCE SHEET AS FOLLOWS:		
Pension asset	$ 10.8	$45.2
Other long-term liabilities	(64.8)	(6.0)
Accumulated other comprehensive loss	91.9	--
	$ 37.9	$39.2

The Company is required to record an additional minimum pension liability when the pension plans' accumulated benefit obligation exceed the plans' assets by more than the amounts previously accrued for as pension costs. These charges are recorded as a reduction to shareholders' equity, as a component of accumulated other comprehensive loss. During the year, after obtaining the most recent actuarial valuation performed as of May 31, 2002, the Company recorded an increase in the minimum liability of $91.9 million. Subsequent to the most recent actuarial valuation, there has been a further decline in the value of plan assets. The Company believes that if plan assets remain at current levels and interest rates remain unchanged through the rest of calendar 2002, it will be required to further increase the minimum pension liability. Although the exact amount of the additional charge to shareholders' equity is not known at this time, it could exceed $100 million.

Nine of the Company's pension plans (August 31, 2001 -- seven) have projected and accumulated benefit obligations in excess of plan assets, for which the projected benefit obligation, accumulated benefit obligation and fair value of plan assets are $687.3 million, $685.3 million and $618.7 million, respectively, as of August 31, 2002 ($68.9 million, $67.2 million and $61.5 million, respectively as at August 31, 2001). The ATU Plan is one of the nine plans that at August 31, 2002 have projected and accumulated benefit obligations in excess of plan assets. At August 31, 2001, the ATU Plan had assets in excess of projected and accumulated benefit obligations.

Assets of the various plans consist primarily of government-backed securities, corporate equity securities, guaranteed insurance contracts, annuities and corporate debt obligations.

In determining the benefit obligations and service costs for the Company's defined benefit pension plans, the following assumptions were used:

	AUGUST 31,		
	2002	2001	2000
	(DOLLARS IN MILLIONS)		
WEIGHTED-AVERAGE ASSUMPTIONS FOR END OF YEAR DISCLOSURE:			
Discount rate	7.2%	7.4%	7.7%
Rate of salary progression	3.9%	3.9%	4.0%
Expected long-term rate of return on plan assets	7.3%	7.9%	7.7%
COMPONENTS OF NET PERIODIC PENSION (INCOME) COSTS:			
Service cost	$ 6.6	$ 8.3	$ 8.7
Interest cost	59.1	59.6	58.7
Expected return on assets	(58.7)	(61.9)	(66.9)
Amortization of actuarial gain and transition asset	(0.6)	(1.5)	(0.9)
Net periodic pension (income) cost	$ 6.4	$ 4.5	$ (0.4)

NOTE 7 -- ACCRUED LIABILITIES

	AUGUST 31,	
	2002	2001
	(DOLLARS IN MILLIONS)	
Accrued wages and benefits	$112.0	$107.9
Current portion of claims liabilities (Note 9)	185.2	130.5
Accrued vacation pay	43.9	33.8
Other	163.0	158.7
	$504.1	$430.9

NOTE 8 -- LONG-TERM DEBT

WEIGHTED AVERAGE INTEREST RATE

	MATURITY	AUGUST 31, 2002	AUGUST 31, 2001	AUGUST 31, 2002	AUGUST 31, 2001
			(DOLLARS IN MILLIONS)		
DEBT PAYABLE WITHIN ONE YEAR					
Notes and other		9.2%	9.2%	$ 20.3	$ 31.6
LONG-TERM DEBT					
Notes and other	2004-2033	10.8%	9.9%	204.4	248.6
Total debt				$224.7	$280.2

Long-term debt of $224.7 million at August 31, 2002 includes $47.2 million of secured debt incurred to finance vehicles, facilities and other equipment. The balance of $177.5 million is unsecured debt.

REPAYMENT SCHEDULE

The aggregate amount of minimum payments required on long-term debt in each of the years indicated is as follows:

YEAR ENDING AUGUST 31,	(DOLLARS IN MILLIONS)
2003	$ 20.3
2004	15.5
2005	13.0
2006	12.8
2007	157.7
thereafter	5.4
	$224.7

DEBTOR-IN-POSSESSION FACILITY

To ensure sufficient liquidity to meet ongoing operating needs, the Company obtained debtor-in-possession ("DIP") financing from General Electric Capital (the "DIP Facility"). The DIP Facility is guaranteed by certain of the Company's direct and indirect subsidiaries located in the United States and

Canada (other than Greyhound and its subsidiaries and joint ventures)(collectively, the "Guarantors"). The term of the DIP Facility will expire on the earliest of (a) August 8, 2003, (b) the prepayment in full of all amounts outstanding under the DIP Facility and the termination of the lenders' commitments thereunder and (c) the effective date of the approved plan of

reorganization.

The maximum aggregate borrowing available under the DIP Facility is $200.0 million. The total borrowing available to LIFC, Laidlaw Transportation Management, Inc., LTI, Laidlaw One and Laidlaw USA (the "US Borrowers") is $180.0 million (the "U.S. DIP Facility"), including a letter of credit sub-facility of $100.0 million (the "US LC DIP Sub-Facility"). The maximum borrowing available to the Company and LIL (the "Canadian Borrowers") is $20.0 million (the "Canadian DIP Facility"), including a letter of credit sub-facility of $10.0 million (the "Canadian LC DIP Sub-Facility"). The total maximum usage of the U.S. LC DIP Sub-Facility and the Canadian LC DIP Sub-Facility is not to exceed $100.0 million at any time.

The amount of credit available to the Borrowers under the DIP Facility is based on the Borrowers' last twelve-months earnings before interest, taxes, depreciation and amortization ("EBITDA"). Further, certain non-core operating entities are subject to maximum availability limits based on their respective EBITDA performance. The Borrowers may use the proceeds of loans made under the DIP Facility for working capital and other general corporate purposes of the Borrowers.

Borrowings under each facility bear interest at the Borrowers' option, at rates per annum equal to either (1) a one, two or three month reserve adjusted LIBOR plus 2.0% or (2) a floating rate equal to the index rate plus 0.5%. The Borrowers pay letter of credit fees to each administrative agent under each facility equal to 2.0% per annum of the face amount of the letters of credit.

Other fees consist of (1) an unused facility fee equal to 0.5% per annum on the average unused daily balance of each facility and (2) a prepayment premium in the amount of 1.0% of the aggregate commitments under each facility if prepayment is the result of any Borrower defaults, voluntary termination (with the exception of emergence from the Reorganization Cases) or refinancing of any part of such facility with another financing prior to August 8, 2003. Finally, the Borrowers and the Guarantors also paid a $2.0 million fee to the agents during fiscal 2001.

To secure the Borrowers' obligations under each facility, the Borrowers granted a first priority lien on all of the existing and after-acquired assets of the Borrowers. To secure the Guarantors' obligations under the DIP Facility, the Guarantors granted a security interest in all of the assets of the Guarantors, subject to certain exceptions contained in the DIP Facility documentation.

As of August 31, 2002, the Company had no borrowings under the DIP Facility, but issued letters of credit of $25.5 million and had $174.5 million of availability.

The Company was in default as of August 31, 2002 of several financial covenants contained in the DIP facility. The defaults relate to the failure by several of the Company's operating entities to meet minimum EBITDA thresholds for the period ended August 31, 2002. In addition, several operating entities did not meet the capital expenditure requirements specified under the DIP Facility for the fiscal quarter ended August 31, 2002. The Company received a waiver under the DIP facility with respect to these defaults and expects to obtain future waivers. There is no assurance such waivers will be obtained.

THE GREYHOUND FACILITY

In October 2000, Greyhound entered into a revolving credit facility, expiring October 24, 2004, with Foothill Capital Corporation to fund working capital needs and for general corporate purposes (the

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"Greyhound Facility"). Greyhound was extended a revolving line of credit in an amount of $125.0 million including a sub-facility of $50.0 million for letters of credit. Borrowings initially bore interest at a rate equal to Wells Fargo Bank's prime rate plus 0.5% per annum or LIBOR plus 2.0% as selected by Greyhound. After December 31, 2000, the interest rates were subject to quarterly adjustment based upon Greyhound's ratio of debt to EBITDA, as defined in the agreement, for the four previous quarters. Letters of credit fees are based on the then applicable LIBOR margins. The Greyhound Facility is secured by liens on substantially all of the assets of Greyhound and the stock and assets of certain of its subsidiaries and is subject to certain affirmative and negative operating and financial covenants. As of August 31, 2002, Greyhound was in compliance with all such covenants, including restrictions on the redemption or retirement of certain subordinated indebtedness or equity interest, payment of dividends and transactions with affiliates, including the Company.

Based upon Greyhound's fiscal 2003 operating budget, management anticipates remaining in compliance with these covenants, although only by a small margin during fiscal 2003. Management is closely monitoring this situation and intends on requesting covenant amendments should it appear likely such amendments will be necessary to remain in compliance with the covenants, although, there is no assurance that such amendments will be granted.

As of August 31, 2002, the Company had no borrowings under the Greyhound Facility, but issued letters of credit of $26.8 million and had availability of $98.2 million.

NOTE 9 -- OTHER LONG-TERM LIABILITIES

	AUGUST 31,	
	2002	2001
	(DOLLARS IN MILLIONS)	
Claims liabilities	$258.9	$245.5
Professional liability	48.9	34.2
Pension liability (Note 6)	64.8	6.0
Other	69.5	87.9
	$442.1	$373.6

CLAIMS LIABILITIES

The Company's $444.1 million (current liabilities of $185.2 million and non-current liabilities of $258.9 million) of claims liabilities as at August 31, 2002 (August 31, 2001 -- $376.0 million) represent claim reserves under the Company's insurance programs. The total claims liabilities represent non-discounted reserves of $508.2 million (August 31, 2001 -- $423.1 million) discounted at 5.5% (August 31, 2001 -- 5.5%). Generally, the Company retains

liability for auto, general and workers' compensation claims, where permitted, for the first $5 million of any one occurrence. For fiscal 2001, the Company purchased third-party aggregate stop loss insurance to limit the Company's exposure to losses between $3 million and $5 million and third-party insurance for losses in excess of $5 million. Effective September 1, 2001, the Company did not continue with the stop loss insurance coverage for losses between $3 million and $5 million per occurrence. As a result, for claims incurred on September 1, 2001 and onwards, the Company's exposure is generally for the first $5 million of any one occurrence with third-party insurance to minimize exposure on losses in excess of $5 million. These insurance arrangements are

utilized to limit maximum loss, provide greater diversification of risk and minimize exposure to loss. The current portion of these liabilities represents the payments expected to be made during the next 12 months.

PROFESSIONAL LIABILITY

The Company's $51.9 million (current liabilities of $3.0 million and non-current liabilities of $48.9 million) of professional liability reserves as at August 31, 2002 (August 31, 2001 -- $34.2 million) represent reserves for the Company's professional liability insurance programs. The total professional liability reserves represent non-discounted reserves of $59.1 million (August 31, 2001 -- $40.3 million) discounted at 6.0% (August 31, 2001 -- 6.0%).

Professional liability insurance for up to a limit of $1 million per occurrence is provided to the majority of physicians who are employed or contracted by companies under service agreements with the Company. Although the majority of the professional liability insurance available for physicians is provided in this manner, the contracted physicians may obtain their own professional liability insurance directly or through the contracting hospital with the Company's consent.

Prior to January 1, 2002, the Company procured such insurance coverage for professional liability claims on a claims-made basis. A previous insurance program with PHICO Insurance Company (the "PHICO Policies" and "PHICO"), which expired on January 1, 2001, provided an aggregate self-insurance retention for the first $27.0 million of claims incurred and reported during the period October 1, 1997 to January 1, 2001. The self-insurance retention amounts were completely paid as at August 31, 2002. In December 2000, the Company purchased an extended reported policy ("ERP") for the PHICO Policies covering claims reported after January 1, 2001, but incurred during the coverage period of the PHICO Policies, for a premium of $18.0 million. The ERP has an aggregate limit of $40.0 million. For calendar 2001, the Company purchased insurance which provides up to $10.0 million of coverage on a first year claims-made basis.

Effective January 1, 2002, the Company self-insured professional liability claims for claims incurred during calendar 2001 and reported on or after January 1, 2002 and for claims occurring on or after January 1, 2002.

On February 1, 2002, PHICO was placed into liquidation by the Insurance Commissioner of the Commonwealth of Pennsylvania. The PHICO Liquidation Order will impact pending professional liability claims covered under the PHICO Policies and both pending claims under the ERP and claims not yet reported under the ERP. Those claims pending under the PHICO Policies will be eligible for

coverage under individual state guaranty funds, subject to various limitations and exclusions based upon net worth of the insured and the presence of other applicable insurance. The amount of coverage available under each state guaranty fund will vary according to the limits and specific provisions of those funds. Those claims falling within the coverage of the ERP will also be eligible for coverage under the individual state guaranty funds, although the guaranty fund provisions may apply differently to claims under the ERP. Some state guaranty funds may deny coverage for any claims under the ERP brought after March 2, 2002. The Company is pursuing various options in an attempt to maximize insurance coverage for ERP claims, including litigation as necessary.

The Company has an estimated $91.0 million in reported claims and incurred but not reported claims ("IBNR") based on reported claim reserves, development factors and actuarial analysis of IBNR related to the PHICO Policies and the ERP. Of this amount, it is estimated that $27.2 million of claim costs as at August 31, 2002 ($22.0 million when discounted at 6%) (August 31, 2001 -- $17.0 million when discounted at 6%) may likely exceed or be excluded from specific state fund guaranty limits or exceed the

ERP's $40.0 million aggregate limit and would be borne by the Company. As at August 31, 2002, the Company has fully provided for its estimated liability.

NOTE 10 -- LIABILITIES SUBJECT TO COMPROMISE

The principal categories of claims classified as liabilities subject to compromise under reorganization proceedings are identified below. All amounts below may be subject to future adjustment depending on Bankruptcy Court action, further developments with respect to disputed claims, or other events, including the reconciliation of claims filed with the Bankruptcy Court to amounts included in the Company's records. Additional prepetition claims may arise from the rejection of additional executory contracts or unexpired leases by the Company. Under a confirmed plan or plans of reorganization, all prepetition claims may be paid and discharged at amounts substantially less than their allowed amounts.

On a consolidated basis, recorded liabilities subject to compromise under the reorganization proceedings consisted of the following:

	AUGUST 31,	
	2002	2001
	(DOLLARS IN MILLIONS)	
Accrued liabilities	$ 11.3	$ 12.7
Safety-Kleen Guarantees (Notes 13 and 25)	77.3	77.3
Derivative liabilities (Note 14)	89.5	89.5
Safety-Kleen settlement (Notes 13 and 25)	225.0	225.0
Accrued interest payable	370.7	370.7
Facility (as defined in Note 14)	1,163.3	1,163.3
Debentures (as defined in Note 14)	2,040.0	2,040.0
	$3,977.1	$3,978.5

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As a result of the Debtors' chapter 11 filing, principal and interest payments may not be made on pre-petition debt of the Debtors without Bankruptcy Court approval or until a reorganization plan or plans defining the repayment terms, has been confirmed. The total interest on pre-petition debt that was not paid or accrued during fiscal 2002 was $274.2 million ($324.5 million since June 29, 2001). The Bankruptcy Code generally disallows the payment of interest that accrues post-petition with respect to unsecured or under-secured claims.

The Debtors are parties to litigation matters and claims that are incurred in the normal course of its operations. Generally, litigation related to "claims," as defined by the Bankruptcy Code, is stayed. The outcome of the bankruptcy process on these matters cannot be predicted with certainty.

In addition to items for which liabilities subject to compromise have been reflected in these consolidated financial statements, proofs of claim in the amount of approximately $150 million have been filed against the Debtors and will need to be addressed in proceedings before the Bankruptcy Court and the Canadian Court. The Company continues to review the proofs of claim and has filed or will file appropriate objections to the claims in the Bankruptcy and Canadian Courts. As of November 30, 2002, the Company believes it has identified approximately $94 million, which relate to obligations of the operating subsidiaries of the Company and $43 million of such claims which are duplicative or without merit.

NOTE 11 -- SHAREHOLDERS' EQUITY

If the plan of reorganization (See Note 1) is approved, all outstanding Common Shares, options to acquire Common Shares and Preference Shares will be cancelled.

(1) CAPITAL STOCK

(A) AUTHORIZED

An unlimited number of Common Shares.

An unlimited number of First, Second, Third and Fourth Preference Shares, each of which is issuable in series, are authorized. Unlimited numbers are designated as First Preference Shares Series E, Convertible First Preference Shares Series F and Convertible First Preference Shares Series G.

(B) ISSUED AND FULLY PAID PREFERENCE SHARES

The preference shares that have been issued by the Company are 5% Cumulative Convertible First Preference Shares Series G; issued at Cdn. $20 per share, redeemable at the Company's discretion, at Cdn. $20 per share.

(C) DIVIDENDS

The dividends paid per share are as follows:

DIVIDENDS PER SHARE	2002	2001	2000
(Cdn.$)			
-- Preference Shares	$ --	$ 0.82	$ 1.00
-- Common Shares	--	--	0.14
(U.S. $ equivalent)			
-- Preference Shares	$ --	$0.540	$0.680
-- Common Shares	--	--	0.095

Because of the May 18, 2000 interest payment moratorium, declared by the Company, on all its advances under the Facility (as defined in Note 14) and on the Debentures (as defined in Note 14), no dividends have been declared or paid on either the Company's common or preference shares since February 15, 2000.

As a result of the Debtors' chapter 11 filing, dividends, including dividends on the cumulative preference shares, may not be made without bankruptcy court approval or until a reorganization plan or plans defining the payment terms, has been confirmed.

(D) STOCK OPTION AND STOCK PURCHASE PLANS

The Company has two existing employee stock option plans, a directors' stock option plan and employee stock purchase plans. Due to the Company's voluntary petition for reorganization, no options have been granted or exercised during fiscal 2002 or fiscal 2001. For more information on these plans, see Note 25.

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LAIDLAW INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2002 -- (CONTINUED)

(2) ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss is comprised of the following:

	UNREALIZED GAIN (LOSS) ON SECURITIES			FOREIGN CURRENCY ITEMS			PENSION ADJUST	
YEAR ENDED AUGUST 31,	2002	2001	2000	2002	2001	2000	2002	2001
	(DOLLARS IN MILLIONS)							
Beginning balance	$0.9	$(5.3)	$(1.7)	$(169.3)	$(165.0)	$(168.4)	$ --	$ --
Current period change	3.7	6.2	(3.6)	(2.1)	(4.3)	3.4	(91.9)	--
Ending balance	$4.6	$ 0.9	$(5.3)	$(171.4)	$(169.3)	$(165.0)	$(91.9)	$ --

YEAR ENDED AUGUST 31,	ACCUMULATED OTHER COMPREHENSIVE LOSS 2002	2001	2000
	(DOLLARS IN MILLIONS)		
Beginning balance.........	$(168.4)	$(170.3)	$(170.1)
Current period change.....	(90.3)	1.9	(0.2)
Ending balance............	$(258.7)	$(168.4)	$(170.3)

NOTE 12 -- FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments," requires disclosure of the fair value of financial instruments. The following methods and assumptions were used by the Company in estimating the fair value disclosures for its financial instruments.

For cash and cash equivalents, accounts receivable, other receivables, income tax recoverables, accounts payable and accrued liabilities, the carrying amounts reported in the consolidated balance sheets approximate fair value. The fair values of the short-term deposits and marketable securities and long-term investments are based upon quoted market prices at August 31, 2002 and 2001, where available. For the portion of short-term deposits and marketable securities and long-term investments where no quoted market price is available, the carrying amounts are believed to approximate fair value. For the long-term debt, the fair values are estimated using discounted cash flow analysis, based upon the Company's incremental borrowing rates for similar types of borrowing arrangements or based upon quoted market values. The carrying value of other long-term liabilities approximate carrying value as these liabilities are recorded using discounted cash flow analysis.

The carrying amounts and fair values of the Company's financial instruments are as follows:

	AUGUST 31, 2002 CARRYING AMOUNT	2002 FAIR VALUE	2001 CARRYING AMOUNT	2001 FAIR VALUE
	(DOLLARS IN MILLIONS)			
Short-term deposits and marketable securities...	$ 16.1	$ 16.1	$ 26.2	$ 26.2
Long-term investments				
Investments of insurance subsidiaries.........	252.3	252.3	213.6	218.0
Other restricted investments.................	142.7	142.7	104.5	104.5
Other...	22.9	22.9	22.4	22.4
Long-term debt................................	224.7	211.1	280.2	266.7
Other long-term liabilities...................	442.1	442.1	373.6	373.6
Liabilities subject to compromise..............	3,977.1	*	3,978.5	*

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* The fair value of liabilities subject to compromise is not practicable to estimate as the fair value will only become known on the emergence from the voluntary petition for reorganization.

NOTE 13 -- DISCONTINUED OPERATIONS

HEALTHCARE BUSINESSES

During fiscal 2001, the Company concluded that the previously announced disposal of the healthcare businesses was no longer in the best interests of its stakeholders. The healthcare services businesses were therefore reinstated as continuing operations in fiscal 2001 and earlier years were reclassified.

As a result of recontinuing the healthcare services businesses in fiscal 2001, the Company reversed the remaining provision for loss on sale of discontinued operations. This reversal totaled $1,927.6 million ($5.91 per share) in fiscal 2001.

During fiscal 2000 and fiscal 1999, while the healthcare businesses were considered discontinued operations, the Company recorded provisions for loss on sale of $955.5 million ($2.92 per share) and $974.0 million ($2.98 per share), respectively.

SAFETY-KLEEN CORP.

The Company owns 44% of the common shares of Safety-Kleen. On June 9, 2000, Safety-Kleen announced that it and 73 of its U.S. subsidiaries filed voluntary petitions for Chapter 11 relief in the United States Bankruptcy Court for the District of Delaware.

During fiscal 2002, the Company abandoned its investment in Safety-Kleen. As a result, the operations for Safety-Kleen have been reported as discontinued operations and previously reported financial statements have been reclassified.

The summarized statements of operations for Safety-Kleen are as follows:

	YEAR ENDED AUGUST 31,		
	2002	2001	2000
	(DOLLARS IN MILLIONS)		
Equity in earnings	$--	$ --	$ 10.8
Investment impairment and other losses	--	(255.2)	(670.8)
	$--	$(255.2)	$(660.0)

During fiscal 2000, the Company recorded provisions for (i) investment impairment charges totaling $603.8 million to reduce the investment in Safety-Kleen to a nominal amount, (ii) $61.6 million owing under a guarantee by

the Company of a Safety-Kleen note and (iii) $5.4 million for other amounts owing from Safety-Kleen.

During fiscal 2001, pursuant to a resolution in fiscal 2002 of various disputes between the Company and Safety-Kleen, the Company recorded provisions for (i) a $225.0 million claim in favor of Safety-Kleen as a general unsecured claim in Class 6 of the Company's plan of reorganization, (ii) $15.7 million related to guarantees of certain industrial revenue bonds, (iii) $7.8 million related to insurance matters, (iv) $6.0 million related to guarantees of performance bonds and (v) $0.7 million related to certain other litigation matters. These items are described further in Note 24.

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LAIDLAW INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2002 -- (CONTINUED)

CONTINGENCIES RELATED TO SAFETY-KLEEN CORP.

For information on guarantees and other contingencies related to Safety-Kleen, see Note 24.

RESTATED FINANCIAL STATEMENTS OF SAFETY-KLEEN CORP.

On July 9, 2001, Safety-Kleen issued consolidated financial statements for the year ended August 31, 2000 and restated consolidated financial statements for the years ended August 31, 1997 through August 31, 1999 and, on September 26, 2001, issued interim consolidated financial statements for the nine months ended May 31, 2001, including financial information for the first, second and third quarters of fiscal 2001. Safety-Kleen reported that it had not restated any quarterly financial results for periods prior to fiscal 2001.

Management of the Company has not been provided access to all of the supporting information for Safety-Kleen's restated consolidated financial statements. As a result, the Company has not been able to assess the basis upon which Safety-Kleen restated its financial statements. In addition, given the Company's varying ownership percentages of Safety-Kleen throughout fiscal 2000, 1999, 1998 and 1997, the Company is unable to determine what impact, if any, that Safety-Kleen's restatement may have on the Company's previously reported results for fiscal years ended August 31, 2000 and prior years.

Because the Company wrote off the value of its investment in Safety-Kleen during fiscal 2000, Safety-Kleen's restated consolidated financial statements and its reported fiscal 2000 results would not result in any adjustments to the Company's previously reported consolidated balance sheet as of August 31, 2000 nor to any consolidated balance sheets reported for any period ending subsequent to August 31, 2000. However, given the Safety-Kleen restatement and assuming the accuracy thereof, a portion of the losses associated with the impairment of the Company's investment in Safety-Kleen that were recorded as part of the $660.0 million loss relating to Safety-Kleen, reflected in the Company's consolidated statement of operations for the fiscal year ended August 31, 2000, may be properly allocable to earlier fiscal periods.

Given the Company's varying ownership percentages in Safety-Kleen and the lack of access to all of the supporting information for Safety-Kleen's restatements, the Company is only able to estimate the effect of Safety-Kleen's restatements on the Company's statements of operations. These estimated ranges are as follows:

YEAR ENDED AUGUST 31,	THE COMPANY'S OWNERSHIP PERCENTAGE IN SAFETY-KLEEN DURING THE PERIOD	SAFETY-KLEEN'S REPORTED ADJUSTMENTS: INCOME (LOSS)	THE COMPANY'S ESTIMATED OF POTENTIAL ADJUSTMEN INCOME (LOSS)
		(DOLLARS IN MILLIONS)	
Pre-2000................	35.3% to 100.0%	$(588.1)	$(217.6) to $(262.3)
2000....................	43.5% to 43.6%	N/A	217.6* to 262.3*
Total for all years......	35.3% to 100.0%	$(588.1)	$ -- to $ --

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* The estimated range of adjustments recorded prior to the second quarter of fiscal 2000 would decrease the reported investment impairment loss in fiscal 2000.

While the Company has not restated its previously reported consolidated financial results and has recorded no equity income or loss with respect to its investment in Safety-Kleen since November 30, 1999, if Safety-Kleen reports or provides the Company with the required quarterly financial information for the restated fiscal periods and if Safety-Kleen enables the Company to assess the supporting information for its

restatements, the Company may be required to restate its consolidated financial statements for the fiscal years ended August 31, 2000 and prior years.

NOTE 14 -- OTHER FINANCING RELATED EXPENSES

The Company has incurred the following pre-tax charges as a result of (i) events of default under the Company's $1.425 billion syndicated bank facility (the "Facility"), (ii) events of default on certain Company debentures totaling $2.04 billion (the "Debentures") and (iii) the voluntary petition for reorganization as described in Note 1:

	YEAR ENDED AUGUST 31,		
	2002	2001	2000
	(DOLLARS IN MILLIONS)		
Net hedging losses on interest rate swaps..................	$ --	$ --	$ 71.7
Deferred financing costs..................................	--	--	15.3
Interest earned on cash accumulated during Chapter 11 and CCAA...	(1.4)	(0.2)	--
Professional fees and other costs.........................	46.1	64.0	14.5
	$44.7	$63.8	$101.5

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Prior to fiscal 2000, the Company had entered into interest rate swap contracts and interest rate options (collectively, the "Swaps") to lower funding costs and alter interest rate exposures. As a result of violations of the covenants under the Facility and the Debentures and the interest payment moratorium, the counterparties terminated all Swap contracts. In addition, the Swaps were no longer effective hedges, as the various debentures that they were hedging had become current obligations. Therefore, the market value of the Swaps as of the termination date of the Swap contracts of $89.5 million, net of deferred swap premiums of $17.8 million, was accrued and expensed during the year ended August 31, 2000.

Deferred financing costs totaling $15.3 million relating to the Debentures, which previously were being amortized over the life of the related debt instruments, were expensed during the year ended August 31, 2000.

Professional fees and other costs include financing, accounting, legal and consulting services incurred by the Company during the ongoing negotiations with the Facility members and Debenture holders and relating to the voluntary petition for reorganization. None of these services were provided by the Company's independent auditors.

Upon the successful completion of the proposed reorganization, the Company expects to pay completion fees, which may be approximately $15 million. The Company has not accrued for these fees.

NOTE 15 -- INCOME TAXES

Income (loss) from continuing operations before income taxes and provision for (recovery of) income taxes by geographic area are as follows:

	YEAR ENDED AUGUST 31,		
	2002	2001	2000
	(DOLLARS IN MILLIONS)		
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES			
United States and foreign			
Before other financing related expenses and cumulative effect of change in accounting principle	$(20.8)	$ (21.2)	$ (64.0)
Other financing related expenses	(15.1)	(58.9)	(11.3)
Cumulative effect of change in accounting principle	--	--	(27.3)
	(35.9)	(80.1)	(102.6)
Canada			
Before other financing related expenses	70.6	(207.3)	(183.0)
Other financing related expenses	(29.6)	(4.9)	(90.2)

	41.0	(212.2)	(273.2)
Total			
Before other financing related expenses and accumulated effect of change in accounting principle	49.8	(228.5)	(247.0)
Other financing related expenses	(44.7)	(63.8)	(101.5)
Cumulative effect of change in accounting principle	--	--	(27.3)
	$ 5.1	$(292.3)	$(375.8)

	YEAR ENDED AUGUST 31,		
	2002	2001	2000
	(DOLLARS IN MILLIONS)		
Provision for (recovery of) current income taxes			
United States and foreign	$(10.8)	$(48.3)	$ 5.9
Canada	1.0	2.5	0.7
Total	$ (9.8)	$(45.8)	$ 6.6
Provision for deferred income taxes			
United States and foreign	$ --	$ --	$161.3
Canada	--	--	93.9
	$ --	$ --	$255.2
Total provision for (recovery of) income taxes			
United States and foreign	$(10.8)	$(48.3)	$167.2
Canada	1.0	2.5	94.6
	$ (9.8)	$(45.8)	$261.8

The Company's effective income tax rates on income from continuing operations before goodwill impairment losses, other financing related expenses and cumulative effect of change in accounting principles are as follows:

	YEAR ENDED AUGUST 31,			
	2002		2001	2000
	$	%	%	%
	(DOLLARS IN MILLIONS)			

Combined basic Canadian Federal and Provincial income taxes	$ 19.6	39.4%	(42.8)%	(44.2)%
Effect of lower taxes applicable to U.S. and foreign income	(3.7)	(7.4)	5.9	(18.6)
Permanent differences	34.1	68.5	13.4	19.5
Unrecognized current year benefit	--	--	30.0	50.9
Foreign loss carryback realized	(13.2)	(26.5)	(26.3)	--
Valuation reserve adjustments	(47.3)	(95.0)	--	98.7
Other	0.7	1.3	(0.2)	(0.3)
Effective income taxes	$ (9.8)	(19.7)%	(20.0)%	106.0%

The deferred income tax assets and liabilities contain the following temporary differences:

	AUGUST 31,	
	2002	2001
	(DOLLARS IN MILLIONS)	
Deferred income tax assets:		
Net operating loss carryforwards	$ 393.1	$ 387.3
Interest deduction carryforwards	268.0	290.1
Accruals not yet deducted and other items	366.5	290.9
Deferred income tax assets	1,027.6	968.3
Deferred income tax liabilities:		
Difference in property and equipment and goodwill basis	181.4	173.3
Net deferred income tax asset before valuation reserve	846.2	795.0
Valuation reserve	(846.2)	(795.0)
Total	$ --	$ --

During fiscal 2001, the Company recovered foreign taxes previously paid of $60.0 million.

The Company has net operating loss carryforwards of approximately $1.25 billion that, depending upon the jurisdiction, expire between the years 2003 and 2022. Net operating loss carryforwards of approximately $680 million, which expire between 2003 and 2009 and capital loss carryforwards of approximately $122 million, with no limitation on expiration, are associated with its Canadian incorporated entities. Net operating loss carryforwards of approximately $445 million are associated with its United States incorporated entities and expire between 2010 and 2022. If the plan of reorganization (See Note 1) is approved, it is projected that a significant portion of the net operating loss carryforwards and all of the capital loss carryforwards will be reduced as a result of the forgiveness of debt resulting in no anticipated cash taxes. In addition, the Company has $706 million of deferred interest expense for income tax purposes, with no limitation on expiration.

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During fiscal 2000, the Company believed it was no longer more likely than not that it would realize these benefits and accordingly, increased the valuation reserve by $243.9 million to fully provide for the net deferred income tax assets. In addition, a deferred income tax asset of $21.5 million relating to the Company's investment in Safety-Kleen was charged as a tax expense (refer to Note 13).

NOTE 16 -- EARNINGS (LOSS) PER SHARE

The earnings (loss) per share figures are calculated using the weighted average number of shares outstanding during the respective fiscal years. Assumed exercise of the employee and directors' stock options would not be dilutive in any of the respective fiscal years.

Under the proposed plan of reorganization, the existing common shares, preferred shares and stock options will be cancelled and new common stock will be issued to the Debtors' creditors who have prepetition amounts owing. The plan of reorganization has yet to be confirmed by the courts.

Information required to calculate the basic or primary earnings per share is as follows:

	YEAR ENDED AUGUST 31,		
	2002	2001	2000
	(DOLLARS IN MILLIONS EXCEPT PER SHARE AMOUNTS)		
Income (loss) from continuing operations before cumulative effect of change in accounting principle	$ 14.9	$ (246.5)	$ (610.3)
Preference share dividends	--	(0.3)	(0.4)
Income (loss) from continuing operations available to common shareholders before cumulative effect of change in accounting principle	14.9	(246.8)	(610.7)
Income (loss) from discontinued operations (Note 13)	--	1,672.4	(1,615.5)
Cumulative effect of change in accounting principle	--	--	(27.3)
Net income (loss) available to common shareholders	$ 14.9	$1,425.6	$(2,253.5)
Weighted average number of shares outstanding (millions)	325.9	325.9	327.0
Earnings (loss) per share			
Continuing operations	$ 0.05	$ (0.76)	$ (1.87)
Discontinued operations	--	5.13	(4.94)
Cumulative effect of change in accounting principle	--	--	(0.08)
Net income (loss)	$ 0.05	$ 4.37	$ (6.89)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2002 -- (CONTINUED)

NOTE 17 -- STATEMENT OF CASH FLOWS

	YEAR ENDED AUGUST 31,		
	2002	2001	2000
	(DOLLARS IN MILLIONS)		
CASH PROVIDED BY (USED IN) FINANCING OTHER WORKING CAPITAL ITEMS COMPRISES:			
Trade and other accounts receivable	$31.7	$ 22.5	$44.5
Income taxes recoverable	(7.6)	(3.7)	5.1
Parts and supplies	(0.9)	(1.8)	(7.5)
Other current assets	21.2	(15.4)	0.6
Accounts payable and accrued liabilities	1.8	(44.8)	(7.7)
	$46.2	$ (43.2)	$35.0

During fiscal 2002, the Company purchased $31.3 million worth of vehicles that were financed by debt (2001 -- $24.1 million, 2000 -- $17.6 million).

NOTE 18 -- SALE OF ASSETS

During fiscal 2002, the Company received $4.2 million for various notes receivable previously written off. These transactions resulted in a pre-tax gain of $4.2 million, which was included in other