

Disclaimer

This document may contain forward-looking statements relating to the Fund's operations or to the environment in which it operates, which are based on the Fund's estimates, forecasts, and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict, or are beyond the Fund's control. A number of important factors could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. These factors include those set forth in the Fund's AIF for the year ended December 31, 2005. Consequently, readers should not rely on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they are made. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, the Fund cannot assure unitholders that actual results will be consistent with these forward looking statements, and the Fund disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Introduction

The following is a discussion of the consolidated financial condition and results of operations of BFI Canada Income Fund (the "Fund") for the three and nine months ended September 30, 2006 and has been prepared with all information available up to and including November 6, 2006. All amounts are reported in Canadian dollars, unless otherwise stated. The unaudited interim consolidated financial statements ("financial statements") of the Fund have been prepared in accordance with Canadian generally accepted accounting principles applicable to interim financial statements. This discussion should be read in conjunction with the financial statements of the Fund, including notes thereto, and management's discussion and analysis ("MD&A") for the three and nine months ended September 30, 2005 and year ended December 31, 2005 filed on www.sedar.com.

Corporate Overview

The Fund, through its operating subsidiaries, is one of North America's largest full-service waste management companies, providing non-hazardous solid waste ("waste") collection and disposal services for municipal, commercial, industrial, and residential customers in five Canadian provinces and nine states in the United States ("U.S."). The Fund serves over one million customers with vertically integrated collection and disposal assets.

The Fund's Canadian segment operates under the BFI Canada brand and is Canada's second largest full-service waste management company providing integrated waste collection and disposal services in the provinces of British Columbia, Alberta, Manitoba, Ontario and Quebec. The Canadian segment carries on waste collection operations in 19 markets and operates five landfills, four transfer collection stations, seven material recovery facilities ("MRF's"), and one landfill gas to energy facility.

The Fund's U.S. segments operate under the IESI brand and provide integrated waste collection and disposal services in two geographic regions: the south, consisting of various service areas in Texas, Louisiana, Oklahoma, Arkansas and Missouri, and the northeast, consisting of various service areas in New York, New Jersey, Pennsylvania, and Maryland. The U.S. segments carry on waste collection operations in 35 markets and operate 17 landfills, 23 transfer collection stations and six MRF's.

The Fund makes cash distributions to trust unitholders based on all amounts received by the Fund, and IESI Corporation ("IESI"), an indirect subsidiary of the Fund, pays equivalent dividends to participating preferred shareholders ("non-controlling interest"), as determined by the Trustees. The Fund's declaration of trust provides that monthly cash distributions are to be paid on or about the 15th day of the succeeding month (see "*Disclosure of outstanding trust unit data*" for additional details).

Highlights - For the three and nine months ended September 30, 2006

(all amounts are in thousands of Canadian dollars, except per trust unit, participating preferred share, and subscription receipt amounts, unless otherwise stated)

Financial highlights

(in thousands, except per weighted average trust unit, participating preferred share, and subscription receipt amounts)	Three months ended September 30		Nine months ended September 30	
	2006 (unaudited)	2005 (unaudited)	2006 (unaudited)	2005 ⁽¹⁾ (unaudited)
Revenues	\$ 199,981	\$ 182,716	\$ 571,500	\$ 499,537
Operating expenses	111,991	103,911	324,433	281,026
Selling, general and administration expenses ("SG&A")	23,535	21,811	71,385	61,924
Income before the following	64,455	56,994	175,682	156,587
Amortization	38,587	38,753	110,831	108,745
Interest on long-term debt	8,767	7,204	24,996	19,510
Financing costs	-	-	79	36,710
Net gain on sale of capital assets	(54)	(30)	(409)	(30)
Net loss (gain) on derivative financial instruments	3,260	(9,610)	(539)	(10,723)
Foreign exchange (gain) loss	(809)	10,199	6,051	11,173
Other expenses	28	461	187	2,072
Income (loss) before income taxes and non-controlling interest	14,676	10,017	34,486	(10,870)
Income tax expense (recovery)	1,200	1,763	4,804	(18,089)
Non-controlling interest	2,427	1,958	5,345	1,629
Net income	\$ 11,049	\$ 6,296	\$ 24,337	\$ 5,590
Net income per weighted average trust unit, basic & diluted	\$ 0.21	\$ 0.13	\$ 0.46	\$ 0.12
Weighted average number of trust units outstanding	53,617	49,879	53,469	46,263
Weighted average number of participating preferred shares outstanding	11,774	15,512	11,922	16,278
Weighted average number of trust units and participating preferred shares outstanding	65,391	65,391	65,391	62,541
Aggregate number of trust units and participating preferred shares outstanding	65,391	65,391	65,391	65,391
Maintenance capital and landfill expenditures	\$ 13,935	\$ 13,227	\$ 40,752	\$ 37,362
Growth capital and landfill expenditures	20,668	12,011	58,817	37,836
Total capital and landfill expenditures	\$ 34,603	\$ 25,238	\$ 99,569	\$ 75,198
Free cash flow available for distribution ^(B)	\$ 38,799	\$ 32,951	\$ 102,684	\$ 90,310
Free cash flow available for distribution ^(B) per weighted average trust unit and participating preferred share	\$ 0.59	\$ 0.50	\$ 1.57	\$ 1.44
Aggregate distributions declared on weighted average trust units	\$ 23,802	\$ 20,672	\$ 69,352	\$ 55,035
Aggregate distributions declared on weighted average subscription receipts	-	-	-	1,175
Aggregate distributions declared on weighted average trust units and subscription receipts	23,802	20,672	69,352	56,210
Distributions attributable to participating preferred shareholders	5,227	6,429	15,231	19,766
Aggregate distributions declared	\$ 29,029	\$ 27,101	\$ 84,583	\$ 75,976
Aggregate distributions declared per weighted average trust unit and participating preferred share	\$ 0.44	\$ 0.41	\$ 1.29	\$ 1.20
Aggregate distributions declared per weighted average trust unit, participating preferred share, and subscription receipt	\$ 0.44	\$ 0.41	\$ 1.29	\$ 1.21

Notes:

⁽¹⁾ The Fund acquired IESI effective January 21, 2005. Accordingly, the Fund's operating results for the nine months ended September 30, 2005 do not include IESI's results of operations for the period January 1 to January 20, 2005. IESI's operating results for the full three and nine months ended September 30, 2006 and 2005, stated in U.S. dollars, are included in the "Review of IESI Operations" section of this MD&A.

Summarized discussion of financial highlights – three months ended September 30

- The increase in consolidated revenues is primarily on account of solid organic Canadian and U.S. segment growth of 11.6% and 9.7%, respectively, and contributions from strategic “tuck-in” acquisitions, partially offset by a marked decline in the average foreign currency exchange rate between 2006 and 2005 (see the tables included on page 4 and 5 which provide additional details of the period over period change in the Fund’s financial results).
- Maintenance capital and landfill expenditures (“maintenance expenditures”) totalled \$13,935 which is due largely to normal course vehicle, equipment, container, and landfill cell development expenditures.
- Free cash flow available for distribution^(B) totalled \$38,799 and is \$5,848 higher than the comparative period. Higher EBITDA^(A) contributions from continuing operations, coupled with the effect of foreign currency hedges to support Canadian dollar distributions, partially offset by higher interest on long-term debt attributable to higher interest rates and higher outstanding indebtedness, and higher maintenance expenditures is the primary cause of the increase.
- Aggregate distributions declared on weighted average trust units and participating preferred shares outstanding increased period over period due entirely to the 7.1% increase in the distribution rate per trust unit and participating preferred share effective August 31, 2006.

Summarized discussion of financial highlights – nine months ended September 30

- The increase in consolidated revenues is primarily on account of the consolidation of IESI’s operating results for the period January 1 to January 20, 2006, coupled with solid organic Canadian and U.S. segment growth of 12.2% and 12.0%, respectively, and contributions from strategic “tuck-in” acquisitions, partially offset by a marked decline in the average foreign currency exchange rate between 2006 and 2005.
- The period over period increase in maintenance expenditures and free cash flow available for distribution^(B) is due to the inclusion of IESI for the period January 1 to January 20, 2006 and for the same reasons explained above for the three months ended September 30.
- Aggregate distributions declared on weighted average trust units and participating preferred shares outstanding, inclusive of distributions paid on weighted average subscription receipts while offering proceeds were held in escrow, increased period over period due largely to participating preferred shareholders only receiving dividends from the effective closing date of the Fund’s acquisition of IESI, coupled with a 7.1% increase in the distribution rate per trust unit and participating preferred share effective August 31, 2006.

Other highlights – for the three and nine months ended September 30

- Based on the Fund’s performance and consideration of the current and forecasted foreign currency exchange rate, trustees of the Fund approved a 7.1% increase to distributions from an annual rate of \$1.698 per trust unit to \$1.818 per trust unit effective for the distribution paid on September 15, 2006 to unitholders of record on August 31, 2006. Distributions to holders of participating preferred shares have increased by an amount equal to the increase in per trust unit distributions paid to unitholders of the Fund.
- The Fund completed seven “tuck-in” acquisitions for the nine months ended September 30, 2006. Aggregate cash consideration, including payments in respect of contingent consideration, totalled approximately \$16,100 and \$19,700 for the three and nine months ended September 30, 2006, respectively.
- Effective February 10, 2006, the Fund, through BFI Canada Holdings Inc. (“Holdings”), entered into a Fourth Amended and Restated Credit Agreement. The amended and restated credit agreement increases the total available credit under the facility, subject to lender consent, from \$80,000 to \$120,000 and matures, subject to one year extensions, on June 30, 2010. Borrowing rates under the Fourth Amended and Restated Credit Agreement are more favourable than the predecessor credit agreement.
- Effective September 30, 2006, the Fund exercised a portion of the accordion feature available through its U.S. term loan and revolving credit facility which increased the facility to U.S. \$450,000 in aggregate. Available lending under the U.S. term loan and revolving credit facility increased by U.S. \$10,000 and U.S. \$55,000 to U.S. \$195,000 and U.S. \$255,000, respectively.
- Effective March 10, 2006, the Fund, through IESI, amended its Amended and Restated Revolving Credit and Term Loan Agreement in the U.S. The amendments increased the total available credit under the facility, subject to lender consent, from U.S. \$500,000 to U.S. \$550,000 and borrowing rates under the amended credit agreement are more favourable than the predecessor credit agreement.
- Through September 30, 2006, the Fund drew U.S. \$17,000 of variable rate solid waste disposal revenue bonds (“IRB”). A portion of the IRB proceeds were used to repay the Fund’s U.S. revolving credit facility with the balance used to finance construction activities at the Seneca Meadows landfill.

Review of Operations - For the three and nine months ended September 30, 2006

(all amounts are in thousands of Canadian dollars, except foreign currency exchange rate amounts, unless otherwise stated)
(see "Review of IESI Operations" for IESI's operating results for the three and nine months ended September 30, 2006 and 2005)

Consolidation of IESI

The Fund acquired IESI effective January 21, 2005. Accordingly, the comparative financial information presented for the nine months ended September 30, 2005 in the following sections: Highlights - Financial highlights, Review of Operations, and Other Performance Measures - Free cash flow available for distribution^(B) and Maintenance and growth expenditures, does not include IESI's financial results for the period January 1 to January 20, 2005. In addition, with the Fund's expansion into the U.S., readers are reminded that a significant portion of the Fund's financial results originate in the U.S.

The following tables have been provided to assist readers in assessing the following: the financial impact of not consolidating IESI's financial results for the period from January 1 to January 20, 2005, the financial impact of translating IESI's financial results for the three and nine months ended September 30, 2006 at the foreign currency exchange rate in effect for the current period, less the translation of IESI's 2006 financial results translated at the foreign currency exchange rate in effect for the respective comparative periods, and the financial impact of organic and acquisition growth on the Fund's financial results for the three and nine months ended September 30, 2006.

	Three months ended September 30			Nine months ended September 30			
	\$ Change	Composition of \$ Change		\$ Change	Composition of \$ Change		
	Fund results for the three months ended September 30, 2006 less Fund results for the three months ended September 30, 2005	Impact of foreign exchange **	Organic growth and acquisitions	Fund results for the nine months ended September 30, 2006 less Fund results for the nine months ended September 30, 2005	Additional IESI 20 days *	Impact of foreign exchange **	Organic growth and acquisitions
Financial highlights							
Revenues	\$ 17,265	\$ (8,572)	\$ 25,837	\$ 71,963	\$ 20,782	\$ (27,707)	\$ 78,888
Operating expenses	8,080	(5,083)	13,163	43,407	12,954	(16,738)	47,191
SG&A	1,724	(962)	2,686	9,461	2,412	(3,376)	10,425
Income before the following	7,461	(2,527)	9,988	19,095	5,416	(7,593)	21,272
Amortization	(166)	(1,625)	1,459	2,086	3,659	(5,344)	3,771
Interest on long-term debt	1,563	(448)	2,011	5,486	1,455	(1,390)	5,421
Financing costs	-	-	-	(36,631)	-	-	(36,631)
Net gain on sale of capital assets	(24)	(1)	(23)	(379)	-	28	(407)
Loss (gain) on derivative financial instruments	12,870	(285)	13,155	10,184	-	44	10,140
Foreign exchange (gain) loss	(11,008)	54	(11,062)	(5,122)	-	165	(5,287)
Other expenses	(433)	(1)	(432)	(1,885)	8,478	474	(10,837)
Income (loss) before income taxes and non-controlling interest	4,659	(221)	4,880	45,356	(8,176)	(1,570)	55,102
Income tax expense (recovery)	(563)	(62)	(501)	22,893	-	(73)	22,966
Non-controlling interest	469	-	469	3,716	-	-	3,716
Net income	\$ 4,753	\$ (159)	\$ 4,912	\$ 18,747	\$ (8,176)	\$ (1,497)	\$ 28,420
Review of operations							
Revenues - U.S. south	\$ 4,473	\$ (4,668)	\$ 9,141	\$ 26,475	\$ 14,407	\$ (15,087)	\$ 27,155
Revenues - U.S. northeast	\$ 1,474	\$ (3,904)	\$ 5,378	\$ 17,437	\$ 6,375	\$ (12,620)	\$ 23,682
Revenues - Canada	\$ 11,318	\$ -	\$ 11,318	\$ 28,051	\$ -	\$ -	\$ 28,051
Operating expenses - U.S. south	\$ 136	\$ (3,066)	\$ 3,202	\$ 13,965	\$ 8,070	\$ (10,198)	\$ 16,093
Operating expenses - U.S. northeast	\$ 2,458	\$ (2,017)	\$ 4,475	\$ 15,368	\$ 4,884	\$ (6,540)	\$ 17,024
Operating expenses - Canada	\$ 5,486	\$ -	\$ 5,486	\$ 14,074	\$ -	\$ -	\$ 14,074
SG&A - U.S. south	\$ 1,401	\$ (611)	\$ 2,012	\$ 5,239	\$ 1,489	\$ (2,049)	\$ 5,799
SG&A - U.S. northeast	\$ (604)	\$ (351)	\$ (253)	\$ 1,182	\$ 923	\$ (1,327)	\$ 1,586
SG&A - U.S. Canada	\$ 927	\$ -	\$ 927	\$ 3,040	\$ -	\$ -	\$ 3,040

	Three months ended September 30			Nine months ended September 30			
	\$ Change	Composition of \$ Change		\$ Change	Composition of \$ Change		
	Fund results for the three months ended September 30, 2006 less Fund results for the three months ended September 30, 2005	Impact of foreign exchange **	Organic growth and acquisitions	Fund results for the nine months ended September 30, 2006 less Fund results for the nine months ended September 30, 2005	Additional IESI 20 days *	Impact of foreign exchange **	Organic growth and acquisitions
Free cash flow available for distribution^(B)	\$ 5,848	\$ (3,260)	\$ 9,108	\$ 12,374	\$ 2,373	\$ (3,559)	\$ 13,560
Maintenance and Growth expenditures							
Total	\$ 9,365	\$ (1,734)	\$ 11,099	\$ 24,371	\$ 1,273	\$ (5,322)	\$ 28,420
Maintenance - Canada	\$ 1,138	-	1,138	\$ 168	\$ -	\$ -	\$ 168
Maintenance - U.S.	\$ (430)	(657)	227	\$ 3,222	\$ 1,273	\$ (2,159)	\$ 4,108
Growth - Canada	\$ 766	-	766	\$ 8,703	\$ -	\$ -	\$ 8,703
Growth - U.S.	\$ 7,891	(1,077)	8,968	\$ 12,278	\$ -	\$ (3,163)	\$ 15,441

Notes:

* U.S. segment results for the period from January 1 to January 20, 2005 translated at the 2006 foreign currency exchange rate.

** U.S. segment results for the three and nine months ended September 30, 2005 multiplied by the difference between the 2006 and 2005 foreign currency exchange rates.

Foreign Currency Exchange

A significant portion of the Fund's revenues, EBITDA^(A), capital and landfill expenditures, interest expense, and cash income taxes reported in Canadian dollars, originate in the U.S. Capital and landfill expenditures, interest expense, and cash income taxes originating in the U.S. are settled in U.S. dollars generated from U.S. operations resulting in a natural cash flow hedge. A portion of the resultant free cash flow available for distribution^(B) originating from the U.S. is hedged by three, three year single rate hedge agreements through February 2008 to purchase \$4,500 Canadian dollars monthly at an average foreign currency exchange rate of approximately \$1.222. The purpose of the hedge agreements is to protect a portion of Canadian dollar denominated distributions, which are supported by U.S. dollar denominated cash flows, from fluctuations in the foreign currency exchange rate between Canada and the U.S. These hedges provide the Fund with some protection from foreign currency exchange fluctuations through February 2008, and management's intention is to add to and or periodically renew the hedge agreements as they lapse. The Fund has not designated these derivative financial instruments as a hedge. Accordingly, changes in the fair value of these derivative financial instruments, a non-cash item, are recorded in the consolidated statement of operations. The Fund reports its financial results in Canadian dollars, and consequently changes in the foreign currency exchange rate between Canada and the U.S. impacts the translated value of the Fund's U.S. operating results to Canadian dollars. U.S. operating results are translated to Canadian dollars using the current rate method of accounting which uses the average foreign currency exchange rate between Canada and the U.S. in effect during the reporting period. U.S. assets and liabilities are translated to Canadian dollars at the exchange rate in effect at the consolidated balance sheet date. Translation adjustments are deferred and recorded as a separate component of unitholders' equity and are only included in the consolidated statement of operations of the Fund when a reduction in the Fund's investment in its foreign operations is realized. The Fund's U.S. \$160,000 of notes receivable due from IESI ("IESI notes receivable"), which are eliminated on consolidation, are not included in the net investment of IESI, and accordingly, are translated as if they are third-party foreign currency trade balances at each balance sheet date. The resultant unrealized foreign exchange gain or loss on translation of the IESI notes receivable from one balance sheet date to the next is recorded in the consolidated statement of operations as unrealized foreign exchange gains or losses, a non-cash item.

IESI's financial position and operating results have been translated applying the following U.S. to Canadian dollar foreign exchange rates:

	2006			2005		
	Current	Average	Cumulative average	Current	Average	Cumulative average
March 31	\$ 1.167	\$ 1.155	\$ 1.155	\$ 1.210	\$ 1.228	\$ 1.228
June 30	\$ 1.115	\$ 1.122	\$ 1.138	\$ 1.226	\$ 1.243	\$ 1.237
September 30	\$ 1.115	\$ 1.121	\$ 1.133	\$ 1.161	\$ 1.203	\$ 1.224

The discussions that follow are in addition to the consolidation of IESI's financial results for an additional 20 days for the nine months ended September 30, 2006 and the impact of foreign currency exchange fluctuations as detailed in the tables included in the "Consolidation of IESI" section of this MD&A, see page 4 & 5. IESI's operating results for the full three and nine months ended September 30, 2006 and 2005, stated in U.S. dollars, are included in the "Review of IESI Operations" section of this MD&A on page 9 and 10.

Revenues

	Three months ended September 30			Nine months ended September 30		
	2006	2005	\$ Change	2006	2005	\$ Change
Total	\$ 199,981	\$ 182,716	\$ 17,265	\$ 571,500	\$ 499,537	\$ 71,963
Canada	\$ 76,891	\$ 65,573	\$ 11,318	\$ 213,697	\$ 185,646	\$ 28,051
U.S. south	\$ 67,183	\$ 62,710	\$ 4,473	\$ 197,024	\$ 170,549	\$ 26,475
U.S. northeast	\$ 55,907	\$ 54,433	\$ 1,474	\$ 160,779	\$ 143,342	\$ 17,437

Canadian and U.S. segment price increases, organic growth, and higher fuel surcharges are the primary reasons for the increases. Acquisitions completed in the Fund's Canadian and U.S. segments through September 2006 also contributed to the increases.

Operating expenses

	Three months ended September 30			Nine months ended September 30		
	2006	2005	\$ Change	2006	2005	\$ Change
Total	\$ 111,991	\$ 103,911	\$ 8,080	\$ 324,433	\$ 281,026	\$ 43,407
Canada	\$ 38,712	\$ 33,226	\$ 5,486	\$ 107,992	\$ 93,918	\$ 14,074
U.S. south	\$ 44,302	\$ 44,166	\$ 136	\$ 132,003	\$ 118,038	\$ 13,965
U.S. northeast	\$ 28,977	\$ 26,519	\$ 2,458	\$ 84,438	\$ 69,070	\$ 15,368

Higher Canadian and U.S. segment disposal, labour, operating equipment repairs and maintenance, and fuel expenditures, related principally to the collection and acceptance of additional waste volumes, and higher costs to service new and existing customers and contracts are the primary reasons for the increases, coupled with acquisitions.

Selling, general and administration expenses

	Three months ended September 30			Nine months ended September 30		
	2006	2005	\$ Change	2006	2005	\$ Change
Total	\$ 23,535	\$ 21,811	\$ 1,724	\$ 71,385	\$ 61,924	\$ 9,461
Canada	\$ 9,493	\$ 8,566	\$ 927	\$ 27,864	\$ 24,824	\$ 3,040
U.S. south	\$ 8,837	\$ 7,436	\$ 1,401	\$ 26,440	\$ 21,201	\$ 5,239
U.S. northeast	\$ 5,205	\$ 5,809	\$ (604)	\$ 17,081	\$ 15,899	\$ 1,182

Higher professional fees, including amounts incurred in defense of the Lachenaie landfill statement of claim, and long-term incentive plan ("LTIP") expenses, which are being accrued at a rate of 2.25% of budgeted free cash flow available for distribution^(B), are the primary reasons for the Canadian and aggregate U.S. segment increases. Acquisitions and the write-off of deferred costs in respect of certain discontinued corporate development activities in the Fund's U.S. segments account for the balance of the increases in aggregate.

Amortization

	Three months ended September 30			Nine months ended September 30		
	2006	2005	\$ Change	2006	2005	\$ Change
Total	\$ 38,587	\$ 38,753	\$ (166)	\$ 110,831	\$ 108,745	\$ 2,086
Canada	\$ 15,186	\$ 13,731	\$ 1,455	\$ 42,069	\$ 41,191	\$ 878
U.S. south	\$ 11,440	\$ 11,776	\$ (336)	\$ 34,017	\$ 32,708	\$ 1,309
U.S. northeast	\$ 11,961	\$ 13,246	\$ (1,285)	\$ 34,745	\$ 34,846	\$ (101)

The Canadian segment increases are attributable to an increase in landfill amortization due to revisions in both landfill asset amortization and asset retirement obligation rates per tonne of accepted waste, including revisions to cash flow estimates. The increase in landfill amortization was partially offset by declines in intangible and capital asset amortization, due largely to fully amortized asset values. The U.S. segment decreases for the three months ended September 30 are due principally to appreciation of the Canadian dollar relative to the U.S. dollar which results in a lower translated value of U.S. dollar denominated amortization. The aggregate U.S. segment increase for the nine months ended September 30 is due primarily to the amortization of acquired growth capital assets and higher landfill asset amortization due to the acceptance of higher volumes of waste, partially offset by Canadian dollar appreciation relative to the U.S. dollar.

Interest on long-term debt

	Three months ended September 30			Nine months ended September 30		
	2006	2005	\$ Change	2006	2005	\$ Change
Total	\$ 8,767	\$ 7,204	\$ 1,563	\$ 24,996	\$ 19,510	\$ 5,486
Canada	\$ 2,364	\$ 2,264	\$ 100	\$ 6,749	\$ 6,535	\$ 214
U.S.	\$ 6,403	\$ 4,940	\$ 1,463	\$ 18,247	\$ 12,975	\$ 5,272

Drawings on the Fund's Canadian and U.S. revolving credit facilities to finance growth capital and landfill expenditures ("growth expenditures"), coupled with a net increase in the variable interest rate charged on these drawings, are the primary reasons for the increases. Drawings on the Fund's Canadian and U.S. revolving credit facilities to finance acquisitions also contributed to the period over period increases, which were partially offset by lower borrowing costs due to the repayment of revolving credit facility drawings from IRB financings during the fourth quarter of 2005 and second quarter of 2006.

Financing costs

	Three months ended September 30			Nine months ended September 30		
	2006	2005	\$ Change	2006	2005	\$ Change
Total	\$ -	\$ -	\$ -	\$ 79	\$ 36,710	\$ (36,631)
Canada	\$ -	\$ -	\$ -	\$ 79	\$ 2,090	\$ (2,011)
U.S.	\$ -	\$ -	\$ -	\$ -	\$ 34,620	\$ (34,620)

Concurrent with the closing of the IESI acquisition in January 2005, the Fund retired IESI's U.S. \$150,000 10.25% senior subordinated notes and incurred approximately \$34,600 of expense on retirement.

In 2005, the Fund, through Holdings, entered into an Amended and Restated Credit Agreement to complete the acquisition of the Ridge landfill on January 4, 2005 which preceded the closing and receipt of proceeds from the Fund's subscription receipts offering, January 21, 2005. The Fund wrote-off deferred and financing costs, and incurred additional costs related to the credit agreement amendment totalling approximately \$2,100. In 2006, the Fund, through Holdings, entered into a Fourth Amended and Restated Credit Agreement and wrote-off unamortized deferred financing costs in respect of its predecessor agreement.

Net gain on sale of capital assets

	Three months ended September 30			Nine months ended September 30		
	2006	2005	\$ Change	2006	2005	\$ Change
Total	\$ (54)	\$ (30)	\$ (24)	\$ (409)	\$ (30)	\$ (379)
Canada	\$ (36)	\$ (30)	\$ (6)	\$ (54)	\$ (30)	\$ (24)
U.S.	\$ (18)	\$ -	\$ (18)	\$ (355)	\$ -	\$ (355)

Dispositions of fully amortized capital assets, generally for scrap, resulted in the net gains on sale.

Net loss (gain) on derivative financial instruments

	Three months ended September 30			Nine months ended September 30		
	2006	2005	\$ Change	2006	2005	\$ Change
Total	\$ 3,260	\$ (9,610)	\$ 12,870	\$ (539)	\$ (10,723)	\$ 10,184
Canada	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S.	\$ 3,260	\$ (9,610)	\$ 12,870	\$ (539)	\$ (10,723)	\$ 10,184

The loss (gain) on derivative financial instruments relates to unrealized losses (gains) on agreements for foreign currency exchanges used to mitigate the effect of changes in the U.S./Canadian foreign exchange rates on free cash flow available for distribution^(B), interest rate swaps used to fix a portion of the floating component of IESI's U.S. \$450,000 term loan and revolving credit facility, and a hedge on commodity prices for old corrugated cardboard ("OCC"). The Fund has not designated these derivative financial instruments as hedges and accordingly changes in the fair value of these derivative financial instruments are recorded in the consolidated statement of operations.

Foreign exchange (gain) loss

	Three months ended September 30			Nine months ended September 30		
	2006	2005	\$ Change	2006	2005	\$ Change
Total	\$ (809)	\$ 10,199	\$ (11,008)	\$ 6,051	\$ 11,173	\$ (5,122)
Canada	\$ (47)	\$ 10,334	\$ (10,381)	\$ 8,097	\$ 11,099	\$ (3,002)
U.S.	\$ (762)	\$ (135)	\$ (627)	\$ (2,046)	\$ 74	\$ (2,120)

The Fund holds U.S. \$160,000 of IESI notes receivable which are not included in the net investment of IESI, and accordingly translated as if they are third-party foreign currency trade balances at each balance sheet date. The resultant unrealized foreign exchange (gain) loss on translation of the Fund's U.S. notes receivable is recorded in the Canadian segment results. Foreign exchange gains realized by the Fund's U.S. segment represent gains realized on the settlement of foreign currency exchange agreements.

Other expenses

	Three months ended September 30			Nine months ended September 30		
	2006	2005	\$ Change	2006	2005	\$ Change
Total	\$ 28	\$ 461	\$ (433)	\$ 187	\$ 2,072	\$ (1,885)
Canada	\$ -	\$ -	\$ -	\$ -	\$ 761	\$ (761)
U.S.	\$ 28	\$ 461	\$ (433)	\$ 187	\$ 1,311	\$ (1,124)

Other expenses are comprised of various management bonus costs related to the closing of the IESI acquisition.

Income tax expense (recovery)

	Three months ended September 30			Nine months ended September 30		
	2006	2005	\$ Change	2006	2005	\$ Change
Total	\$ 1,200	\$ 1,763	\$ (563)	\$ 4,804	\$ (18,089)	\$ 22,893
Canada	\$ 421	\$ (1,678)	\$ 2,099	\$ 3,893	\$ (7,748)	\$ 11,641
U.S.	\$ 779	\$ 3,441	\$ (2,662)	\$ 911	\$ (10,341)	\$ 11,252

Income tax expense declined for the three months ended September 30 for the Fund's U.S. segment due in part to timing differences on derivative financial instruments. Income tax expense increased in Canada due largely to strong financial results which resulted in a reduction of future income tax assets due to the utilization of tax losses available to shelter taxable income. The balance of the increase in income tax expense for the nine months ended September 30 is due principally to income tax recoveries recognized in 2005 in respect of financing, and acquisition and related costs.

Non-controlling interest

Non-controlling interest amounts to \$2,427 and \$5,345 (2005 - \$1,958 and \$1,629) for the three and nine months ended September 30, 2006, respectively. Non-controlling interest represents the non-controlling interest's share of net income.

Review of IESI Operations - For the three and nine months ended September 30, 2006

(all amounts are in thousands of U.S. dollars)

The following tables are provided for information purposes only. The tables highlight the change in IESI's results for the full three and nine months ended September 30, 2006 compared to the full three and nine months ended September 30, 2005, respectively, stated in U.S. dollars. Readers are reminded that the Fund's consolidated statement of operations, cash flows, and unitholders' equity excludes IESI's results for the period from January 1 to January 20, 2005.

	Three months ended September 30								
	2006			2005			\$ Change		
	South (unaudited)	Northeast (unaudited)	Total (unaudited)	South (unaudited)	Northeast (unaudited)	Total (unaudited)	South	Northeast	Total
Revenues	\$ 59,890	\$ 49,824	\$ 109,714	\$ 52,140	\$ 45,219	\$ 97,359	\$ 7,750	\$ 4,605	\$ 12,355
Operating expenses	39,502	25,829	65,331	36,704	22,023	58,727	2,798	3,806	6,604
Selling, general and administration expenses	7,880	4,648	12,528	6,123	4,898	11,021	1,757	(250)	1,507
Income before the following	12,508	19,347	31,855	9,313	18,298	27,611	3,195	1,049	4,244
Amortization			20,861			20,780			81
Interest on long-term debt			5,705			4,104			1,601
Financing costs			-			-			-
Loss (gain) on derivative financial instruments			2,861			(7,859)			10,720
Transaction expenses			-			-			-
Other (income) expenses			(670)			355			(1,025)
Income before income taxes			3,098			10,231			(7,133)
Income tax expense			688			2,694			(2,006)
Net income			\$ 2,410			\$ 7,537			\$ (5,127)

Nine months ended September 30

	2006			2005			\$ Change		
	South	Northeast	Total	South	Northeast	Total	South	Northeast	Total
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
Revenues	\$ 173,942	\$ 141,943	\$ 315,885	\$ 149,143	\$ 125,261	\$ 274,404	\$ 24,799	\$ 16,682	\$ 41,481
Operating expenses	116,538	74,546	191,084	103,408	60,653	164,061	13,130	13,893	27,023
Selling, general and administration expenses	23,342	15,080	38,422	18,521	13,667	32,188	4,821	1,413	6,234
Income before the following	34,062	52,317	86,379	27,214	50,941	78,155	6,848	1,376	8,224
Amortization			60,706			58,468			2,238
Interest on long-term debt			16,109			12,217			3,892
Financing costs			-			28,188			(28,188)
Gain on derivative financial instruments			(476)			(8,759)			8,283
Transaction expenses			-			7,344			(7,344)
Other (income) expenses			(1,954)			1,318			(3,272)
Income (loss) before income taxes			11,994			(20,621)			32,615
Income tax expense (recovery)			804			(8,447)			9,251
Net income (loss)			\$ 11,190			\$ (12,174)			\$ 23,364

BFI CANADA INCOME FUND

Other Performance Measures - For the three and nine months ended September 30, 2006

(all amounts are in thousands of Canadian dollars, except per trust unit and participating preferred share amounts)

Free cash flow available for distribution^(B)

Objective

The Fund's primary objective is to provide stable or growing distributions to its unitholders and participating preferred shareholders. Management uses free cash flow available for distribution^(B) to evaluate the Fund's performance relative to this objective and to evaluate and forecast its current and future distribution amounts.

Payout ratio

Management's distribution philosophy is to maintain an annual payout ratio which is not in excess of 90.0%. The annual payout ratio represents the percentage of distributions declared divided by free cash flow available for distribution^(B). Establishing an annual payout ratio which is not in excess of 90.0% permits the Fund to use excess free cash flow, representing the difference between free cash flow available for distribution^(B) and distributions declared, for the following primary purposes: maintain distributions during periods of lower earnings, lower cash flows and or periods of significant investment in maintenance expenditures or changes in working capital; invest in the expansion of currently owned landfill sites or the development of new replacement landfill sites; invest in growth capital and infrastructure, including but not limited to buildings; invest in strategic and accretive acquisitions; and repay long-term debt to lower interest expense.

Excess free cash flow

The Fund used a portion of excess free cash flow to invest in landfill expansion and or development and infrastructure. The balance of excess free cash flow was used to repay revolving credit facilities advances used for growth capital and acquisition investments.

Covenants

The Fund is in compliance with all revolving credit facility, term loan, IRB and senior secured debenture restrictive covenants. Accordingly, the Fund is not restricted in its ability to meet its current or anticipated distribution obligations. Additionally, the Fund is not in default of compliance matters which would result in an event of default pursuant to the terms of its revolving credit facilities, term loan, IRB's and senior secured debentures. An event of default, if not remedied, would typically result in the acceleration of repayment and ultimately restrict the Fund's ability to meet its current or anticipated distribution obligations.

Future income taxes

The Fund has significant unutilized tax losses available to shelter future taxable earnings from income tax. The unutilized tax losses typically reside in the Fund's operating entities which allows for varying degrees of shelter from income tax. The Fund actively monitors its unutilized tax losses resident throughout its organizational structure and works with various advisors to derive the maximum benefit from its remaining unutilized tax losses available to shelter income tax on taxable earnings. As unutilized tax losses are utilized or expire, the Fund may be subject to tax. Tax incurred on taxable earnings is included in current income tax expense in the Fund's consolidated statement of operations. Accordingly, amounts incurred in respect of tax will reduce the availability of free cash flow available for distribution^(B). The Fund is active in its review of strategies which will limit the Fund's future taxability.

Long-term debt

The Fund's long-term debt facilities have various dates of maturity. These facilities are not subject to scheduled principal repayment in advance of the maturity date under normal operating conditions and the Fund expects to renew or replace its current long-term debt facilities at or before maturity with similar long-term debt instruments. Accordingly, the Fund does not include any principal repayment of its current long-term debt facilities in the determination of free cash flow available for distribution^(B).

Distributions

In periods where distributions declared exceed free cash flow available for distribution^(B), the Fund is permitted under its revolving credit facilities, subject to various restrictions, to borrow amounts to honour its declared distribution. In the event that monies were not available from the Fund's revolving credit facilities, the Fund would consider curtailing all or a portion of its distributions. The Fund's distribution philosophy is to distribute not greater than 90.0% of free cash flow available for distribution^(B) in a given year. The Fund is active in its management of current and forecast distribution amounts and has no intention of borrowing under its revolving credit facilities to satisfy its current year or forecast annual distributions.

Results

Free cash flow available for distribution^(B) totalled \$38,799 and \$102,684 for the three and nine months ended September 30, 2006, respectively, versus \$32,951 and \$90,310 for the comparative three and nine months ended September 30, 2005. The resulting increases are due in large part to higher cash generated from operating activities, partially offset by higher maintenance capital expenditures, details of which are included in the Other Performance Measures – *Maintenance and growth expenditures* section of this MD&A, and lower non-cash working capital uses. For the nine months ended September 30, lower financing costs, which were incurred on the retirement of IESI's senior subordinated notes in 2005, represent the bulk of the remaining period over period change.

Free cash flow available for distribution^(B) per weighted average trust unit and participating preferred share for the three and nine months ended September 30, 2006 amounted to \$0.59 and \$1.57, respectively, and is \$0.09 and \$0.13 higher than the comparative periods ended September 30, 2005.

Free cash flow available for distribution^(B) - cash flow approach

(in thousands)	Three months ended September 30			Nine months ended September 30		
	2006	2005	Change	2006	2005	Change
Cash generated from operating activities (per statement of cash flows)	\$ 52,508	\$ 39,574	\$ 12,934	\$ 129,277	\$ 75,445	\$ 53,832
Operating						
Changes in non-cash working capital items	1,813	4,726	(2,913)	12,114	14,832	(2,718)
Net change in landfill closure and post-closure costs ⁽²⁾	(1,315)	1,858	(3,173)	3,135	1,746	1,389
Maintenance expenditures	(13,935)	(13,227)	(708)	(40,752)	(37,362)	(3,390)
Financing						
Amortization of gain, or gain, on settlement of bond forward contracts	56	56	-	168	168	-
Financing costs (net of non-cash portion)	(91)	(36)	(55)	(418)	35,481	(35,899)
Withholding taxes on foreign source income	(592)	-	(592)	(1,762)	-	(1,762)
Effect of foreign currency hedges to support Canadian dollar distributions	1,116	-	1,116	2,967	-	2,967
Realized foreign exchange gain	(761)	-	(761)	(2,045)	-	(2,045)
Free cash flow available for distribution ^(B)	\$ 38,799	\$ 32,951	\$ 5,848	\$ 102,684	\$ 90,310	\$ 12,374

Notes:

⁽²⁾ Net change in landfill closure and post closure costs exclude acquired landfill closure and post-closure costs and foreign currency translation adjustments.

Canadian Securities Association ("CSA") Staff Notice 52-306 concludes that distributable cash is, in all circumstances, a cash flow measure, and that distributable cash is fairly presented only when reconciled to cash flows from operating activities as presented in the issuer's financial statements. To arrive at free cash flow available for distribution^(B) various adjustments are made to cash generated from operating activities, details of which are as follows:

Operating

Changes in non-cash working capital items: management of the Fund expects changes in non-cash working capital items to be insignificant year over year. Various working capital items, including but not limited to the timing of receivables collected and payment of payables and accruals made, can have a significant impact on the determination of free cash flow available for distribution^(B) if included in the quarterly calculations. Accordingly, management excludes the impact of seasonal changes in non-cash working capital items to remove the resultant variability of including such amounts in the determination of free cash flow available for distribution^(B). Realized changes in working capital are typically funded from excess free cash flow available for distribution^(B) or the Fund's revolving credit facilities.

Net change in landfill closure and post-closure costs: amounts capitalized to landfill assets in respect of landfill closure and post-closure costs are immediately amortized and included in amortization of landfill assets. Amortization of landfill assets represents an item not affecting cash in the determination of cash generated from operating activities. In addition, landfill closure and post-closure expenditures are removed from the determination of cash generated from operating activities. It is management's intention to effectively charge unitholders with the accrued costs of closure and post-closure obligations as they are incurred. It is management's view that closure and post-closure accruals are obligatory in nature even though there is some discretion as to when these obligations are satisfied. Accordingly, deducting the net change in landfill closure and post-closure costs from cash generated from operating activities satisfies management's intention.

Maintenance expenditures: see Other Performance Measures – *Maintenance and growth expenditures* section of this MD&A.

Financing

Amortization of gain, or gain, on settlement of bond forward contracts: the Fund realized a gain on the settlement of two bond forward contracts in the second quarter of 2004. The bond forward contracts were entered into in advance of closing the debt private placement to manage the risk of interest rate volatility prior to its closing. For accounting purposes, the Fund recognized a \$1,550 gain on the settlement of the bond forward contracts. Management is of the view that this gain is directly related to the underlying debt private placement and as such will be amortized to free cash flow available for distribution^(B) on a basis consistent with the terms of the underlying debt.

Financing costs (net of non-cash portion): financing costs represent costs incurred to amend debt facilities. These amounts are not incurred in respect of operations and are typically funded from excess free cash flow available for distribution^(B) or the Fund's revolving credit facilities.

Withholding taxes on foreign source income: withholding taxes on foreign source income is a cash cost incurred on interest and dividend payments received by the Fund from foreign sources. Withholding tax paid on foreign source income is available for pass through to the benefit of the Fund's unitholders and represents a charge to unitholders' equity. Accordingly, the cash cost of withholding taxes is removed from the determination of free cash flow available for distribution^(B).

Effect of foreign currency hedges to support Canadian dollar distributions: the Fund has entered into three, three year single rate hedge agreements to protect a portion of Canadian dollar denominated distributions, which are supported by U.S. dollar denominated cash flows, from fluctuations in the foreign currency exchange rate between Canada and the U.S. Realized foreign exchange gains are included in foreign exchange (gain) loss in the Fund's consolidated statement of operations. Realized gains or losses affect the Fund's ability to distribute cash and accordingly management includes realized gains or losses on foreign currency hedges to support Canadian dollar distributions in the determination of free cash flow available for distribution^(B).

Realized foreign exchange gain: realized foreign exchange gains are included in the determination of cash generated from operating activities. These amounts are not incurred in respect of operations and are typically funded from excess free cash flow available for distribution^(B). Amounts realized in respect of foreign currency hedges to support Canadian dollar distributions are included in realized foreign exchange gains, but are addressed separately in the determination of free cash flow available for distribution^(B).

Free cash flow available for distribution^(B) - operations approach

Trustees and management of the Fund typically calculate free cash flow available for distribution^(B) using an operations approach. Management views EBITDA^(A) as a proxy for cash derived from operations and is required under the terms of its long-term debt facilities to prepare a similar calculation for its underlying lenders. Accordingly, trustees and management continue to use the operations approach when calculating free cash flow available for distribution^(B) and when making decisions with respect to current and future distribution levels.

(in thousands)	Three months ended September 30			Nine months ended September 30		
	2006	2005	Change	2006	2005	Change
EBITDA ^(A)	\$ 64,455	\$ 56,994	\$ 7,461	\$ 175,682	\$ 156,587	\$ 19,095
Amortization of capitalized landfill asset closure and post-closure costs, net of revisions to estimated cash flows	(2,888)	(1,990)	(898)	(6,202)	(4,465)	(1,737)
Interest on long-term debt	(8,767)	(7,204)	(1,563)	(24,996)	(19,510)	(5,486)
Management transaction bonuses (other expenses)	(28)	(461)	433	(187)	(2,072)	1,885
Current income taxes	(618)	(1,253)	635	(2,234)	(2,948)	714
Withholding taxes on foreign source income	(592)	-	(592)	(1,762)	-	(1,762)
Maintenance expenditures	(13,935)	(13,227)	(708)	(40,752)	(37,362)	(3,390)
Effect of foreign currency hedges to support Canadian dollar distributions	1,116	36	1,080	2,967	(88)	3,055
Amortization of gain on settlement of bond forward contracts	56	56	-	168	168	-
Free cash flow available for distribution ^(B)	\$ 38,799	\$ 32,951	\$ 5,848	\$ 102,684	\$ 90,310	\$ 12,374

Amortization of capitalized landfill asset closure and post-closure costs, net of revisions to estimated cash flows: amounts capitalized to landfill assets in respect of landfill closure and post-closure costs are immediately amortized and included in amortization of landfill assets. Amortization of landfill assets is included below EBITDA^(A) on the consolidated statement of operations. It is management's intention to effectively charge unitholders with the accrued costs of closure and post-closure obligations as they are incurred. It is management's view that closure and post-closure accruals are obligatory in nature even though there is some discretion as to when these obligations are satisfied. Accordingly, deducting amortization of capitalized landfill asset closure and post-closure costs, net of revisions to estimated cash flows, satisfies management's intention.

Interest on long-term debt: interest on long-term debt represents a cash cost of carrying long-term debt to finance the Fund's continuing operations. The incurrence of interest on long-term debt reduces the amount of cash available for distribution to the Fund's unitholders and participating preferred shareholders as these monies are paid to the Fund's lenders. Accordingly, interest on long-term debt is deducted from EBITDA^(A) in the determination of free cash flow available for distribution^(B).

Management transaction bonuses (other expenses): management transaction bonuses represent cash costs associated with fulfilling obligations to management that were not funded from proceeds of the underlying transaction. The incurrence of management transaction bonuses reduces the amount of cash available for distribution to the Fund's unitholders and participating preferred shareholders as these monies are paid to certain management of the Fund. Accordingly, management transaction bonuses are deducted from EBITDA^(A) in the determination of free cash flow available for distribution^(B).

Current income taxes: current income taxes represent a cash cost to the Fund in respect of provincial, state and federal taxes. The incurrence of current income taxes reduces the amount of cash available for distribution to the Fund's unitholders and participating preferred shareholders as these monies are paid to various government authorities. Accordingly, current income taxes are deducted from EBITDA^(A) in the determination of free cash flow available for distribution^(B).

Withholding taxes on foreign source income: withholding tax on foreign source income is a cash cost incurred on interest and dividend payments received by the Fund from foreign sources. Withholding tax paid on foreign source income is available for pass through for the benefit of the Fund's unitholders and represents a charge to unitholders' equity. The incurrence of withholding taxes on foreign source income reduces the amount of cash available for distribution to the Fund's unitholders and participating preferred shareholders as these monies are paid to the Internal Revenue Service. Accordingly, withholding taxes on foreign source income are deducted from EBITDA^(A) in the determination of free cash flow available for distribution^(B).

Maintenance expenditures: see Other Performance Measures – *Maintenance and growth expenditures* section of this MD&A.

Effect of foreign currency hedges to support Canadian dollar distributions: the Fund has entered into three, three year single rate hedge agreements to protect a portion of Canadian dollar denominated distributions, which are supported by U.S. dollar denominated cash flows, from fluctuations in the foreign currency exchange rate between Canada and the U.S. Realized foreign exchange gains are included in foreign exchange (gain) loss in the Fund's consolidated statement of operations. The realization of gains or losses on foreign currency hedges increases or reduces the amount of cash available for distribution to the Fund's unitholders and participating preferred shareholders as these monies are paid to parties to the hedge transactions. Accordingly, gains or losses on foreign currency hedges to support Canadian dollar distributions are included or deducted from EBITDA^(A) in the determination of free cash flow available for distribution^(B).

Amortization of gain, or gain, on settlement of bond forward contracts: the Fund realized a gain on the settlement of two bond forward contracts in the second quarter of 2004. The bond forward contracts were entered into in advance of closing the debt private placement to manage the risk of interest rate volatility prior to its closing. Accounting guidance required the Fund to recognize a \$1,550 gain on the settlement of the bond forward contracts. Management is of the view that this gain is directly related to the underlying debt private placement and as such will be amortized to free cash flow available for distribution on a basis consistent with the terms of the underlying debt.

Cash received on the termination of bond forward contracts in 2004 will be amortized to free cash flow available for distribution^(B), commencing July 2004, over the underlying terms of the senior secured debentures as follows:

(in thousands)			
Year	Annual amortization		Aggregate amortization
2004	\$	112	\$ 112
2005-2008	\$	224	896
2009	\$	155	155
2010-2013	\$	86	344
2014	\$	43	43
			\$ 1,550

Maintenance and growth expenditures

	Three months ended September 30			Nine months ended September 30		
	2006	2005	\$ Change	2006	2005	\$ Change
Total	\$ 34,603	\$ 25,238	\$ 9,365	\$ 99,569	\$ 75,198	\$ 24,371
Maintenance:						
Canada	\$ 4,493	\$ 3,355	\$ 1,138	\$ 13,127	\$ 12,959	\$ 168
U.S.	\$ 9,442	\$ 9,872	\$ (430)	\$ 27,625	\$ 24,403	\$ 3,222
Growth:						
Canada	\$ 4,888	\$ 4,122	\$ 766	\$ 19,658	\$ 10,955	\$ 8,703
U.S.	\$ 15,780	\$ 7,889	\$ 7,891	\$ 39,159	\$ 26,881	\$ 12,278

Maintenance

Maintenance expenditures represent the outlay of monies to sustain cash flows. Maintenance expenditures typically include the replacement of productive income producing capital assets, including vehicles, equipment, containers, compactors, furniture, fixtures and computer equipment. Maintenance expenditures also include a charge for the consumption of landfill airspace calculated as follows: the cost of landfill airspace from the date of purchase together with estimated landfill construction costs for the balance of the landfill's permitted or deemed permitted useful life, is divided by the total remaining permitted or deemed permitted capacity, where capacity is measured in tonnes. The resultant amount is multiplied by capacity consumed in the respective period or year and represents the maintenance expenditure charge for the consumption of landfill airspace. The construction of landfill airspace is not linear. Accordingly, there may be periods or years where landfill construction costs will exceed the maintenance expenditure charge for landfill airspace consumed. Landfill construction costs incurred in any period or year which exceeds the maintenance expenditure charge is reflected as growth expenditure. In periods or years where landfill construction costs are lower than the maintenance expenditure charge for landfill airspace consumed, the resultant difference is reflected as a reduction of growth expenditures.

The Canadian segment increases are due principally to the timing and receipt of, and increasing cost to purchase, vehicles and equipment. Increases in the U.S. segment are related principally to a larger business base, increasing costs to purchase various capital and landfill assets, and higher expenditures incurred on account of landfill cell development and vehicle and equipment purchases, coupled with maintenance expenditures incurred for acquisitions completed through the Fund's U.S. segments to September 2006.

Growth

Growth expenditures represent the outlay of monies in respect of new cash flows. Growth expenditures typically include the purchase of vehicles, equipment, containers, compactors, furniture, fixtures and computer equipment to support new contract wins and organic base business growth. Incurred landfill construction costs which exceed the maintenance expenditure charge for consumed landfill airspace are characterized as growth expenditures until overdeveloped airspace is consumed in a subsequent period or year. Growth expenditures are funded from excess free cash flow or from the Fund's revolving credit facilities.

Growth expenditures for the Fund's Canadian and U.S. segments are principally on account of acquired land for future landfill expansion, vehicles, equipment and containers to service organic revenue growth, including new contracts, and landfill cell development which benefits a future period or periods.

Readers are reminded that revenue and EBITDA^(A) contributions derived from vehicles, equipment and container growth expenditures will materialize over the period of the underlying contract and possibly beyond. The Fund's pay back period for these growth expenditures is approximately three to five years.

Distributions

(all amounts are in thousands of Canadian dollars, except per trust unit and participating preferred share amounts)

In August 2006, the Fund increased its distribution rate by an additional 7.1% to an annualized rate of \$1.818 per trust unit and participating preferred share beginning with the distribution payable on September 15, 2006 to trust unitholders and participating preferred shareholders of record on August 31, 2006.

In January 2005, the Fund increased annual per trust unit distributions 12.0% from \$1.4025 to \$1.5708 effective February 2005 in anticipation of IESI's financial performance post-acquisition. In August 2005, the Fund increased its distribution rate by an additional 8.1% to an annualized rate of \$1.698 per trust unit and participating preferred share beginning with the distribution payable on September 15, 2005 to trust unitholders and participating preferred shareholders of record on August 31, 2005.

The Fund declared distributions to trust unitholders and participating preferred shareholders for the three and nine months ending September 30, 2006, totalling \$0.44 and \$1.29, respectively, per weighted average trust unit and participating preferred share. The Fund declared a distribution payable to unitholders of record on September 30, 2006, payable October 16, 2006, of \$0.1515 per trust unit and participating preferred share.

The following table presents the Fund's payout ratio by quarter and annually and on a cumulative quarterly and annual basis:

	2006				
	Q3	Q2	Q1	Total	
Free cash flow available for distribution ^(B)	\$ 38,799	\$ 33,293	\$ 30,592	\$ 102,684	
Distributions declared on weighted average trust units	\$ 23,802	\$ 22,775	\$ 22,775	\$ 69,352	
Participating preferred shareholders, share of distributions declared	5,227	5,002	5,002	15,231	
Aggregate distributions declared	<u>\$ 29,029</u>	<u>\$ 27,777</u>	<u>\$ 27,777</u>	<u>\$ 84,583</u>	
Payout ratio	74.8%	83.4%	90.8%	82.4%	
Cumulative payout ratio	85.3%	86.7%	87.1%	85.3%	
	2005				
	Q4	Q3	Q2	Q1 ⁽³⁾	Total ⁽³⁾
Free cash flow available for distribution ^(B)	\$ 30,569	\$ 32,951	\$ 33,176	\$ 24,183	\$ 120,879
Distributions declared on weighted average trust units	\$ 21,595	\$ 20,672	\$ 18,739	\$ 15,624	\$ 76,630
Distributions declared on weighted average subscription receipts	-	-	-	1,175	1,175
Participating preferred shareholders, share of distributions declared	6,130	6,429	6,963	6,374	25,896
Aggregate distributions declared	<u>\$ 27,725</u>	<u>\$ 27,101</u>	<u>\$ 25,702</u>	<u>\$ 23,173</u>	<u>\$ 103,701</u>
Payout ratio	90.7%	82.2%	77.5%	95.8%	85.8%
Payout ratio excluding distributions on weighted average subscription receipts	90.7%	82.2%	77.5%	91.0%	84.8%
Cumulative payout ratio including distributions declared on weighted average subscription receipts	86.6%	85.9%	86.7%	89.1%	86.6%
	2004				
	Q4	Q3	Q2	Q1	Total
Free cash flow available for distribution ^(B)	\$ 10,307	\$ 11,681	\$ 8,537	\$ 10,913	\$ 41,438
Distributions declared	\$ 9,292	\$ 9,011	\$ 8,446	\$ 8,446	\$ 35,195
Payout ratio	90.2%	77.1%	98.9%	77.4%	84.9%
Cumulative payout ratio	87.5%	87.2%	88.7%	87.5%	87.5%

Notes:

⁽³⁾ Distributions declared in the three months ended March 31, 2005 include distributions paid to subscription receipt holders in advance of closing the IESI acquisition. Accordingly, the payout ratios of 95.8% and 85.8% for the three months ended March 31, 2005 and year ended December 31, 2005, respectively, includes distributions paid to subscription receipt holders amounting to \$1,175. Excluding distributions declared and paid to subscription receipt holders' results in adjusted payout ratios for the three months ended March 31, 2005 and the year ended December 31, 2005 of 91.0% and 84.8%, respectively.

Summary of Quarterly Results

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

(in thousands, except per trust unit amounts)

	2006			
(unaudited)	Q3	Q2	Q1	Total
Revenues				
Canada	\$ 76,891	\$ 72,329	\$ 64,477	\$ 213,697
U.S. south	67,183	66,021	63,820	197,024
U.S. northeast	55,907	54,305	50,567	160,779
	\$ 199,981	\$ 192,655	\$ 178,864	\$ 571,500
Net income	\$ 11,049	\$ 8,360	\$ 4,928	\$ 24,337
Net income per weighted average trust unit, basic and diluted	\$ 0.21	\$ 0.16	\$ 0.09	\$ 0.46

(in thousands, except per trust unit amounts)

	2005				
(unaudited)	Q4	Q3	Q2 ⁽⁴⁾	Q1 ⁽⁴⁾	Total
Revenues					
Canada	\$ 61,948	\$ 65,573	\$ 65,073	\$ 55,000	\$ 247,594
U.S. south	63,196	62,710	62,760	45,079	233,745
U.S. northeast	52,743	54,433	53,933	34,976	196,085
	\$ 177,887	\$ 182,716	\$ 181,766	\$ 135,055	\$ 677,424
Net income (loss)	\$ 5,053	\$ 6,296	\$ 7,756	\$ (8,462)	\$ 10,643
Net income (loss) per weighted average trust unit, basic and diluted	\$ 0.10	\$ 0.13	\$ 0.16	\$ (0.21)	\$ 0.22

(in thousands, except per trust unit amounts)

	2004 ⁽⁴⁾⁽⁵⁾				
(unaudited)	Q4	Q3	Q2	Q1	Total
Revenues					
Canada	\$ 52,513	\$ 48,913	\$ 49,762	\$ 42,201	\$ 193,389
U.S. south	-	-	-	-	-
U.S. northeast	-	-	-	-	-
	\$ 52,513	\$ 48,913	\$ 49,762	\$ 42,201	\$ 193,389
Net income	\$ 5,633	\$ 5,159	\$ 5,808	\$ 3,362	\$ 19,962
Net income per weighted average trust unit, basic and diluted	\$ 0.21	\$ 0.19	\$ 0.22	\$ 0.13	\$ 0.75

Notes:

⁽⁴⁾ Revenues have been reclassified to conform to the current period or year's presentation.

⁽⁵⁾ The summary of quarterly results for the period and year ended 2004 have been reclassified to conform to the current year's presentation. Reclassifications are consistent with the presentation and characterization of the Fund's segmented information. The Fund acquired IESI effective January 21, 2005 and accordingly the results of IESI are not included in the summary of quarterly results for 2004.

Total approximate quarterly revenue growth from Q1 2004 to Q3 2006:

Revenues for Q1 2004	\$ 42,200
Revenue growth additions:	
IESI acquisition January 2005, including U.S. segment acquisitions completed from 2005 to 2006	123,100
Canadian segment acquisitions completed from 2004 to 2006	11,800
Net price, volume, and fuel surcharge growth	22,900
Revenues for Q3 2006	<u>\$ 200,000</u>

Financial Condition

(all amounts are in thousands of Canadian dollars, unless otherwise stated)

Selected Consolidated Balance Sheet Information

	Canada - September 30, 2006	U.S. - September 30, 2006	Consolidated - September 30, 2006	Canada - December 31, 2005	U.S. - December 31, 2005	Consolidated - December 31, 2005
	(unaudited)	(unaudited)	(unaudited)			
Accounts receivable	\$ 46,771	\$ 45,386	\$ 92,157	\$ 36,483	\$ 45,372	\$ 81,855
Intangibles	\$ 48,731	\$ 22,919	\$ 71,650	\$ 58,443	\$ 26,060	\$ 84,503
Goodwill	\$ 52,386	\$ 414,445	\$ 466,831	\$ 50,889	\$ 415,739	\$ 466,628
Deferred costs	\$ 494	\$ 13,720	\$ 14,214	\$ -	\$ 13,478	\$ 13,478
Capital assets	\$ 120,403	\$ 188,628	\$ 309,031	\$ 103,124	\$ 189,371	\$ 292,495
Landfill assets	\$ 199,961	\$ 507,928	\$ 707,889	\$ 211,457	\$ 527,769	\$ 739,226
Working capital deficit (current assets less current liabilities)	\$ 6,902	\$ (14,666)	\$ (7,764)	\$ (29,147)	\$ (7,971)	\$ (37,118)

Accounts receivable

\$ Change - Consolidated September 30, 2006 versus December 31, 2005	\$ 10,302
\$ Change - Canada - September 30, 2006 versus December 31, 2005	\$ 10,288
\$ Change - U.S. - September 30, 2006 versus December 31, 2005	\$ 14

The increase in accounts receivable for the Fund's Canadian segment is due to increased organic revenue growth, including new contracts wins, the acceptance of higher waste volumes at various Fund-owned landfill sites, and seasonality.

The increase in accounts receivable for the Fund's U.S. segment is marginal and is due to increased organic revenue growth, including new contract wins, coupled with the timing of collections in the U.S. northeast segment and seasonality. The foregoing increases have been almost entirely offset by foreign currency exchange fluctuations.

Intangibles

\$ Change - Consolidated September 30, 2006 versus December 31, 2005	\$ (12,853)
\$ Change - Canada - September 30, 2006 versus December 31, 2005	\$ (9,712)
\$ Change - U.S. - September 30, 2006 versus December 31, 2005	\$ (3,141)

The decline in intangibles for the Fund's Canadian segment is due to amortization totalling approximately \$10,500, partially offset by intangibles acquired through acquisition, approximately \$800.

The decline in intangibles for the Fund's U.S. segment is due to amortization totalling approximately \$4,100, coupled with foreign currency fluctuations for the same period, partially offset by intangibles acquired through acquisition, approximately \$2,000.

Goodwill

\$ Change - Consolidated September 30, 2006 versus December 31, 2005	\$	203
\$ Change - Canada - September 30, 2006 versus December 31, 2005	\$	1,497
\$ Change - U.S. - September 30, 2006 versus December 31, 2005	\$	(1,294)

The increase in goodwill for the Fund's Canadian segment is due to goodwill recognized on acquisition. Goodwill in the Fund's U.S. segment declined due to foreign currency fluctuations partially offset by goodwill recognized on acquisition and contingent acquisition payments made.

Deferred costs

\$ Change - Consolidated September 30, 2006 versus December 31, 2005	\$	736
\$ Change - Canada - September 30, 2006 versus December 31, 2005	\$	494
\$ Change - U.S. - September 30, 2006 versus December 31, 2005	\$	242

The increase in deferred costs for the Fund's Canadian segment is due entirely to landfill development initiatives. Deferred costs in the Fund's U.S. segment increased due largely to net unrealized gains recorded on derivative financial instruments partially offset by foreign currency fluctuations.

Capital assets

\$ Change - Consolidated September 30, 2006 versus December 31, 2005	\$	16,536
\$ Change - Canada - September 30, 2006 versus December 31, 2005	\$	17,279
\$ Change - U.S. - September 30, 2006 versus December 31, 2005	\$	(743)

The increase in capital assets for the Fund's Canadian segment is due principally to vehicle, equipment, and container additions, including acquired capital assets, totalling approximately \$30,600 in aggregate, partially offset by amortization amounting to approximately \$13,300.

The decrease in capital assets for the Fund's U.S. segment is due to amortization totalling approximately \$28,500, coupled with foreign currency exchange fluctuations, partially offset by additions in respect of vehicles, equipment, and containers, and capital assets acquired by way of acquisition amounting to approximately \$36,800 in aggregate. The balance of the change is due to capital asset disposals in the period, generally for scrap.

Landfill asset

\$ Change - Consolidated September 30, 2006 versus December 31, 2005	\$	(31,337)
\$ Change - Canada - September 30, 2006 versus December 31, 2005	\$	(11,496)
\$ Change - U.S. - September 30, 2006 versus December 31, 2005	\$	(19,841)

The decrease in landfill assets for the Fund's Canadian segment is due to amortization of approximately \$18,100, exceeding landfill asset additions and capitalized landfill closure and post-closure costs totalling approximately \$6,600.

The decrease in landfill assets for the Fund's U.S. segment is due to amortization totalling approximately \$35,500, coupled with foreign currency exchange fluctuations, exceeding landfill asset additions, principally at the Seneca Meadows landfill, and capitalized landfill closure and post-closure costs, totalling approximately \$38,600 in aggregate.

Working capital deficit

\$ Change - Consolidated September 30, 2006 versus December 31, 2005	\$	29,354
\$ Change - Canada - September 30, 2006 versus December 31, 2005	\$	36,049
\$ Change - U.S. - September 30, 2006 versus December 31, 2005	\$	(6,695)

The decline in the Fund's Canadian segment working capital deficit is due largely to the renegotiation of the Canadian credit facility which changed the term to maturity from 364 days to June 2010. Accordingly, \$29,500, representing the current portion of long-term debt as at December 31, 2005, and classified as a current liability, has been classified as long-term debt as at September 30, 2006.

The increase in the Fund's U.S. segment working capital deficit is due in large part to a decline in cash and cash equivalents, used generally to fund working capital changes, coupled with additional accruals in respect of capital and landfill expenditures.

Disclosure of outstanding trust unit data

(in thousands)

	September 30, 2006	
	Units	\$
Trust units	53,617	908,221
Class A units	-	-
Total contributed equity	53,617	908,221

Trust units

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

Class A unit

IESI, as holder of the Class A unit, has the right to vote with trust units of the Fund on all matters on a basis of one vote for each trust unit receivable on exercise of the exchange rights for each participating preferred share. The Class A unit will generally vote together with trust units of the Fund at all unitholder meetings or in respect of any written resolutions of unitholders. The holder of the Class A unit has the right to designate up to two Trustees of the Fund. The entitlement to designate Trustees is dependent on the ownership interest of the participating preferred shareholders and the right to designate two Trustees is conditional on the participating preferred shareholders holding an ownership interest in the Fund, on a fully diluted basis, in excess of 20%. If the ownership interest of the participating preferred shareholders falls below 20%, but is greater than 10%, the Class A unitholder has the right to designate one Trustee of the Fund. If the ownership interest of the participating preferred shareholders falls below 10%, the Class A unitholder has no right to designate any Trustees of the Fund. At September 30, 2006, the indirect ownership interest held by the participating preferred shareholders is approximately 18.0%.

The Second Amended and Restated Declaration of Trust approved at the special unitholder meeting provides that, for so long as any participating preferred shares remain outstanding, the Trustees shall not declare payable or pay or make any distribution of distributable cash flow, as defined therein, or other distribution of cash or property on a trust unit of the Fund unless IESI declares a payment or distribution to holders of the participating preferred shares in an amount equal to the per trust unit distribution payable to unitholders of the Fund. The Class A unit is redeemable at the option of the holder at any time or at the option of the Fund at any time after the date that no participating preferred shares are outstanding and the Class A unit rights against the Fund have ceased. The redemption price of the Class A unit will be for a nominal amount.

Withholding taxes on foreign source income

With the reorganization of the Fund's interest in notes receivable from IESI, withholding tax paid on foreign source income is available for pass through to the benefit of the Fund's unitholders. Accordingly, withholding taxes on foreign source income represents a charge to unitholders' equity on the Fund's consolidated balance sheet.

Non-controlling interest - Participating preferred shares

As of November 6, 2006, 10,492 participating preferred shares have been converted into trust units of the Fund since issuance on January 21, 2005. Each holder of a participating preferred share receives dividends as if the holder is a holder of a trust unit. Assuming full exchange of the participating preferred shareholders' non-controlling interest, the Fund would have 65,391 equivalent trust units outstanding at November 6, 2006.

Liquidity and Capital Resources

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

Long-term debt

Summarized details of the Fund's long-term debt facilities are as follows:

	Available lending	Facility drawn at September 30, 2006	Letters of credit (not reported as long-term debt on the Consolidated Balance Sheets)	Current available capacity
Canadian long-term debt facilities - stated in Canadian dollars				
Senior secured debentures, series A	\$ 47,000	\$ 47,000	\$ -	\$ -
Senior secured debentures, series B	\$ 58,000	\$ 58,000	\$ -	\$ -
Revolving credit facility	\$ 80,000	\$ 43,500	\$ 22,455	\$ 14,045
U.S. long-term debt facilities - stated in U.S. dollars				
Term loan	\$ 195,000	\$ 195,000	\$ -	\$ -
Revolving credit facility	\$ 255,000	\$ 89,500	\$ 102,362	\$ 63,138
IRB	\$ 45,000	\$ 37,000	\$ -	\$ 8,000

Letters of credit issued under the Fund's U.S. revolving credit facility include U.S. \$8,000 of letters issued on September 20, 2006 in respect of IRB drawings which were effectively funded October 2, 2006. A portion of the IRB proceeds were used to repay revolving credit facility advances.

Both the Canadian and U.S. long-term debt facilities have an accordion feature which can increase the available capacity of the Canadian revolving credit facility from \$80,000 to \$120,000 and can increase the available capacity of the U.S. term loan and revolving credit facility from U.S. \$385,000, in aggregate, to U.S. \$550,000, in aggregate, subject to certain restrictions. On September 30, 2006, the Fund exercised a portion of its accordion feature available through its U.S. term loan and revolving credit facility which increased the facility to U.S. \$450,000 in aggregate. Available lending under the U.S. term loan and revolving credit facility increased by U.S. \$10,000 and U.S. \$55,000 to U.S. \$195,000 and U.S. \$255,000, respectively.

At September 30, 2006 the Fund is in compliance with all of its long-term debt facility covenants. On a consolidated basis, the Fund's long-term debt to last twelve months EBITDA^(A) ratio is 2.25 times. Readers are reminded that annualized contributions to EBITDA^(A) from acquisitions completed within the last twelve months are not included in the aforementioned ratio. Management of the Fund is confident that the Fund's long-term debt facilities and available capacities are sufficient to meet the Fund's short-term planned growth and development activities. It is management's intention to issue trust units of the Fund as available capacities under its long-term debt facilities diminish as a result of the Fund's growth and development activities or as significant strategic acquisitions are completed.

The Fund has a portion of its term loan, two revolving credit facilities, and IRB's which are subject to interest rate fluctuations with bank prime, the 30 day rate on bankers' acceptances or LIBOR. The Fund has hedged U.S. \$115,000 of variable rate interest on its U.S. \$195,000 term loan. The balance of the U.S. term loan, U.S. \$80,000, plus amounts drawn on the Fund's Canadian and U.S. revolving facilities totalling \$43,500 and U.S. \$89,500, respectively, and amounts drawn on the IRB's, are subject to interest rate risk. A 1.0% rise or fall in the variable interest rate results in a U.S. \$800, \$435, U.S. \$895, and U.S. \$370, change in interest on the Fund's U.S. term loan, Canadian and U.S. revolving credit facilities, and IRB's, respectively.

The Fund is obligated under the terms of the debentures, term loan, revolving credit facilities, and IRB's (collectively the "facilities") to repay the full principal amount of each at their respective maturities. An event of default would require repayment prior to the date of maturity. A failure to comply with the terms of any facility could result in an event of default which, if not cured or waived, could accelerate repayment of the relevant indebtedness. If repayment of the facilities were to be accelerated, there can be no assurance that the assets of the Fund would be sufficient to repay these facilities in full.

The terms of the facilities contain numerous restrictive covenants that limit the discretion of the Fund's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Fund to incur additional indebtedness, to create liens or other encumbrances, to pay distributions on the trust units and participating preferred shares above certain levels or make certain other payments, investments, loans and guarantees, and to sell or otherwise dispose of assets and

merge or consolidate with another entity. In addition, the debentures and revolving credit facilities contain a number of financial covenants that require the Fund to meet certain financial ratios and financial condition tests. A failure to comply with the terms of the debentures or credit facilities could result in an event of default which, if not cured or waived, could result in accelerated repayment. If the repayment of the facilities were to be accelerated, there can be no assurance that the assets of the Fund would be sufficient to repay these facilities in full.

The Fund's U.S. revolving credit facility restricts total annualized capital and landfill expenditures, less expenditures for new municipal contracts, to 1.2 times annual capital and landfill asset amortization. If opportunities arise that require growth capital expenditures that are in excess of the restrictive covenant, the Fund would seek a waiver of this covenant. Failure to receive the waiver could accelerate the repayment of the relevant indebtedness or result in the postponement of growth capital expenditures. If the repayment of the facility were to be accelerated, there can be no assurance that the assets of the Fund would be sufficient to repay this facility in full.

Management of the Fund remains active in its review of its financing alternatives.

Cash flows

	Three months ended September 30			Nine months ended September 30		
	2006	2005	\$ Change	2006	2005	\$ Change
Cash flows generated from (utilized in):						
Operating activities	\$ 52,508	\$ 39,574	\$ 12,934	\$ 129,277	\$ 75,445	\$ 53,832
Investing activities	\$ (51,438)	\$ (37,990)	\$ (13,448)	\$ (121,750)	\$ (216,705)	\$ 94,955
Financing activities	\$ 2,438	\$ (1,360)	\$ 3,798	\$ (14,968)	\$ 142,221	\$ (157,189)

Operating activities

Three months ended September 30

The increase in cash generated from operating activities is due to solid organic and acquisition growth, resulting in a higher contribution to net income, coupled with lower working capital uses due in part to the timing of capital and landfill expenditure and LTIP accruals.

Nine months ended September 30

Solid organic and acquisition growth, the consolidation of IESI for an additional 20 days for the nine months ended September 30, 2006 versus the comparable period, coupled with extinguishment expense recognized on the retirement of IESI's U.S. \$150,000 10.25% senior secured notes in January 2005 totalling approximately \$34,600, is the primary reason for the increase in cash generated from operating activities.

Investing activities

Three months ended September 30

The increase in cash utilized in investing activities is related principally to an increase in the purchase of capital assets, approximately \$8,500, and due largely to growth expenditures, and an increase in "tuck-in" acquisitions totalling approximately \$4,200. The period over period increase in capital asset expenditures is detailed in the Other Performance Measures - *Maintenance and growth expenditures* section of this MD&A.

Nine months ended September 30

The decrease in cash utilized in investing activities is related principally to a decline in acquisitions, approximately \$121,000, partially offset by an increase in the purchase of capital assets, approximately \$24,000. In 2005, the Fund completed the acquisition of IESI, the Ridge landfill, and various "tuck-in" acquisitions amounting to approximately \$140,300 compared to acquisitions for the comparative nine months ended September 30, 2006 of approximately \$19,700. The period over period increase in capital asset expenditures is detailed in the Other Performance Measures - *Maintenance and growth expenditures* section of this MD&A.

Financing activities

Three months ended September 30

The increase in cash generated from financing activities is due to additional net cash draws on the Fund's revolving credit facilities which increased approximately \$6,600 versus the comparative period, and is due largely to growth expenditures and acquisitions, partially offset by an increase in distributions paid to trust unitholders and participating preferred shareholders and withholding taxes on foreign source income, approximately \$2,000 and \$600, respectively.

Nine months ended September 30

The increase in cash utilized in financing activities is due in part to the closing of the IESI acquisition in January 2005, and various financings occurring in the nine months ended September 30, 2005. Net cash drawn from revolving credit facilities totalled approximately \$71,800 for the nine months ended September 30, 2006. Revolving credit facility drawings in 2006 were primarily for landfill development or expansion, growth capital expenditures, working capital, and acquisitions. The balance of the increase in cash utilized in financing activities is due largely to an increase in distributions paid to trust unitholders and participating preferred shareholders totalling approximately \$14,100.

In 2006 the Fund expects to use its excess cash resources coupled with proceeds from the Fund's revolving credit facilities to finance its working capital requirements, purchase growth capital assets, develop or expand landfill airspace, commence infrastructure projects at its landfills, and to finance new market or strategic "tuck-in" acquisitions.

Derivative Financial Instruments

(all amounts are in thousands of Canada dollars, unless otherwise stated)

The Fund has entered into the following derivative financial instruments: variable interest rate swaps on a portion of its U.S. debt facility, agreements to hedge foreign currency exchange exposure, and a commodity swap in respect of OCC. The Fund has entered into the variable interest rate swaps and agreements to hedge foreign currency exchange exposure as a condition of its U.S. credit facility and to hedge its foreign currency exchange exposure in respect of monies received from IESI to fund Canadian dollar distribution obligations to trust unitholders and participating preferred shareholders. The Fund does not utilize derivative financial instruments for trading or speculative purposes. To reduce its exposure to credit risk, the Fund only enters into derivative financial instruments with counterparties which it considers to have sufficient financial resources.

The Fund, through IESI, entered into three, three year, single rate agreements to hedge its foreign currency exchange exposure. The agreements to sell U.S. dollars and purchase \$4,500 Canadian dollars monthly are at an average foreign currency exchange rate of approximately one dollar and twenty-two cents which commenced in March 2005 and continue through to February 2008. It is management's intention to periodically roll forward the duration of the agreements as they lapse. If after February 2008 the Fund cannot replace its monthly \$4,500 U.S. to Canadian dollar hedge at a rate of approximately one dollar and twenty-two cents to mitigate its foreign currency exchange exposure, a one basis point rise or fall in the exchange rate between the Canadian and U.S. dollar results in an annual impact to Canadian dollar cash flows of approximately \$440.

The fair value of the Fund's derivative financial instruments totalling approximately \$10,600 is recorded in the consolidated balance sheet in deferred costs with the resulting change in fair value of approximately \$540 being recorded in the statement of operations as a gain on derivative financial instruments for the nine months ended September 30, 2006.

Seasonality

Revenues are generally higher in spring, summer and autumn months due to higher collection and disposal of waste. Higher collection and disposal revenues are partially offset by higher operating expenses to service and dispose of additional waste volumes.

Risks and Uncertainties

The Fund is subject to various risks and uncertainties related to its operations. A summary of these risks is listed below. Additional details are contained in the Fund's 2005 Annual Information Form filed on SEDAR, which can be found at www.sedar.com.

- renewal or maintenance of landfill operating permits
- modifications to landfill operating permits
- loss of contracts through competitive bidding or early termination
- reliance on third party disposal customers
- geographic concentration of operations
- customer concentration
- weather and seasonality
- union labour agreements
- fuel surcharge cost pass through
- reliance on key management executives
- localized decision making
- enforcement of indemnities against IESI
- surety bonds, letters of credit and insurance
- leverage, restrictive covenants, and capital requirements
- uninsured and underinsured losses
- legislation and governmental regulation
- environmental regulation and litigation
- environmental contamination
- competition
- continued management of business growth
- continued focus on growth through acquisition
- governmental initiatives to reduce landfill disposal by encouraging alternatives
- control of 4264126 Canada Limited
- foreign exchange exposure
- accounting estimates
- internal control over financial reporting and disclosure control procedures
- distributions are not guaranteed
- nature of trust units
- distribution of securities on redemption or termination of the Fund
- unitholder liability
- investment eligibility and foreign property
- restrictions on certain unitholders and liquidity of trust units
- income tax matters in Canada, including the taxation of income trusts, and the United States
- future exchanges of participating preferred shares

Outlook

(all amounts are in thousands of Canadian dollars, unless otherwise stated)

Overview

Management is committed to employing its improvement and market-focused strategies and to aggressively and continuously build value in its operating platforms. Management's objective is continuous improvement, which equates to continued revenue growth coupled with the efficient management of its business operations. New market and landfill development will be a continued focus of the Fund as it looks for ways to expand the business, increase customer density in strategic markets, and increase internalization. The Fund's strengths as an income fund remain founded in the following: consistent historical market growth, strong competitive position, a solid client base with long-term contracts, predictable maintenance capital and landfill expenditure requirements, and stable generation of free cash flow available for distribution^(B). Management of the Fund remains committed to actively managing these strengths in the future.

Maintenance expenditures

For fiscal 2006, maintenance expenditures, representing the replacement of capital in order to sustain current business operations, are expected to approximate \$19,000 to \$21,000 and U.S. \$27,000 to U.S. \$29,000 for the Canadian and U.S. operations, respectively. Maintenance expenditures are expected to be concentrated in the first three quarters of each year, which may result in the declaration and payment of distributions that are in excess of free cash flow available for distribution^(B) for these quarters. For fiscal 2006, the Fund is again targeting an annual payout ratio below 90.0%, which is consistent with the Fund's historical cumulative payout ratio of 85.3% from its inception to September 30, 2006.

Growth expenditures

Growth expenditures represent capital required to meet the demands of acquired or organic growth or capital that specifically benefits a future period or periods. For 2006, management expects to incur growth expenditures to develop landfill airspace capacity that will benefit a future period or periods and to grow the Fund's collection operations.

Liquidity

Management of the Fund remains active in its review of interest rate alternatives and it is management's intention to add to and or periodically roll forward the duration of its foreign currency exchange financial derivative instruments as they lapse.

It is management's intention to issue trust units of the Fund as available capacities under its long-term debt facilities diminish as a result of the Fund's growth and development activities or as significant strategic acquisitions are completed.

Operations

The Fund has received significant volumes of waste at its landfills, and the volumes of waste accepted may not continue at a similar rate. The Fund is active in its permit expansion efforts at various landfills as the permitted life of Fund-owned landfills is consumed. The Fund is actively reviewing alternatives to replace its Calgary landfill site. The Fund had previously expensed most costs incurred to develop an alternative site, but effective April 2006 has commenced the capitalization of certain development costs.

The Fund continuously bids residential and other government contracts which may require significant growth expenditures.

The Fund will continue to pass through fuel surcharges, and environmental costs, including government imposed disposal charges, to its customers with a view to eliminating operating cost variability on the results of its operations and free cash flow available for distribution^(B). Readers are reminded that increasing fuel costs and government imposed disposal charges result in higher revenues and all else being equal, reduce the Fund's gross operating margin (defined as revenues less operating expenses divided by revenues).

Strategic acquisitions

The Fund is active in its review and pursuit of strategic acquisitions, whether new market or strategic "tuck-in".

Other

On October 31, 2006, the Minister of Finance (Canada) announced proposed changes to the income tax treatment of distributions and allocations to and from the Fund. Effective for the 2011 taxation year, certain income earned by the Fund will be taxed in a manner similar to income earned by a corporation. The Fund is currently considering these proposals and the possible impact they will have on the Fund and its unitholders. Management is reviewing the Fund's capital structure to determine the most efficient means to execute its strategy to enhance unitholder value.

On November 6, 2006, the Fund received approval to commence a normal course issuer bid for up to 2% of the trust units outstanding in any 30 day period and not more than 10% of trust units outstanding in any 365 day period, where total trust units outstanding is equal to 53,617. The normal course issuer bid will terminate on the earlier of November 7, 2007 or the date on which the maximum number of trust units approved under this bid have been repurchased.

In October 2004, the Fund received a statement of claim which, among other things, seeks a declaration that the decree and certificate of authorization issued in respect of operations at the Lachenaie landfill are illegal, void, and without effect. In August, 2006, the Fund received a decision in respect of this action that did not result in material modifications to the current operating permit.

Withholding taxes on foreign source income will increase as participating preferred share holdings are converted to trust units of the Fund, and these taxes will be deducted in calculating future free cash flow available for distribution^(B).

Looking ahead, management's principal objective is to increase free cash flow available for distribution^(B) by continuing to enhance the Fund's service offerings, improving operating efficiencies, and growing through strategic acquisition. In this regard, management continuously reviews and evaluates potential strategic acquisitions; especially those that can increase free cash flow available for distribution^(B) and, accordingly, distributions. Future strategic initiatives may be financed with borrowings, the issuance of additional trust units, from working capital or from cash flow generated from operations.

Management of the Fund is actively reviewing its current organization structure to optimize the use of tax losses carried forward within the structure and the tax efficiency of its current organization structure. The Fund expects to incur additional reorganization costs.

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

Critical Accounting Estimates

Landfill closure and post-closure costs

The Fund develops its estimates for landfill closure and post-closure costs with input from its engineers and accounting personnel based on the regulations governing each facility, and typically reviews those estimates on an annual basis.

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

Other

Other estimates include, but are not limited to, the following: estimates of the Fund's allowance for doubtful accounts receivable; realization of future income tax assets; future earnings, income tax and other estimates used in the determination of the fair value of goodwill for the Fund's annual test of impairment; deferred cost recoverability assumptions; the useful life of capital assets; estimates and assumptions used in the determination of the fair value of contingent acquisition payments; accrued accident claims reserves; projected landfill construction and development costs and estimated permitted airspace capacity in the determination of landfill asset amortization; estimated landfill remediation costs; and various economic estimates used in the development of fair value estimates; future income tax assets and liabilities.

New Accounting Policies

Trust unit based compensation

Trust unit options issued with trust unit appreciation rights give the holder the right to surrender to the Fund all or a portion of a trust unit option in exchange for cash equal in amount to the excess of the fair market value, defined as the five day volume weighted average trading price of a trust unit, over the trust unit option exercise price. Trust unit appreciation rights, and changes thereto, are recorded as selling, general and administration expenses when the quoted market price of the trust units exceeds the trust unit option exercise price with an offset to other liabilities. If the holder of the trust unit option elects to purchase trust units, the accrued liability is credited to contributed surplus.

Long-term incentive plan ("LTIP") – U.S.

The Fund established a LTIP for certain of its U.S. employees, officers and directors of IESI and its subsidiaries. The purpose and terms of the U.S. LTIP are consistent with those outlined for the Fund's amended Canadian plan, which is to acquire trust units of the Fund for the benefit of the plan's participants. Trust units of the Fund acquired for the benefit of its U.S. participants are held in a rabbi trust. A rabbi trust, as a grantor trust, requires that the assets held in the trust be available to satisfy the claims of general creditors in the event of bankruptcy. Emerging issues task force 97-14, "Accounting for Deferred Compensation Arrangement Where Amounts Earned Are Held in a Rabbi Trust and Invested" provides specific accounting guidance and requires that trust units of the Fund held in the rabbi trust should be classified in trust unitholders' equity similar to the manner in which treasury stock is accounted for. The deferred compensation obligation should be classified as a trust unitholders' equity instrument and changes in the fair value of the trust units should not be recognized in either treasury stock or deferred compensation obligations.

Conditional asset retirement obligations

The Fund adopted the provisions of Emerging Issues Committee ("EIC") abstract 159, Conditional Asset Retirement Obligations. EIC-159 provides additional clarity regarding the timing of conditional asset retirement obligation recognition and estimating the obligation's fair value. Adopting the provisions of EIC-159 does not impact the consolidated financial statements of the Fund.

Definitions of EBITDA and free cash flow available for distribution

^(A) All references to “EBITDA” in Management’s Discussion and Analysis are to “income before the following” on the consolidated statement of operations. “Income before the following” excludes some or all of the following: “amortization, interest on long-term debt, financing costs, net gain or loss on sale of capital and landfill assets, net gain or loss on derivative financial instruments, foreign exchange gain or loss, write-off of deferred financing costs, other expenses, income taxes, and non-controlling interest”. EBITDA is a term used by the Fund that does not have a standardized meaning prescribed by Canadian generally accepted accounting principles (“GAAP”) and is therefore unlikely to be comparable to similar measures used by other issuers. EBITDA is a measure of the Fund’s operating profitability, and by definition, excludes certain items as detailed above. These items are viewed by management as either non-cash (in the case of amortization, certain financing costs, write-off of deferred financing costs, net gain or loss on derivative financial instruments, foreign exchange gain or loss, and future income taxes) or non-operating (in the case of interest on long-term debt, net gain or loss on sale of capital and landfill assets, certain financing costs, other expenses, current income taxes, and non-controlling interest). EBITDA is a useful financial and operating metric for investors as it represents a starting point in the determination of free cash flow available for distribution^(B). The underlying reasons for exclusion of each item are as follows:

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

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

Financing costs – financing costs are a function of the Fund’s treasury/financing activities and represents a different class of expense than those included in EBITDA.

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

Net gain or loss on derivative financial instruments – as non-cash items, gains or losses on derivative financial instruments have no impact on the determination of free cash flow available for distribution^(B).

Foreign exchange gain or loss – as non-cash items, foreign exchange gains or losses have no impact on the determination of free cash flow available for distribution^(B).

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

Other expenses – other expenses represent amounts paid to management of the Fund on the closing the IESI acquisition and are not considered an expense indicative of continuing operations. Accordingly, other expenses represent a different class of expense than those included in EBITDA.

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

Non-controlling interest – non-controlling interest represents a direct non-controlling equity interest in IESI through participating preferred share holdings. Accordingly, non-controlling interest represents a different class of expense than those included in EBITDA.

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

^(B) The Fund has adopted a measurement called “free cash flow available for distribution” to supplement net income as a measure of operating performance. Free cash flow available for distribution is a term which does not have a standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures used by other issuers. The objective of presenting this non-GAAP measure is to calculate the amount which is available for distribution to trust unitholders and participating preferred shareholders. Participating preferred share holdings are presented as non-controlling interest in the consolidated financial statements of the Fund; however, management of the Fund have elected to include the shareholdings of the participating preferred shareholders in the calculation of free cash flow available for distribution as participating preferred shares receive distributions that are economically equivalent to those received by trust unitholders and participating preferred shares are exchangeable on a one-to-one basis for trust units of the Fund. Details of the calculation are included in the “Other Performance Measures – Free cash flow available for distribution^(B)” section of this MD&A. Free cash flow available for distribution is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to cash flow as a measure of liquidity. All references to “free cash flow available for distribution” in this MD&A have the meaning set out in this note.

BFI CANADA INCOME FUND

Consolidated Balance Sheets

September 30, 2006 (unaudited) and December 31, 2005 (in thousands of dollars)

	September 30, 2006	December 31, 2005
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 6,937	\$ 14,142
Accounts receivable	92,157	81,855
Other receivables	1,692	1,464
Prepaid expenses	11,093	10,953
	111,879	108,414
OTHER RECEIVABLES	1,501	1,518
FUNDED LANDFILL POST-CLOSURE COSTS (Note 5)	3,794	2,468
INTANGIBLES	71,650	84,503
GOODWILL	466,831	466,628
DEFERRED COSTS	14,214	13,478
DEFERRED FINANCING COSTS	6,260	6,577
CAPITAL ASSETS	309,031	292,495
LANDFILL ASSETS	707,889	739,226
FUTURE INCOME TAX ASSETS	-	2,435
	\$ 1,693,049	\$ 1,717,742
LIABILITIES		
CURRENT		
Accounts payable	\$ 45,646	\$ 50,949
Accrued charges	53,092	45,172
Distribution payable	9,907	9,253
Income taxes payable	530	1,243
Deferred revenues	10,370	9,197
Current portion of long-term debt	98	29,718
	119,643	145,532
LONG-TERM DEBT	507,069	420,398
LANDFILL CLOSURE AND POST-CLOSURE COSTS (Note 5)	60,789	66,405
OTHER LIABILITIES	2,190	515
FUTURE INCOME TAX LIABILITIES	25,739	26,741
	715,430	659,591
NON-CONTROLLING INTEREST (Note 6)	285,531	312,614
UNITHOLDERS' EQUITY (Note 7)	692,088	745,537
	\$ 1,693,049	\$ 1,717,742

BFI CANADA INCOME FUND

Consolidated Statements of Operations

For the periods ended September 30, 2006 and 2005 (unaudited - in thousands of dollars, except net income per trust unit amounts)

	Three months ended		Nine months ended	
	2006	2005	2006	2005
REVENUES	\$ 199,981	\$ 182,716	\$ 571,500	\$ 499,537
EXPENSES				
OPERATING	111,991	103,911	324,433	281,026
SELLING, GENERAL AND ADMINISTRATION	23,535	21,811	71,385	61,924
INCOME BEFORE THE FOLLOWING	64,455	56,994	175,682	156,587
AMORTIZATION	38,587	38,753	110,831	108,745
INTEREST ON LONG-TERM DEBT	8,767	7,204	24,996	19,510
FINANCING COSTS	-	-	79	36,710
NET GAIN ON SALE OF CAPITAL ASSETS	(54)	(30)	(409)	(30)
NET LOSS (GAIN) ON DERIVATIVE FINANCIAL INSTRUMENTS	3,260	(9,610)	(539)	(10,723)
FOREIGN EXCHANGE (GAIN) LOSS	(809)	10,199	6,051	11,173
OTHER EXPENSES	28	461	187	2,072
INCOME (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	14,676	10,017	34,486	(10,870)
INCOME TAX EXPENSE (RECOVERY)				
Current	618	1,253	2,234	2,948
Future	582	510	2,570	(21,037)
	1,200	1,763	4,804	(18,089)
INCOME BEFORE NON-CONTROLLING INTEREST	13,476	8,254	29,682	7,219
NON-CONTROLLING INTEREST (Note 6)	2,427	1,958	5,345	1,629
NET INCOME	\$ 11,049	\$ 6,296	\$ 24,337	\$ 5,590
Net income per trust unit, basic and diluted	\$ 0.21	\$ 0.13	\$ 0.46	\$ 0.12
Weighted average number of trust units outstanding (thousands), basic (Note 7)	53,617	49,879	53,469	46,263
Weighted average number of trust units outstanding (thousands), diluted (Note 7)	65,391	65,391	65,391	62,541

BFI CANADA INCOME FUND

Consolidated Statements of Cash Flows

For the periods ended September 30, 2006 and 2005 (unaudited - in thousands of dollars)

	Three months ended		Nine months ended	
	2006	2005	2006	2005
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES				
OPERATING				
Net income	\$ 11,049	\$ 6,296	\$ 24,337	\$ 5,590
Items not affecting cash				
Amortization of intangibles	4,840	5,090	14,565	15,247
Amortization of deferred financing costs	337	367	1,012	1,037
Amortization of capital assets	14,281	14,223	41,721	42,108
Amortization of landfill assets	19,129	19,073	53,533	50,353
Net gain on sale of capital assets	(54)	(30)	(409)	(30)
Write-off of deferred costs	91	36	418	862
Write-off of deferred financing costs	-	-	79	367
Accretion of landfill closure and post-closure costs	752	724	2,196	2,067
Unrealized foreign exchange (gain) loss	(48)	10,235	8,096	11,085
Future income taxes	582	510	2,570	(21,037)
Net loss (gain) on derivative financial instruments	3,260	(9,610)	(539)	(10,723)
Non-controlling interest	2,427	1,958	5,345	1,629
Landfill closure and post-closure expenditures	(2,325)	(4,572)	(11,533)	(8,278)
	54,321	44,300	141,391	90,277
Changes in non-cash working capital items	(1,813)	(4,726)	(12,114)	(14,832)
Cash generated from operating activities	52,508	39,574	129,277	75,445
INVESTING				
Acquisitions (Note 4)	(16,050)	(11,857)	(19,728)	(140,332)
Investment in other receivables	-	-	(1,484)	-
Proceeds from other receivables	313	230	1,131	835
Funded landfill post-closure costs	(925)	(276)	(2,123)	(686)
Purchase of capital assets	(19,867)	(11,339)	(60,195)	(36,231)
Purchase of landfill assets	(14,736)	(13,899)	(39,374)	(38,967)
Proceeds from disposal of capital assets	341	243	1,141	243
Investment in deferred costs	(514)	(1,092)	(1,118)	(1,567)
Cash utilized in investing activities	(51,438)	(37,990)	(121,750)	(216,705)
FINANCING				
Payment of deferred financing costs	(277)	-	(998)	(4,033)
Proceeds from term and revolving loan facilities	71,069	61,171	152,137	465,994
Repayment of revolving loan and acquired long-term debt	(39,386)	(36,114)	(80,370)	(601,607)
Issuance of trust units net of issuance costs	(1)	-	(46)	351,717
Withholding taxes on foreign source income	(592)	-	(1,762)	-
Distributions paid to trust unitholders and participating preferred shareholders	(28,375)	(26,417)	(83,929)	(69,850)
Cash generated from (utilized in) financing activities	2,438	(1,360)	(14,968)	142,221
Effect of foreign exchange changes on foreign cash and cash equivalents	13	(138)	236	(163)
NET CASH INFLOW (OUTFLOW)	3,521	86	(7,205)	798
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,416	13,994	14,142	13,282
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 6,937	\$ 14,080	\$ 6,937	\$ 14,080
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash and cash equivalents are comprised of:				
Cash	\$ 6,627	\$ 7,602	\$ 6,627	\$ 7,602
Cash equivalents	310	6,478	310	6,478
	\$ 6,937	\$ 14,080	\$ 6,937	\$ 14,080
Cash paid during the period for:				
Income taxes	\$ 666	\$ 420	\$ 3,500	\$ 2,599
Interest	\$ 10,589	\$ 7,051	\$ 23,618	\$ 19,963

BFI CANADA INCOME FUND

Consolidated Statements of Unitholders' Equity

For the periods ended September 30, 2006 and 2005 (unaudited - in thousands of dollars)

	Three months ended		Nine months ended	
	2006	2005	2006	2005
BALANCE, BEGINNING OF PERIOD	\$ 704,815	\$ 730,113	\$ 745,537	\$ 209,093
Net income	11,049	6,296	24,337	5,590
Issuance of trust units, net of issuance costs and related tax effect	(1)	-	(46)	385,719
Issuance of trust units on exchange of participating preferred shares	-	164	17,197	174,243
Foreign tax credit distributed to unitholders	(592)	-	(1,762)	-
Distributions	(23,802)	(20,672)	(69,352)	(56,210)
Foreign currency translation adjustment	619	(32,885)	(23,823)	(35,419)
BALANCE, END OF PERIOD	\$ 692,088	\$ 683,016	\$ 692,088	\$ 683,016

BFI CANADA INCOME FUND

Notes to the Consolidated Financial Statements

For the period ended September 30, 2006 (unaudited - in thousands of dollars and trust units, except per trust unit amounts, unless otherwise stated)

1. Organization

BFI Canada Income Fund (the "Fund") is an open ended, limited purpose trust established under the laws of the province of Ontario and governed by a Second Amended and Restated Declaration of Trust dated January 21, 2005, as supplemented from time to time. Through its operating subsidiaries, the Fund provides integrated non-hazardous solid waste ("waste") services to commercial, industrial and residential customers in Canada and the south and northeast United States ("U.S."). The Fund makes cash distributions to trust unitholders based on all amounts received by the Fund and IESI Corporation ("IESI"), an indirect subsidiary of the Fund, pays equivalent dividends to participating preferred shareholders ("non-controlling interest"), as determined by the Trustees. The declaration of trust provides that monthly cash distributions are to be paid on or about the fifteenth day of the succeeding month.

2. Interim Financial Statements

The unaudited interim consolidated financial statements do not conform in all respects to the requirements of Canadian generally accepted accounting principles ("GAAP") for annual financial statements and should therefore be read in conjunction with the audited consolidated financial statements and notes thereto included in the Fund's annual report for the year ended December 31, 2005. The unaudited interim consolidated financial statements have been prepared by management in accordance with GAAP applicable to interim financial statements and follow the same accounting policies and methods in their application as the most recent audited annual financial statements, except as indicated in Note 3.

3. Summary of Significant Accounting Policies

Use of estimates

Effective February 10, 2004, the Fund received approval to expand the capacity of the BFI Usine de Triage Lachenaie Ltd.'s ("Lachenaie"), an indirect subsidiary of the Fund, landfill by an additional 6.5 million cubic metres which, depending on the annual volume of waste entering the site, is the equivalent of between 5.0 and 6.5 years of operation. In the event that the Fund is not successful in obtaining future Lachenaie landfill expansion permits, the following assets, as at September 30, 2006, would be subject to material adjustment; goodwill \$19,859 (December 31, 2005 - \$19,859) and landfill assets, \$84,288 (December 31, 2005 - \$86,201).

At the date the Fund acquired IESI, the Seneca Meadows landfill had approximately 4.1 years of capacity remaining under its current permit, based on the then current annual volume of waste entering the site. The Fund, through IESI, has initiated the process to obtain expansion approvals of its current permit. In the event that the Fund is not successful in obtaining future Seneca Meadows landfill expansion permits, the following assets, as at September 30, 2006, would be subject to material adjustment; intangibles \$3,247 (December 31, 2005 - \$4,190), goodwill \$151,613 (December 31, 2005 - \$158,491), and landfill assets, \$254,800 (December 31, 2005 - \$269,371).

Management remains confident that approval for the Lachenaie and Seneca Meadows expansions will be obtained prior to the expiry of the Fund's current permits and accordingly no provision for impairment has been recorded.

The Fund makes various estimates in the determination of estimated permitted airspace capacity. These estimates, if not realized, could result in material adjustments to landfill assets, goodwill, and landfill closure and post-closure costs.

BFI CANADA INCOME FUND

Notes to the Consolidated Financial Statements

For the period ended September 30, 2006 (unaudited - in thousands of dollars and trust units, except per trust unit amounts, unless otherwise stated)

Trust unit based compensation

Trust unit options issued with trust unit appreciation rights give the holder the right to surrender to the Fund all or a portion of a trust unit option in exchange for cash equal to the excess of the fair market value, defined as the five day volume weighted average trading price of a trust unit, over the trust unit option exercise price. Trust unit appreciation rights, and changes thereto, are recorded as selling, general and administration expenses when the quoted market price of the trust units exceeds the trust unit option exercise price with an offset to other liabilities. If the holder of the trust unit option elects to purchase trust units, the accrued liability is credited to contributed surplus.

Long-term incentive plan ("LTIP") – U.S.

Trust units of the Fund acquired for the benefit of its U.S. participants are held in a rabbi trust. A rabbi trust, as a grantor trust, requires that the assets held in the trust be available to satisfy the claims of general creditors in the event of bankruptcy. Trust units of the Fund acquired by the trust are classified in unitholders' equity. The deferred compensation obligation is classified as a trust unitholders' equity instrument and subsequent changes in the fair value of the trust units are not recognized in either treasury stock or deferred compensation obligations. As U.S. participants draw trust units of the Fund from the rabbi trust, both the deferred compensation obligation and trust units acquired by the U.S. LTIP reduce by a similar amount.

4. Acquisitions

For the nine months ended September 30, 2006, the Fund acquired all of the outstanding common shares of two waste management companies, one in each of the U.S. and Canada, and acquired the solid waste collection assets, various current assets, and assumed various liabilities of four waste management companies in the U.S. and one in Canada. Aggregate consideration, including consideration in respect of liabilities assumed, amounted to \$23,114 and is allocated to the U.S. northeast, U.S. south and Canadian segments as follows: \$2,541, \$16,287, and \$4,286, respectively. The allocation of the purchase price resulted in the Fund recognizing total intangibles, goodwill, capital assets and other net liabilities of \$2,801, \$16,054, \$7,063 and \$2,804, respectively. Aggregate cash consideration amounted to \$19,708. The allocation of the purchase price has yet to be finalized as certain purchase price allocations are absent fair value adjustments for certain capital assets and are subject to contingent consideration for achieving various business performance targets. Fair value adjustments that increase or decrease the fair value of certain capital assets or intangible assets will be charged to the purchase price equation.

During fiscal 2005, the Fund, certain of its subsidiaries, and IESI entered into an agreement whereby the Fund was the acquirer of IESI. IESI is a full service waste management company operating in the south and northeast U.S. Total consideration, including transaction and related costs, amounted to \$622,350. The acquisition was funded by proceeds from the Fund's subscription receipts offering, the issuance of participating preferred shares to the selling shareholders, and drawings under IESI's new credit facility. The acquisition closed on January 21, 2005.

BFI CANADA INCOME FUND

Notes to the Consolidated Financial Statements

For the period ended September 30, 2006 (unaudited - in thousands of dollars and trust units, except per trust unit amounts, unless otherwise stated)

The purchase price was allocated as follows:

Current assets (including cash and cash equivalents of \$581)	\$	49,196
Intangibles		31,140
Goodwill		427,513
Deferred financing costs		1,280
Capital assets		197,801
Landfill assets		557,015
Other long-term assets		5,703
Current liabilities		(69,099)
Long-term debt		(466,337)
Landfill closure and post-closure costs		(66,278)
Future income tax liabilities		(43,792)
Other long-term liabilities		(1,792)
	\$	622,350
<hr/>		
Consideration		
Participating preferred shares, issued	\$	585,848
Trust units, issued		23,223
Acquisition and related costs		13,279
	\$	622,350

On the acquisition of IESI, the Fund assumed various obligations which require it to pay additional amounts to certain original sellers, contingent upon the achievement of certain negotiated events or business performance targets, including landfill expansion approval or target disposal volumes. Upon approval of the Seneca Meadow's landfill expansion, the Fund is obligated to pay the original seller U.S. \$15,000. Although management is confident that the Seneca Meadow's landfill expansion will be approved, the certainty of expansion cannot be determined beyond a reasonable doubt. Accordingly, the Fund will record an adjustment to the purchase price allocation when the contingency is resolved and consideration is issued or becomes issuable. At September 30, 2006, the Fund is also obligated to pay certain sellers various amounts for achieving certain negotiated disposal volumes to a maximum of approximately U.S. \$3,000. Amounts are accrued monthly, and paid from time to time in accordance with underlying agreements, until certain negotiated threshold disposal volume targets are achieved, and the maximum obligation is satisfied. Accrued monthly amounts which are paid up to the date the threshold disposal volume targets are met reduce the threshold payment by a similar amount. The Fund will record an adjustment to the purchase price allocation when the contingency is resolved and consideration is issued or becomes issuable. To September 30, 2006, the Fund paid cash consideration or has accrued consideration payable to the original sellers in respect of meeting negotiated disposal volume targets at landfills in the U.S. south amounting to U.S. \$7,064. Landfill permits acquired on the acquisition of IESI were recorded at their fair values. Accordingly, all contingent amounts paid, and all future contingent payments, in respect of the receipt of landfill expansion approval or fulfilling disposal volume targets, are recorded to goodwill.

The Fund entered into a purchase and sale agreement to acquire the Ridge landfill in Canada, for total cash consideration of \$109,100, subject to various adjustments. The acquisition closed on January 4, 2005. Aggregate cash consideration amounted to \$111,205, including transaction and related costs of \$1,668 and consideration in respect of working capital totalling \$437. The purchase price is allocated as follows:

Current assets	\$	1,068
Capital assets		2,714
Landfill assets		110,433
Current liabilities		(575)
Landfill closure and post-closure costs		(2,435)
	\$	111,205

BFI CANADA INCOME FUND

Notes to the Consolidated Financial Statements

For the period ended September 30, 2006 (unaudited - in thousands of dollars and trust units, except per trust unit amounts, unless otherwise stated)

For the nine months ended September 30, 2005, the Fund acquired the solid waste collection assets, various current assets, and assumed various liabilities of five waste management companies in the U.S. Total consideration, including consideration in respect of liabilities assumed, amounted to \$13,701 and is allocated to the U.S. south and northeast segments as follows, \$13,216 and \$485, respectively. The allocation of the purchase prices resulted in the Fund recognizing total intangibles, goodwill, capital assets and other net assets of \$2,134, \$5,266, \$6,018 and \$283, respectively. Aggregate cash consideration amounted to \$11,428.

The results of these acquisitions have been included in the consolidated financial statements from their respective closing dates.

5. Landfill Closure and Post-Closure Costs

The following tables outline the key assumptions used in the determination of fair value for closure and post-closure costs, the expected timing of landfill closure and post-closure expenditures, and reconcile beginning and ending landfill closure and post-closure costs:

	September 30, 2006	
Fair value of legally restricted assets	\$	3,794
Undiscounted closure and post-closure costs	\$	387,278
Credit adjusted risk free rate - Canadian landfills		5.5%
Credit adjusted risk free rate - U.S. landfills		6.9%
Expected timing of undiscounted landfill closure and post-closure expenditures		
2006	\$	10,314
2007		8,198
2008		8,163
2009		7,937
2010		8,199
Thereafter		344,467
	\$	387,278

	Three months ended September 30, 2006		Three months ended September 30, 2005	
Landfill closure and post-closure costs, beginning of period	\$	59,478	\$	76,315
Provision for landfill closure and post-closure costs, during the period		2,576		1,990
Accretion expense, during the period		752		724
Landfill closure and post-closure expenditures, during the period		(2,325)		(4,572)
Revisions to estimated cash flows, during the period		312		-
Foreign currency translation adjustment, during the period		(4)		(3,476)
Landfill closure and post-closure costs, end of period	\$	60,789	\$	70,981

	Nine months ended September 30, 2006		Nine months ended September 30, 2005	
Landfill closure and post-closure costs, beginning of year	\$	66,405	\$	6,143
Landfill closure and post-closure costs assumed on acquisition		-		70,327
Provision for landfill closure and post-closure costs, during the period		6,164		5,349
Accretion expense, during the period		2,196		2,067
Landfill closure and post-closure expenditures, during the period		(11,533)		(8,278)
Revisions to estimated cash flows, during the period		38		(884)
Foreign currency translation adjustment, during the period		(2,481)		(3,743)
Landfill closure and post-closure costs, end of period	\$	60,789	\$	70,981

BFI CANADA INCOME FUND

Notes to the Consolidated Financial Statements

For the period ended September 30, 2006 (unaudited - in thousands of dollars and trust units, except per trust unit amounts, unless otherwise stated)

Effective February 10, 2004, the Fund received approval to expand the capacity of the Lachenaie landfill. As a condition of this approval, the Fund is required to deposit into a social utility trust an amount established by the Quebec Government for each cubic metre of waste accepted at the Lachenaie landfill, payable quarterly. At September 30, 2006, the Fund has \$3,794 (December 31, 2005 - \$2,468) of legally restricted assets for the purpose of settling post-closure costs, presented as funded landfill post-closure costs on the consolidated balance sheet.

The Fund has an accrued environmental liability of \$12,671 (December 31, 2005 - \$21,910) included in landfill closure and post-closure costs on the consolidated balance sheet, related principally to an inactive landfill which the Fund acquired on the acquisition of IESI. These estimated costs have a total undiscounted value amounting to \$17,406 (December 31, 2005 - \$27,938).

6. Non-controlling Interest

Exchanges of participating preferred shares are recorded at the carrying value of the participating preferred shares at issuance net of the net income and distributions attributable to participating preferred shares to the date of exchange. For the nine months ended September 30, 2006, 695 participating preferred shares were exchanged for trust units of the Fund.

	September 30, 2006	
	<u>Shares</u>	<u>\$</u>
Non-controlling interest, beginning of year	12,469	312,614
Participating preferred shares exchanged for trust units, during the period	(695)	(17,197)
Net income attributable to participating preferred shares, during the period		5,345
Distributions attributable to participating preferred shares, during the period		(15,231)
Non-controlling interest, end of period	11,774	285,531

BFI CANADA INCOME FUND

Notes to the Consolidated Financial Statements

For the period ended September 30, 2006 (unaudited - in thousands of dollars and trust units, except per trust unit amounts, unless otherwise stated)

7. Unitholders' Equity

Details of contributed equity, treasury, accumulated net income, accumulated distributions, withholding taxes on foreign source income and the cumulative foreign currency translation adjustment, are as follows:

	September 30, 2006	
	Units	\$
Contributed equity		
Trust units, beginning of year	52,922	891,070
Trust units issued on exchange of participating preferred shares	695	17,197
Equity issue costs and related tax effect	-	(46)
Trust units, end of period	53,617	908,221
Class A units, beginning of year	-	-
Class A units issued	-	-
Class A units, end of period	-	-
Treasury		
Trust units acquired by the U.S. LTIP	(45)	(1,281)
Deferred compensation obligation	45	1,281
	-	-
Accumulated net income		
Net income, beginning of year		54,204
Net income, during the period		24,337
Net income, end of period		78,541
Accumulated distributions		
Distributions, beginning of year		(167,270)
Distributions, during the period		(69,352)
Distributions, end of period		(236,622)
Withholding taxes on foreign source income		
Withholding taxes on foreign source income, beginning of the year		-
Withholding taxes on foreign source income, during the period		(1,762)
Withholding taxes on foreign source income, end of period		(1,762)
Cumulative foreign currency translation adjustment		
Cumulative foreign currency translation adjustment, beginning of year		(32,467)
Foreign currency translation adjustment, during the period		(23,823)
Cumulative foreign currency translation adjustment, end of period		(56,290)
Unitholders' equity, end of period		692,088

The basic weighted average trust units outstanding for the three months ended September 30, 2006 totalled 53,617 (2005 - 49,879). The calculation of net income per trust unit, basic, is net of the non-controlling interest's share of net income, and amounts to \$0.21 (2005 - \$0.13). The diluted weighted average trust units outstanding includes the exchange of all participating preferred shares, 11,774 (2005 - 15,512), into trust units of the Fund and totals 65,391 (2005 - 65,391). The calculation of net income per trust unit diluted, amounts to \$0.21 (2005 - \$0.13).

The basic weighted average trust units outstanding for the nine months ended September 30, 2006 totalled 53,469 (2005 - 46,263). The calculation of net income per trust unit, basic, is net of the non-controlling interest's share of net income, and amounts to \$0.46 (2005 - \$0.12). The diluted weighted average trust units outstanding includes the exchange of all participating preferred shares, 11,922 (2005 - 16,278), into trust units of the Fund and totals 65,391 (2005 - 62,541). The calculation of net income per trust unit diluted, amounts to \$0.46 (2005 - \$0.12).

BFI CANADA INCOME FUND

Notes to the Consolidated Financial Statements

For the period ended September 30, 2006 (unaudited - in thousands of dollars and trust units, except per trust unit amounts, unless otherwise stated)

8. Trust Unit Based Compensation

Trust unit options, subject to unitholder approval, are granted to certain directors, officers or management employees at the discretion of the Board of Trustees of the Fund, or its designate. Trust unit options, in the absence of any other determination, are exercisable equally on the first, second, third and fourth anniversary and expire on the 10th anniversary of the grant date. The Fund has reserved 1,750 trust units for issuance under the trust unit option plan. The exercise date of trust unit options may be accelerated, at the discretion of the Board of Trustees of the Fund, or its designate. Trust unit options are not transferable or assignable.

On February 14, 2006, the Board of Trustees issued 1,000 trust unit options, all of which have trust unit appreciation rights, to certain executive management of the Fund. Trust unit options issued on February 14, 2006 are exercisable equally on January 1, 2007, January 1, 2008 and January 1, 2009 and have an exercise price of \$29.15. The market value of the trust units on the grant date was \$28.35. On termination of employment or death, the trust unit option will be immediately exercisable.

(in thousands of trust unit options)

	Number of trust unit options	Weighted average exercise price
Outstanding, beginning of year	-	\$ -
Granted, during the period	1,000	\$ 29.15
Exercised, during the period	-	\$ -
Forfeited, during the period	-	\$ -
Expired, during the period	-	\$ -
Outstanding, end of period	1,000	\$ 29.15
Exercisable, end of period	-	\$ -

The total compensation cost recorded in selling, general and administration expenses on the consolidated statement of operations amounted to \$85 for the three and nine months ended September 30, 2006 with an offset to other liabilities. The weighted average remaining contractual life of the trust unit options is 9.25 years and at September 30, 2006 no trust unit options are exercisable.

9. Employee Future Benefits

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

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Current service cost	\$ 15	\$ 15	\$ 43	\$ 46
Interest cost	9	9	27	26
Expected return on plan assets	(10)	(9)	(31)	(28)
Amortization of transition asset	(1)	(1)	(2)	(3)
Amortization of net actuarial losses	2	2	7	5
Net benefit cost	\$ 15	\$ 16	\$ 44	\$ 46

BFI CANADA INCOME FUND

Notes to the Consolidated Financial Statements

For the period ended September 30, 2006 (unaudited - in thousands of dollars and trust units, except per trust unit amounts, unless otherwise stated)

10. Financial Instruments

Credit risk

The Fund is subject to credit risk from its exposure to a single customer in the U.S. Northeast segment, which accounts for approximately 8.7% of the Fund's accounts receivable at September 30, 2006 (December 31, 2005 - 8.8%).

11. Segmented Reporting

The Fund carries out business through three separate geographic segments: Canada, U.S. south and U.S. northeast. The business segments are fully integrated and include landfills and landfill gas to energy facilities, collection and disposal of waste and recyclable products, transfer station operations, material recovery facilities, and compactor rentals. The distinct geographic location of each business segment limits the volume and amount of transactions between the business segments.

The accounting policies used in the business segments are the same as those described in the Fund's consolidated financial statements for the year ended December 31, 2005. Corporate selling, general and administration costs are allocated to the segments based on various factors, including income before the following⁽⁶⁾. The Fund evaluates segment performance based on gross revenues, less operating and selling, general and administration expenses.

The Fund has one customer from the U.S. northeast segment that represents approximately 6.4% of consolidated revenues for the nine month period ended September 30, 2006 (2005 - 5.3%).

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Revenues				
Canada	\$ 76,891	\$ 65,573	\$ 213,697	\$ 185,646
U.S. South	67,183	62,710	197,024	170,549
U.S. Northeast	55,907	54,433	160,779	143,342
	\$ 199,981	\$ 182,716	\$ 571,500	\$ 499,537
Income before the following⁽⁶⁾				
Canada	\$ 28,686	\$ 23,781	\$ 77,841	\$ 66,904
U.S. South	14,044	11,108	38,581	31,310
U.S. Northeast	21,725	22,105	59,260	58,373
	\$ 64,455	\$ 56,994	\$ 175,682	\$ 156,587
Amortization				
Canada	\$ 15,186	\$ 13,731	\$ 42,069	\$ 41,191
U.S. South	11,440	11,776	34,017	32,708
U.S. Northeast	11,961	13,246	34,745	34,846
	\$ 38,587	\$ 38,753	\$ 110,831	\$ 108,745

⁽⁶⁾ Income before the following represents income before amortization, interest on long-term debt, financing costs, net gain on sale of capital assets, net loss (gain) on derivative financial instruments, foreign exchange (gain) loss, other expenses, income taxes, and non-controlling interest.

BFI CANADA INCOME FUND

Notes to the Consolidated Financial Statements

For the period ended September 30, 2006 (unaudited - in thousands of dollars and trust units, except per trust unit amounts, unless otherwise stated)

September 30, 2006	Canada	U.S. South	U.S. Northeast	Total
Capital assets	\$ 120,403	\$ 137,796	\$ 50,832	\$ 309,031
Goodwill	\$ 52,386	\$ 165,628	\$ 248,817	\$ 466,831
Total Assets	\$ 484,865	\$ 487,028	\$ 721,156	\$ 1,693,049

December 31, 2005	Canada	U.S. South	U.S. Northeast	Total
Capital assets	\$ 103,124	\$ 138,011	\$ 51,360	\$ 292,495
Goodwill	\$ 50,889	\$ 157,230	\$ 258,509	\$ 466,628
Total Assets	\$ 480,593	\$ 479,907	\$ 757,242	\$ 1,717,742

12. Seasonality

Revenues are generally higher in spring, summer and autumn months due to higher collection and disposal of waste. Higher collection and disposal revenues are partially offset by higher operating expenses to service and dispose of additional waste volumes.

13. Subsequent Events

On October 31, 2006, the Minister of Finance (Canada) announced proposed changes to the income tax treatment of distributions and allocations to and from the Fund. Effective for the 2011 taxation year, certain income earned by the Fund will be taxed in a manner similar to income earned by a corporation. The Fund is currently considering these proposals and the possible impact they will have on the Fund and its unitholders.

On November 6, 2006, the Fund received approval to commence a normal course issuer bid for up to 2% of the trust units outstanding in any 30 day period and not more than 10% of trust units outstanding in any 365 day period, where total trust units outstanding is equal to 53,617. The normal course issuer bid will terminate on the earlier of November 7, 2007 or the date on which the maximum number of trust units approved under this bid have been repurchased.