



**BFI CANADA INCOME FUND**

**SECOND QUARTER 2008**

**CONFERENCE CALL**

**AUGUST 8, 2008**

OPERATOR: Good morning ladies and gentlemen and thank you for standing by. Welcome to the BFI Canada Inc. Second Quarter Results Conference Call. At this time all participants are in a listen-only mode. Following the presentation, we will conduct a Question and Answer session. Instructions will be provided at that time for you to queue up for questions. If anyone has any difficulties hearing the conference, please press star key followed by zero for operator assistance at any time.

I would like to remind everyone that this conference call is being recorded today, Friday, August 8, 2008 at 8:30 a.m. Eastern Time. And then I will now like to turn the conference over to Ms. Chaya Cooperberg, Director, Relations and Corporate Communications.

Ms. Cooperberg, please go ahead.

CHAYA COOPERBERG (Director, Relations and Corporate Communications): Thank you and thank you all for joining us today. On the call is Keith Carrigan, Vice Chairman and Chief Executive Officer; and Tom Cowee, Vice President and Chief Financial Officer, both of whom will be providing comments on the Company's performance for the three and six months ended June 30th, 2008. Also on the call today are Mickey Flood, President and Joe Quarin, Executive Vice President and Canadian

Chief Operating Officer. Each of whom will be available to answer questions during the question and answer period.

Before getting started, let me remind you that our remarks and answers to your questions today may contain forward-looking information about future events or the Fund's future performance. Although, forward-looking statements are based on what management believes to be reasonable assumptions, the Fund cannot assure unitholders that actual results will be consistent with these forward-looking statements.

The Fund disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. We also do not commit to continue reporting on items or issues that arise either during our presentation or in the discussion that will follow, except as required by applicable security laws. This information, by its nature, is subject to risks and uncertainties that may cause actual events or results to differ materially. Please refer to the bottom of yesterday's news release for further information and to our annual information form for a more complete description of the risks affecting our business and industry.

By now we hope you've had a chance to review the news release that we issued yesterday, if not, please login to our website at

[www.bficanada.com](http://www.bficanada.com) for a copy. The telephone replay of this conference will be available until midnight on August 22<sup>nd</sup> at 416-640-1917 or 1-877-289-8525, reservation number 21278080. These details are available in the news release.

I would now like to turn the call over to Keith Carrigan, Vice Chairman and CEO.

KEITH CARRIGAN (Vice Chairman and Chief Executive Officer): Thank you and welcome everyone. We're pleased with the performance in the second quarter in which we continue to deliver revenue and EBITDA growth in each of our three regions. We had an especially strong performance in the US South and Canadian segments and believe that we are very well positioned to achieve our annual performance objectives.

I will begin today's discussion with some highlights of our performance in the quarter and then in the first half of 2008. After my comments Tom Cowee will give a more detailed review of our financial results.

Consolidated revenues in the second quarter grew 24.3% to \$280.3 million. In the year-to-date period, revenues increased 22.6% to \$524.6 million. With about two-thirds of revenues derived from our US operations,

the impact of foreign currency translation obscures our comparative quarter-over-quarter growth. Excluding the impact of foreign currency exchange, revenues in the quarter increased nearly 32%, the year-to-date revenues increased nearly 33%. Our organic revenue growth rates have always set us apart from our other public operators in our industry, in this quarter was once again no exception.

In the second quarter organic revenues, which exclude acquisitions, fuel, and environmental surcharges, and foreign currency translation, grew by 11.1% in Canada and 6.2% in the U.S. For the first half of 2008, organic revenues grew by 12.2% in Canada and 6.2% in the US. We are very proud of the level of internal improvement we accomplished in the quarter. It demonstrates that our market-focused strategies continued to be a highly-effective tool even during periods of general economic weakness. We are seeing results from our combination of core price and volume strategies and are really benefiting from applying the same strategy's acquisitions we have made in prior years.

We continue to add to our acquisition portfolio in the second quarter. We completed two acquisitions adding to the two completed in the first quarter for aggregate cash consideration of nearly \$36 million. One acquisition was an expansion of an existing market in Canada and the

other was a new market entry in the US Northeast. The strong revenue performance resulted in EBITDA \$78.2 million in the quarter, an increase of 9.5%, and \$145.1 million year-to-date, an increase of 11.5%. If we exclude the effects of FX, EBITDA increased 15.1% in the quarter and 19.6% year-to-date. This in turn drove free cash flow from \$41.8 million in the quarter, an increase of 5.2% and \$81.8 million year-to-date, an increase of 12.2%. On a per unit basis, free cash flow was \$0.61 in the second quarter compared with \$0.58 in the same quarter one year ago. Distributions declared in the quarter were \$31.2 million or \$0.45 per unit resulting in a payout ratio of 74.7%.

I will now turn our performance by operating segment. As I mentioned earlier, we achieved revenue and EBITDA growth in each of our three regions and are especially pleased with the results of our US South and Canadian segments. In the second quarter, our Canadian segment posted a 17.1% increase in revenues and a 9.3% increase in EBITDA. These results were tampered considering that certain anticipated landfill volumes did not arrive in the second quarter. However, we fully expect that this is only a timing issue as we have experienced in the past in our Canadian operations and will therefore arrive in the two subsequent quarters through the balance of the year.

In the US South, revenues grew 9.7% and EBITDA grew 17.5% quarter-over-quarter respectively. Excluding the impact of foreign currency translation, US South revenues grew 19.7% and EBITDA grew 28.4% quarter-over-quarter. We achieved these results in Canada and the US South despite the high cost of diesel fuel in the quarter which created clearly a head win for us. We expect both of these segments to build on this strong performance in the third and fourth quarters of this year.

Our growth in the US Northeast segment was tempered by the overall economic slowdown in the region which we have discussed in the past two quarters and the high cost-to-diesel fuel which is more difficult to offset in this segment. These two trends are affecting both volumes and pricing at some of the segment's transfer station and at Seneca Meadows landfill. In the US Northeast, the combination of transfer stations and landfill sites resulted in our using more third-party haulers and in other segments and we bear essentially the fuel surcharges. In the current environment, we do not have the ability to pass this expense through as price. Additionally there is a rate cap in New York City on which we can charge commercial customers. This cap is currently under review and we anticipate relief from the cap by the end of the year.

In other areas of business, however, we continue to aggressively pass on fuel surcharges to our residential, municipal, commercial, and industrial customers. Open market customers generally charge the additional fuel charges immediately or in the following month, while municipal contracts tend to lag three to nine months depending on the individual contract language and the contract anniversary dates. The cost of diesel fuel rose so suddenly in the past few months that the lag has increased. However, we anticipate catching up on this in the quarter.

In US South, where we have a significant number of municipal contracts, we were able to successfully negotiate higher surcharges in the quarter and expect to recover most cost going forward. Given the seasonality in our business in which the second half of the year generally sees higher collection and disposal of waste, we believe that we are on track for a strong financial performance for the balance of 2008.

Overall, we remain confident that our market-focused approach will enable us to continue to grow through the current economic cycle positioning us to achieve our annual financial performance objectives.

In fact we believe that the current market conditions are creating many opportunities for expansion within our sector both organically and by way of acquisition. Our strong financial performance continues to

demonstrate we are able to obtain attractive returns when we invest in growth. We intend to be in a position to act upon these opportunities that we would expect to create more value for our stakeholders.

We therefore continue to review our ability to access capital, to finance our growth strategy within the Trust structure very carefully.

Our concern regarding the Trust structure is growing, as a result of the continued lack of investment interest in this sector. The outflow of capital from the sector is resulting in a valuation for BFI Canada which, we believe, is not reflective of our financial performance. This, combined with the constrained credit market continues to limit our ability to efficiently access capital. We are monitoring this situation very closely.

I will now turn the call over to Tom for additional comments on the financial results of the quarter. Tom?

TOM COWEE (Vice President and Chief Financial Officer): Thanks Keith and good morning everyone. I will review some of the variances on our second quarter income statements starting with the operating expense line. First, operating expenses of \$174.4 million were 33.2% or \$42.4 million higher in the second quarter compared to last year. The primary reason for the increase is higher total disposal and labour costs of

approximately \$29 million and \$8.5 million respectively. These costs are related to higher internally collected waste volumes and higher costs to service new and existing customers, contracts, and acquisitions. The balance of the change in the quarter is due to higher vehicle operating costs.

SG&A expenses in the second quarter increased \$5.5 million or 20.9%, of this \$2.3 million is related to an increase in total salary costs as a result of acquisitions and organic growth. The balance is due mainly to higher facility, office, and travel expenditures, also as a result of acquisition and organic growth. As we have stated before, strategic acquisitions in the past year, which are principally comprised of collection in transfer station operations and are most notably in our US Northeast segment, are driving the shift in our EBITDA margins quarter-over-quarter. Prior to these acquisitions, our US Northeast segment was principally comprised of higher margin length of operations. Accordingly, the addition of lower margin collection and transfer station operations in this segment is the primary contributor to the declines in the margin.

Amortization expense increase \$4.4 million or 10.5% in the second quarter. Higher intangible and capital asset amortization is due in large part to acquisitions and growth capital expenditures for 2007 and 2008 and

represents approximately \$3.1 million of the increase in the quarter. The increase was partially offset by decline in landfill asset amortization of approximately \$2.3 million in the quarter principally due to lower landfill volumes and foreign currency translation.

Now turning to interest expense. Interest expense in the quarter was \$12.7 million, an increase of \$4.2 million over the same quarter a year ago, funding of the Winters Bros acquisition with debt in August of 2007 is the primary cause of the comparative increase.

At the end of the quarter, long-term debt was \$902.6 million. As we have continually stated we actively manage our debt facilities in order to remain flexible to meet our planned near-term growth, and development activities. Pursuant to the close of the second quarter, we amended both our senior credit facilities in Canada and in the US.

First, let me discuss changes to our Canadian senior credit facility. Effective July 30th, 2008, we entered into a Third Amending Agreement to our Fourth Amended and Restated Credit Agreement.

The Third Amending Agreement increases the Canadian revolving credit facility commitment from \$150 million to \$305 million and decreases the accordion feature from \$50 million to \$45 million. In additionally the Amendment increase the funded debt-to-EBITDA covenant from 2.50 to 1

to 2.75 to 1 and increases the applicable margin on the pricing grid by 25 basis points throughout. All other terms remained unchanged.

In the US, effective August 6, 2008, we entered into a Fifth Amendment to our Amended and Restated Revolving Credit and Term Loan Agreement. This Amendment extends the maturity of the US revolving credit facility to January 21, 2012 matching the maturity of our outstanding term loan and increases the US revolving credit facility commitment to US \$588.5 million from US \$575 million and decreases the accordion feature from US \$50 million to US \$36.5 million. In addition, the Amendment increases the applicable margin on the pricing grid by 25 basis points throughout. All other significant terms remain unchanged.

Also effective August 1st, we remarketed our outstanding \$45 million of IRBs at Seneca Meadows landfill. The amended and restated IRBs, which originally bore interest at LIBOR less an applicable discount, now bears interest of 6.625% for a term of five years. In addition, the IRBs are no longer secured 100% by an LC and now these senior obligations are unsecured and rank junior to all other outstanding senior debt in our U.S. operations. This creates an additional \$45 million of available capacity for us, as we do not need to have an LC in place to backstop these IRBs.

The debt as of June 30, 2008 combined with these credit facility changes increases our total available debt capacity between our two senior credit facilities to over \$250 million with an additional \$81.5 million potentially available between the accordion features in both credit facilities.

Turning to our capital and landfill expenditures during the quarter, our maintenance spending in the second quarter totaled approximately \$18.7 million, roughly in line with spending in the same quarter a year ago. Our maintenance expenditure expectation for 2008 remains unchanged, as is between \$22 million and \$24 million Canadian for our Canadian segments and between \$37 million and \$39 million US for our US operations.

Growth expenditures in the second quarter totaled \$15.9 million down \$7.5 million from the same quarter a year ago. Timing of the landfill expenditures throughout the Company coupled with a decline in growth expenditures in the US related to municipal contract wins versus a prior year period also contributed to the decline in growth expenditures.

As Keith has already reviewed our top and bottom line, that brings me to the end of my comments. Again, we are very pleased with the results of the second quarter and we believe we remain on track for a strong performance in 2008.

Thank you for listening. And now I would like to ask the operator to open the lines to questions. Thank you.

QUESTION AND ANSWER SESSION:

OPERATOR: Thank you. Ladies and gentlemen, we will now conduct the question and answer session. If you have a question, please press the star key followed by the one your touchtone phone. You will hear a tone acknowledging your request. Your questions will be polled in the order they are received. Please ensure you lift the handset if you are using a speakerphone before pressing any keys.

One moment please for your first question.

Your first question comes from Nav Malik of Scotia Capital. Please proceed.

NAV MALIK: Great. Thanks. Good morning. I was just wondering first of all some comments, Keith, that you made regarding concern over the Trust sector. Just wondering if you thought about converting before 2011?

KEITH CARRIGAN: You know, I think that when the minister made the announcement almost two years ago, there was a thought in our mind that we might convert before for 2011. So, I am not sure that that's changed and we really are looking at all of our avenues in terms of having the ability to maintain and continue the growth that we have had. Clearly when we look at free cash flow where we are today at and we look back several years, you know, if we go back to 2002, we had about \$0.91 of free cash flow and today we are certainly in the \$2.70, \$2.80 range or better. Going forward that clearly demonstrates the ability we have to create value through growth, both organically and through acquisition. So, we expect that we are going to continue to do that and therefore we are always looking at our ability to raise capital. As you very well know and as Tom has highlighted, we've done that essentially through debt over the last two years but the debt capital markets are becoming more of a challenge these days and fortunately we are doing very well with the debt capital markets, but we are getting to the point now where I have always stated that we are happy at our leverage ratio and so clearly we can't go forever financing acquisitions through debt.

So the long and the short of it is that we've seen about \$2.9 billion leave the trust sector over the last year and a half. So clearly raising

capital today as equity in the trust sector is becoming difficult. We are monitoring this very, very carefully. We do have potential acquisitions that are on our slate. Our acquisition group is out working as we sit here today, and we will continue doing that. There's a challenge today and it's becoming a much more serious situation for us today probably than it has ever been. Does that answer your question, Nav?

NAVDEEP MALIK: Yeah. I guess, on that point too with acquisitions, I mean, it looks there has obviously been a lot of activity in terms of a potential consolidation in the industry, maybe you could just elaborate a bit on how you see that maybe shaking out in terms of opportunity for BFI or challenge for BFI?

KEITH CARRIGAN: We will look at two buckets here. There's the first bucket which is standard opportunities that exist through consolidation – natural consolidation in the industry. And clearly, as I was mentioning, we have a slate that we have been working on. On the other, I believe you are referring to either the Republic/Allied merger or the offer that Waste Management had made for Republic. Either one will likely result in divestiture. So Step 1 is that we continue to move forward on our existing slate of acquisitions. It's widely held that there will be some divestitures from either one of the mergers and we don't control that, obviously it's

going to be controlled by merging companies in terms of what they are and the Department of Justice. Having said that, I think in certain regions that we are participating right now are areas of potential divestitures. So it may create an opportunity for us, but we can't certainly say at this stage that it absolutely will.

NAVDEEP MALIK: Okay. Maybe just moving a bit over to the US Northeast; and again you mentioned in your comments about the rate cap in New York City, how certain are you that will be lifted by the end of the year or what gives you that confidence?

KEITH CARRIGAN: Well there's been discussions, we have Mickey here. Mickey has been working with New York City on this, and so maybe I'll turn it over to him.

CHARLES FLOOD: Hi Nav, how are you?

NAVDEEP MALIK: Hi. Good, thanks.

CHARLES FLOOD: Good. I had discussions as late as yesterday morning with the General Counsel for New York City; they realize they have a very serious issue. He has said that by the end of October he hopes to have relief in place. By their process they need to have hearings, needs to go to their Corporate Counsel. I believe the Commission has

already made recommendations and met with him. He recognizes that this is a major issue and that there has to be a change.

NAVDEEP MALIK: Okay. Fair enough. I guess, seeing on the Northeast, what would say, sort of, organically with EBITDA growth, and maybe in all the regions, I know you obviously talk about organic revenue growth, but is there some color that you can share on organic EBITDA growth?

KEITH CARRIGAN: We don't really talk about organic EBITDA growth. By region you have some of the issues that we have, in SG&A, for example, how do we allocate SG&A costs that are corporate related and etcetera. So we really look at each company individually from an EBITDA basis. But to amalgamate that really would not give proper weighting to the results on an EBITDA basis. So, you know, that's very difficult to do.

We are obviously very very pleased with our paybacks. Our paybacks are increasing significantly in all of our regions quite frankly, but clearly we made dramatic changes in the south and we continue to see our ability to carry that forward. So there's no question that we see the south and Canada continuing to move forward in those areas. Right now we have volume constraints and fuel pricing constraints in the Northeast. We expect – as Mickey indicated, some relief from New York City and

therefore should have the ability before year's end to be able to pass through effectively some of the increased fuel headwind in the northeast, but we're also seeing some volume softness that carries forward. However, we will say that we have added some additional capabilities particularly our Seneca landfill which will bring, and currently is bringing more volume. So we see an uptick in volume over the last half of 2008 at Seneca as a result of additional capabilities we're giving truckers to dispose more waste at Seneca.

NAVDEEP MALIK: Okay. Any – can you quantify that or – in terms of what...

KEITH CARRIGAN: I think it's, you know, you're probably going to see a difference of \$2 million thereabouts in terms of volume benefit...

NAVDEEP MALIK: Okay.

KEITH CARRIGAN: For the last the last half.

NAVDEEP MALIK: Okay, great. Thanks very much.

KEITH CARRIGAN: You're welcome.

OPERATOR: Your next question comes from Sophia Taylor of TD Newcrest. Please proceed.

SOPHIA TAYLOR: Good morning. First question is just on your ability to pass through fuel surcharges. I'm just wondering, are you able – or could you please comment rather with respect to the overall mix between open market contract and municipal contracts, obviously the differentiating factor being the type of contract where you can pass through surcharges immediately versus experiencing a lag in the three to nine month range?

KEITH CARRIGAN: You know, I'll give you some very general overview of that, Sophia, because we don't want to really – quite frankly I don't think it's to our advantage to go and do very detailed analysis because we kind of get into strategies in terms of how we pass it through fuel and I don't think it's from a competitive point of view to have it out there, but let me say that in the industrial commercial sector where it's non-government regulated, it's typically on a month lag. So we will look at what our average change in the cost of fuel is going to be over a typical month and then we will pass that through over the next month's increase and we've been very very successful.

In the South, where we have a lot of open market activity and in Canada where we have a lot of open market activity, we are passing through – I can tell you, you know, really including residential, we are

getting through 100% as long as you don't take that one-month lag into consideration. And the reason I mentioned the lag in this quarter is as you know in the last quarter we had some dramatic increases in fuel price and so consequently the lag is becoming – has become a little more significant. I think as we anticipate that in the third quarter, that that lag will be less significant as now we're starting to see pricing drop a little bit in July. So we will pick up if you would like the lag in -- for the month of July from the previous quarter.

In the Northeast, a different situation, once we get into material that's moving by particularly third party transfer operators through our landfills, you know, they had fairly significant increase in fuel cost as they have it in other parts of the country, and therefore they had that has been passed through us, that increase which is effectively about \$7 a tonne by the way, pretty significant number, which we do not have the ability because of softness in the market to pass that price through back to the landfill. So even though a landfill might look like pricing is off a little bit, what it really is is a fuel headwind that we have not been able to pass through.

The same thing pertains for New York City, where we have fixed rate in collection, so fuel increases have been increasing and we have not been able to pass that through. So going back to Mickey's earlier statement, we

expected in the quarter we will be able to recover that going forward and clearly we think that as the economy strengthens up in the northeast in terms of volume, and we're seeing a little bit of that happening now by the way, we are seeing a little more strength – and I'm referring to what we are seeing in July by the way, that we should be able to start recovering a little bit of more of that fuel increase by third party collectors into our landfill as well. So that kind of gives you an overview.

I should also mention to you; as it relates to residential contracts with cities, we've been very successful in the south, recovering fuel, it's always on a lag basis however and it doesn't happen necessarily in the month or a month following the initial increase as I mentioned in the past, we might go through to the City on an annual basis, we might go through – if it's significant we may go through after half a year and get the increases, but overall we've been very very successful generally doing that. And I think Canada is basically no exception, but again once I say – I will tell you in Canada we are recovering 100% of the fuel increase. So does that answer that question for you, Sophia?

SOPHIA TAYLOR: It does. Thank you. Just a quick follow-up, mind you though, on the US Northeast segment. Percentage-wise, do you

have a targeted range of how much of the fuel – cost increase you expect to recover?

KEITH CARRIGAN: You know, we really watch what's happening in terms of the economy and it's going to be all relative to how we can then price it through to the market particularly from the landfill. So the answer is that we're watching it every month, but I don't have a crystal ball to tell you exactly when we're going to really see that economy moving and we see demand increase which will then give us the ability to push through price. But again, let me just say to you that right now, we believe that Canada and the south is really offsetting these affects that we're seeing in the northeast, so we anticipate at year-end that we are going to hit that we anticipated for the Corporation through the year-end.

SOPHIA TAYLOR: Great. Thank you. A quick question on the delayed landfill volume at your site, I believe that was mainly the US Northeast; just wondering if you could explain what causes that to happen and I guess help us understand your confidence level in the volumes returning in the second half?

KEITH CARRIGAN: Sure. By the way, it's not all the northeast; it's -  
- some it is Canada as well.

SOPHIA TAYLOR: Okay.

KEITH CARRIGAN: And this has happened several times we reported this over the years in Canada. It typically happens more in the west than it does in any other place and it relates more to special waste moving in. We had some very wet conditions in the quarter out west and typically the suppliers of this material, although we know it's there, they won't move it when it's wet because quite frankly then they're paying for moisture going into the landfills. And not to mention the fact that their cost to remove the material is more expensive in wet weather than drier weather, so it really flows with the weather. So clearly we see a pick up when the weather gets better, in fact we are seeing that already in July. We are getting some better warmer weather and some drier out west, so we are seeing the volumes increase in July.

If I get back to Seneca Meadows for a moment, we added some equipment which essentially permitted other people with the specialized equipment, bring waste to our Seneca landfill, and that's happening as we sit here today. So we know these are events that are already occurring, so we know what the effect is going to be through the balance of the year.

SOPHIA TAYLOR: Okay. And what is the special waste?

KEITH CARRIGAN: The special waste is soils.

SOPHIA TAYLOR: Okay.

KEITH CARRIGAN: That are related to drilling in the Alberta area.

SOPHIA TAYLOR: And this has been a type of waste accepted by you for some time?

KEITH CARRIGAN: Forever.

SOPHIA TAYLOR: Okay. Thank you for the reminder. Okay. Last question I have for you is just on the acquisition, sorry I got on the call little late, I believe you said \$36 million was spent on acquisitions this quarter, two tuck-in acquisitions?

KEITH CARRIGAN: No, one was a new market and the other was a tuck-in.

SOPHIA TAYLOR: Okay.

KEITH CARRIGAN: The two acquisitions – let me just give you a little color on those. One acquisition was in the Northern Maryland area which is a new market for us. Targeting that market area gives us the ability to move waste from that market inevitably into our Pennsylvania sites, and ultimately then it gives us more flexibility which will move waste around between the two Pennsylvania sites and Seneca. The other significant acquisition that we did was in Southeast Ontario and it really consolidates a very nice position for us in Southeast Ontario.

SOPHIA TAYLOR: Okay, great. And then just the timing of those acquisitions, were they late in the quarter or?

KEITH CARRIGAN: Yes.

SOPHIA TAYLOR: Okay. Okay, that's it from me. Thank you.

KEITH CARRIGAN: Thanks.

OPERATOR: Your next question comes from Carolyn Dennis of National Bank Financial. Please proceed.

CAROLYN DENNIS: Good morning. Hello?

KEITH CARRIGAN: Hi Carolyn, how are you?

CAROLYN DENNIS: Hi good morning. I'm good, thanks. I just wanted to talk about the margins in Canada. I saw that they were down a bit and I know that you are talking about the special waste volume delay. I'm just wondering was that the reason or is it a mix to more collection or what was causing that?

KEITH CARRIGAN: You know, certainly part of the margin was in fact the landfill and again we'll see that pick up in the last half of the year, so that will affect. But as we grow our business, you know, typically landfills have a cap on them in terms of volume. And I will tell you that as it

pertains to Canada, for example, we will – we expect to be at our caps this year. So we can effectively move price, but we're doing so well in our collection companies as well that we're seeing significant growth in those collection companies.

So, clearly as collection increases as part of the complete company, you have locked in volumes and landfills you will have a decrease in your overall percentage of revenue. That's why we always say, you know, let's not get fixed on revenue. I can tell you, you know, if you look at Canada, we are decreasing our payback period on our assets in Canada or if you would like increasing free cash flow with our assets in Canada at a fairly significant pace, as we are doing in the southeast as well. And we're very very happy by the way with the asset segments and return on capital that we're getting out of, particularly, you know, Winters Bros, we've had some significant improvement there as well.

CAROLYN DENNIS: Okay. So I know you don't focus on margins but is there any idea if there's any more pressure going forward in Canada then, if it's a sustainable level of margin?

KEITH CARRIGAN: I think it's, you know, I think it's sustainable. You know, one of the other issues that we look at is, as we increase in our existing markets then that is also an indication that the markets are

growing and we didn't have an ability to go to government and ask government for an increase in volume capacity at our existing landfill. So we're always creating and trying to create a balance in terms of what that internalization is. And so if we maintain balance in internalization, then you tend to maintain, you know, an overall balance in terms of what those percentages are. And so we expect to do that going forward.

You know, I should mention to you that an example of that is in Pennsylvania; we have experienced – we just were granted an increase in our tonnage at one of our landfills in Pennsylvania. In that case we just added a significant acquisition in the Northern Maryland area that ultimately we think will be moving waste to our Pennsylvania landfills and now it ties with an increase about 300 tonnes a day that we just acquired at one of our landfills in Pennsylvania. So you can see that fit there and then we'll maintain obviously percentages or margin percentages in that particular area. So that's an example of how we work at this as time goes on. The problem is it does not happen at the same time, Carolyn.

CAROLYN DENNIS: Okay. Thank you. In the South, obviously you said that there is, I guess, you're getting the price increases there; what about the C&D volume, so you obviously -- that still seems to be somewhat inflated from volume declines?

KEITH CARRIGAN: They are, you know, it's a buoyant economy, we're not seeing reduction in our C&D volumes, you know, in the south and in fact we're virtually seeing growth in all the areas, all lines of business in the south overall, you know, most particularly in Texas; Texas seems to be doing extremely well. We have had no indication at this stage that we're seeing a decline, so we anticipate things moving forward to at least the balance of the year.

CAROLYN DENNIS: Okay. That's great. One more thing, can you give us an update on the Calgary landfill?

KEITH CARRIGAN: You're talking about the new one or the old one?

CAROLYN DENNIS: The new one, yeah.

KEITH CARRIGAN: Yeah, the existing landfill of course is permanent through 2010. We actually have capability of going beyond that quite frankly. When you look at the permit that we have from Ministry of the Environment in Alberta, the permit actually extends beyond 2010. However, having said that, we do have an agreement with the City of Calgary. So what we do is it's really all based on fuel rates and settlement in our landfill. So, you know, we're always reviewing that. So we will be operating through at least 2010, you know, and we're moving the process

forward with respect to a new landfill to replace that and, you know, once again at this stage I think we're pretty happy, I don't want to say a whole lot more than that quite frankly, but we're happy with the way we're moving ahead in the area right now as we replace the old landfill.

CAROLYN DENNIS: Okay. That's great. Thank you very much.

KEITH CARRIGAN: You're welcome.

OPERATOR: Your next question comes from Walter Spracklin of RBC Capital Markets. Please proceed.

WALTER SPRACKLIN: Thanks very much. Good morning.

KEITH CARRIGAN: Good morning Walter.

WALTER SPRACKLIN: Just on the margin, just want to get some more color more directionally. When I'm looking at the decline in the margins year-over-year for Canada, it's been sort of growing the drop in margins. Now I know there's a lot of moving parts in there, I know fuel surcharges in there as well. Fuel, it sounds like is the biggest, the lag in fuel...

KEITH CARRIGAN: Yes, you have the fuel volume and you have that place that didn't come in in the landfill. So landfills, remember, are not necessarily high cash flow but they're high margin producers.

WALTER SPRACKLIN: Right. So it sounds like it's temporal, like you are saying it's more of a timing thing.

KEITH CARRIGAN: I'll expand on that little bit for you, Walter, if you would like?

WALTER SPRACKLIN: Well, my question, is that you said the fuel surcharge thing is probably going to rectify itself in the third quarter, the timing sounds like it might as well – my question is, should we see a stop in the drop in Canadian margins come the third quarter?

THOMAS COWEE: One thing you guys need to keep in mind there, Walter, is when you put fuel surcharges in as a top and bottom-line, so even as you offset the fuel surcharges...

WALTER SPRACKLIN: You'll still have a lower margin, yes.

THOMAS COWEE: You'll have lower margin.

WALTER SPRACKLIN: So to the extent that that's at play, we should see slightly lower margins on a go-forward basis given the fuel surcharge revenue?

JOSEPH QUARIN: Walter, let me chime in here. I think once the volumes, and they are coming in right now into our landfill, assuming everything else is constant and you don't have any timing variances, I don't anticipate any more margin erosion, I temper that only with any change in mix resulting from acquisitions...

WALTER SPRACKLIN: Okay.

JOSEPH QUARIN: Acquisitions can play into it. But assuming our constant business pace, I think Q2 is, you know, I don't see anything – any margin erosion from Q2.

WALTER SPRACKLIN: Okay, that's good color, Joe, appreciate it. Moving on to debt; it looks like you have gone up to 3.1 times and I guess, Keith, you mentioned that you are comfortable with that, I guess. Where does the discomfort level kick in and you don't want to go higher? I had thought it was three times, but I guess, where -- perhaps you can give us some more color on where the discomfort level starts to kick in?

KEITH CARRIGAN: Sure. You know, obviously we look at run-rate so, where we are as you know, we have seasonality and we are factoring the seasonality that we think were slightly under three times. But having addressing your comment in terms of my comfort level, you are right, we

are at my comfort level right now and I think that I will share that we are at our comfort level through the Corporation.

I would really try to highlight that through the discussion that we have a concern in terms of where we are today and it's clearly a concern that I have is always positioning the Corporation for the future and we will never encumber our future progress for a short-term gain. So clearly, there is pressure on us at this stage in terms of how we move the corporation forward and continue growth.

Tom had indicated to you that we have capacity to move forward. So I don't want anybody to think that we are constrained in terms of operating the Corporation because that is clearly not the case. However, we want to be able to position ourselves for the future as well, and so therefore we won't mortgage the short-term benefit. We are looking at right now studying very very hard, what our alternatives are that are not debt related alternatives.

WALTER SPRACKLIN: Okay, that makes sense. Is there any sale leaseback things you might be considering or?

KEITH CARRIGAN: No, absolutely no.

WALTER SPRACKLIN: Okay. Absolutely or absolutely not?

KEITH CARRIGAN: Not.

WALTER SPRACKLIN: Okay. And Tom, can you comment – is there bit any change in your covenants on the new – on the revised debt?

THOMAS COWEE: Just on the Canadian credit, we went from 2.50 to 2.75.

KEITH CARRIGAN: Which is where the debentures are, so that was really just making it consistent.

WALTER SPRACKLIN: Okay. Alright. And then, finally just the SG&A looks like in Canada popped quite a bit year-over-year 23%. Just like to hear your comments on what – I know you said salary there, but is that your LTIP or?

KEITH CARRIGAN: No, what we have grown in Canada, we have done some acquisitions over the past. So for example, there's really two pieces, but \$900,000 in Canada is related to salaries, the balance are one-time issues and this is where I hate talking about EBITDA for example by region, because Canada is our corporate office and we absorb some costs into our corporate, our Canadian reporting that are really corporate type issues and issues that would be, I guess, clearly related to all of our companies in Canada and the US. But having said that of roughly about the \$900,000, \$300,000 of that would be related to acquisitions, a balance is related to normal growth in our existing Company. So, you know, as our

as our collection companies grow, it affords us an opportunity to increase our resources to develop more business out there. So these increases are principally in sales type related people that will once again just continue to grow the Company that much further going forward.

WALTER SPRACKLIN: So is the \$11 million a good run rate then for your Canadian operations, or \$11.4 million, I guess?

KEITH CARRIGAN: By the way, you know, there's certainly some one-time items in there as well, so...

WALTER SPRACKLIN: Right. Okay, okay.

KEITH CARRIGAN: You know, you can discount those. What you are going to see going forward though is, is that increase of roughly over about \$1 million.

WALTER SPRACKLIN: Okay.

KEITH CARRIGAN: We saw that would be real salaries going forward, the rest is just one-time item.

WALTER SPRACKLIN: Perfect, then that's great. Last question, any update on Lachenaie or any timing as to when you might hear something about Lachenaie.

KEITH CARRIGAN: Yeah, I am sure, I am happy to give you an update on it. We have the – of that report, a public report has been issued,

and I will just try to – maybe I should refresh everybody’s memory on that, but the government has a public process where they appoint a commission to hear the public comments related to the expansion of the facility or application of expansion. All of those hearings did take place, we were very happy with the hearings by the way and the report was just published. This is a report that gives to the government which is their public recommendation if you would like and that report indicated to the government that the government should expand the site, should offer a new permit for the site. They indicated that that I think from the public point of view, they would like to see this up, this expansion be five years, that doesn’t encumber the government for it to be a five-year expansion, but this is again the public review. So that’s obviously a pretty critical review. So overall, we want to say this is the best one we had and we are very happy with it.

WALTER SPRACKLIN: That’s good news. Okay, that’s all my questions. Thanks very much guys.

KEITH CARRIGAN: Thanks Walter.

OPERATOR: Your next question comes from Nima Billou of Bloom Investment Counsel. Please proceed.

NIMA BILLOU: Good morning.

KEITH CARRIGAN: Good morning Nima, how are you?

NIMA BILLOU: Good. Quick question, with respect to higher organic growth in Canada and shortening payback time. Is there thought to thinking in more expansion capital into Canada or is the return on capital much higher still in the States?

KEITH CARRIGAN: Well, if you know that the States by virtue of population is ten times larger. So if you can just put the numbers to it, you will anticipate that for every ten acquisitions we do, a \$10 spent in the States we are going to spend \$1 in Canada. I think we probably have been, we have exceeded that in Canada quite frankly.

NIMA BILLOU: Okay.

KEITH CARRIGAN: So do we anticipate continued growth in Canada? The answer is absolutely yes.

NIMA BILLOU: And is the Canadian growth again driven by the fact that a lot of the US guys are removed in terms of having operations and people on the ground? What's driving the higher organic growth?

KEITH CARRIGAN: I think Nima, let's go back to – if we go back to 2002 or certainly in that area, I think if you look at margin in Canada, right

now you see that margins are ranging and by the way this is that – if you look at first half of the year, we have the shorter season in January through March, but if you look at typically where we have been in terms of margins, you might say well it's 37%. I would like to remind everybody that if we go back 6 to 7 years ago, the Canada was running roughly about 24% to 25%. So what we have is the effect of 6 or 7 years on an existing asset base where we have been able to apply our strategies in the markets. I would also highlight if you look at the US South back in 2005, the US South was doing roughly about 17% EBITDA and I know you guys like to look at these percentages, today it's doing 24% to 25%. So you have expansion of about 7% EBITDA through these same processes, but now over 2.5 to 3 years. So we see progress continuing in both the Canadian markets and in the South with respect to EBITDA expansion...

NIMA BILLOU: Okay.

KEITH CARRIGAN: So obviously we should continue growth in the South clearly as well. If we get into the Northeast, I would say to you that the more volume that we collect and control in the Northeast the more opportunity that we will have to do, two things, increase EBITDA expansion in the Northeast and secondary to that is that we won't be a subject to fuel increases, because it will be coming from open market area so we have

the ability to pass through those fuel increases in order to increase EBITDA percentage.

NIMA BILLOU: Thank you for the color on that. Now is there also a preference – I think in your experience you had mentioned in the commercial-industrial side you can pass through increases far more quickly than more regulated areas. Is there preference in terms of allocating your capital in terms of more regulated regions or less regulated commercial-industrial versus residential?

KEITH CARRIGAN: Yeah, well, one of these – there is a little bit of a trend we are beginning to see now and that is in residential contracts, new residential contracts. We are beginning to see a trend that fuel increases are becoming a factor that we can pass through either on an automatic annual or say quarterly basis. So, you know, so clearly when we take that variable out of the equation and we are getting the return on capital that we would like out of the residential areas, then there is benefits to those because for example in a downturn economy that's like guaranteed revenue, the volumes don't clearly move to any great degree. So there's clearly benefit to those residential contracts. So the long answer or the short answer to it is that as long as we are getting the return on capital that we expect, and we are, I will highlight that, and secondary to

that we see a nice mix of residential with our industrial-commercial than naturally what we are looking for.

NIMA BILLOU: Okay.

KEITH CARRIGAN: And we are achieving that I believe.

NIMA BILLOU: And, not to believe where the comments on the trust structure too much, but is it more of a question, I mean, given the fact that you have \$250 million in capacity plus another \$81 million, you are not certainly constrained on your ability to do tuck-in acquisitions. Was it more just a thought in terms of converting early, to being opportunistic for larger acquisitions and the uncertainty over, I guess, valuations as you pointed out?

KEITH CARRIGAN: It was highlighted in the call today that, you know, clearly having powder available is going to be important to us and not encumbering the Corporation, the long term is also important to us. So clearly we don't want to get leverage up to a situation where it becomes not an affective use of capital, but frankly, so the answer is that it is – to be fair, it's become more of a concern to us today than ever before in our history.

NIMA BILLOU: Okay. Thanks very much.

KEITH CARRIGAN: You are quite welcome.

OPERATOR: Your next question comes from ALEEM Israel of Cormark Securities. Please proceed.

ALEEM ISRAEL: Hi, good morning. A couple of follow up questions here.

KEITH CARRIGAN: Sure.

ALEEM ISRAEL: On the BAPE report they also mentioned in there that you were kicking around \$8 million for a composting project in Quebec, is that still on the go?

KEITH CARRIGAN: Absolutely, I mean, we will invest in capital wherever we can get a return on capital. So if this means that this is additional revenue coming into the site and we are getting the returns that we are looking for, which typically as you all know, is we don't like to see the before payback on, if we are getting the returns, then clearly we will invest the capital.

ALEEM ISRAEL: Okay.

KEITH CARRIGAN: So, you know, Quebec has indicated a push to more diversion, more recycling, and so we would absolutely and we have

put it up in front of Quebec Government to look to us to provide the service for the municipalities.

ALEEM ISRAEL: Okay. And then they were saying that it could be commissioned as early as second half of this year or is that still good timing?

KEITH CARRIGAN: Well, it could be, it's going to be really subject to the municipalities in terms of getting their Blue Box systems in place, so they are separating organic material.

ALEEM ISRAEL: Okay.

KEITH CARRIGAN: But we see the organic material coming in and actually it's in certain contracts that we are currently servicing. If we begin to see that coming in, then we will move very quickly to get the composting facilities operating.

ALEEM ISRAEL: Okay. And then last question just going back to the structure. I am sure you have modeled what BFI will look like as a Corp since the rule or the changes were announced. What do you figure given the current pre tax income in the US and Canada, what total effective tax rate would be for BFI as a Corp?

KEITH CARRIGAN: Well, you know, let me just say that we model BFI as a Corporation about one day after the minister made the announcement.

ALEEM ISRAEL: Yes.

KEITH CARRIGAN: Two years, almost two years ago. So we have been looking at that. Tom, if you want to address that.

TOM COWEE: Well, you know, obviously we can't comment on models and things like that that we do internally and other than the current tax rate information out there, I don't think we have any comment as so where we think we are going to see one way or the other.

ALEEM ISRAEL: Would you say a range of 30 to 35 percent?

JOE QUARIN: There's so many assumptions that go into it Aleem. I mean, you are going to imagine there's number of scenarios that we have to run. So is 30 to 35 in that range? Yes, there's some scenarios below, there's some scenarios above it. It really depend on, you know, as Keith and Tom talked about, I think, what leverage do you apply, so many other factors such as where we continue to grow, assets versus shares, all those things contribute to whatever the effective tax rate is. So, right now I don't think we have any more clarity to provide.

ALEEM ISRAEL: Okay. And actually I am just going to ask one more question. With your recent negotiations on the credit facility, we have heard other companies talking about banks being more willing to be comfortable with higher leverage levels with corps as opposed to the trusts and is that something that you are hearing from your lending syndicate as well?

JOE QUARIN: I would think by nature of all lenders, they would prefer not to have high dividends out of any corporations...

ALEEM ISRAEL: Right.

JOE QUARIN: So, I mean, I think the answer would be sure.

TOM COWEE: I think, if you look at the credit facility, the one differentiation between our US and Canadian facilities, our US facility really does look at as our US operations almost like a Corp. When we had the sub debt in place, we had both the senior debt leverage ratio and a total debt leverage ratio. Total debt included inter company debt. So that was all contemplated and the fact the matter is, any cash we generated you were limited while you can distribute. In Canada, this goes back to the IPO. We started off where they wanted our leverage ratio to be come out of the gate at 1.5. They ultimately got comfortable with our business model and have worked with us to provide us more leverage. But we did

our debenture offering in 2004 and back then we were stretching the market at 2.75 on a leverage basis and that's all debt – exclude any inter company that's all senior debt.

JOE QUARIN: But one of the things you keep in mind obviously we also focus on, you know, some of the better garbage companies in the US that are publicly traded and where their leverage is and we are already above both of them. So, you know, you have to just make sure that you don't assume that we are going to create it in our leverage, we are not, I mean as Keith said earlier.

KEITH CARRIGAN: The most important thing is simply the ability to harmonize across the Company, that's really in terms of optimizing anything.

ALEEM ISRAEL: Okay. Great. Thanks

OPERATOR: Mr. Carrigan, there are no further questions at this time. Please continue.

KEITH CARRIGAN (VICE CHAIRMAN AND CHIEF EXECUTIVE OFFICER): Well, I would like to thank everyone for joining us today. You know, overall just to reiterate we continue to be very very happy in terms of

the results in light of what we are seeing with high fuel prices and the Northeast economy, we have been able to offset that, softness in Northeast with our Southern operations and our Canadian operations and we see that going forward. And at this stage, we expect that we will hit our internal targets through the balance of the year. So, once again thank you very much and we will look forward to speaking with you once again on our next quarterly call, third quarter call. Have a good day.

OPERATOR: Ladies and gentlemen, this concludes our conference call for today. Thanks for participating. You may now disconnect your lines.

\*\*\*\*\*