Laidlaw Inc.

Annual Report 1998

passenger services

patient services

corporate profile

Laidlaw is an organization which provides essential, specialized transportation services dedicated to "getting people where they have to go", throughout North America.

The company holds leading positions in school bus service, municipal transit, ambulance transportation and hospital emergency department management. Laidlaw also has a growing presence in the intercity and tourism busing sectors.

room to grow

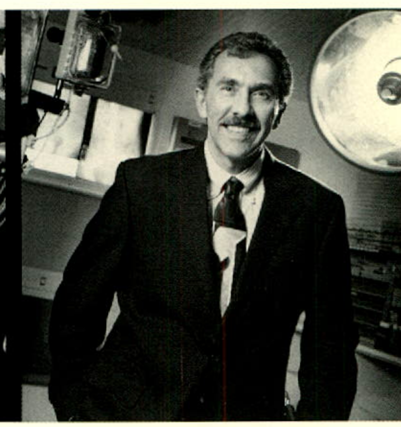
Laidlaw's 85,000 employees provide services to passengers and patients from more than 1,300 locations in the United States and Canada. Corporate headquarters are in Burlington, Ontario, Canada.

During fiscal 1998, 91% of the company's revenue was generated from services provided to the public in the United States; the balance was generated by operations in Canada.

annual meeting

The Laidlaw Inc. Annual General Meeting will be held Wednesday, January 13, 1999 at 11:00 a.m. in the Canadian Room of the Royal York Hotel, 100 Front Street West, Toronto, Ontario, Canada.

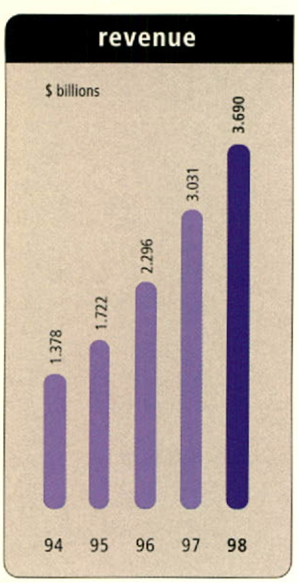
contents

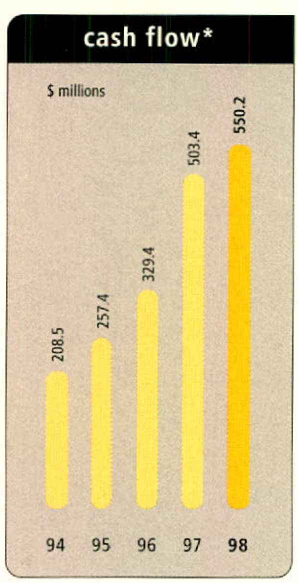


financial highlights

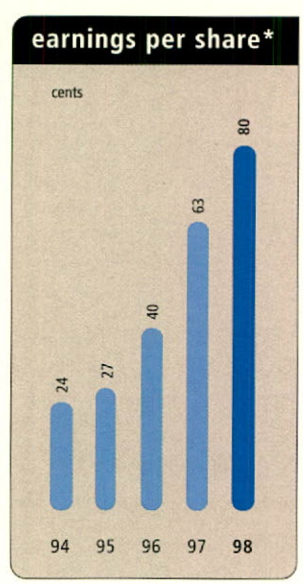
Years ended August 31	1998	1997	% change
(U.S. $ millions except per share amounts)			
REVENUE *(including Safety-Kleen)**	$ 3,690.2	$3,030.7	22
INCOME*	263.0	199.9	32
PER COMMON SHARE			
Income*	0.80	0.63	27
Cash from operations*	1.67	1.59	5
Dividends ($ Cdn.)	0.26	0.20	30
FINANCIAL POSITION			
Long-term debt	2,293.7	2,192.4	5
Shareholders' equity	3,089.9	2,794.4	11
Total assets	$ 6,184.6	$6,117.1	1
Long-term debt/equity ratio	0.74:1	0.78:1	N/A
Average shares outstanding (millions)	329.8	317.1	4

* *from continuing operations before restructuring charges and dilution gain*





*Before financing working capital, restructuring charges, special and non-recurring charges and acquisition accruals



*From continuing operations before restructuring charges, special and non-recurring charges, unusual items and dilution gain

operating highlights

Greyhound Canada Transportation Corp. Acquired

- Operating from Ontario to Canada's West Coast and serving more than two million passengers annually, Greyhound was acquired in October 1997.

Offer Made for Greyhound U.S.

- An offer to acquire all outstanding shares of Greyhound Lines, Inc. to be voted on by Greyhound shareholders in January 1999 was made in October 1998.

EmCare Holdings Inc. Acquired

- EmCare, premier manager of emergency physicians' practices and high-volume hospital emergency departments (EDs), was acquired in September 1997.

Spectrum Emergency Care, Inc. Acquired

- Spectrum broadened ED management into lower volume EDs serving smaller communities. It was acquired in October 1997.

The 1998 fiscal year is best characterized as one during which Laidlaw both expanded and solidified the company's new direction.

Laidlaw's businesses are now focused on providing specialized transportation services for students, travellers and patients.

serving **people**

These markets are healthy and growing, and share one other very important characteristic. Each remains fragmented, providing Laidlaw with ample

Ivan Cairns, Senior Vice-President and General Counsel
Jim Bullock, President and Chief Executive Officer
John Grainger, Executive Vice-President and Chief Operating Officer
Les Haworth, Senior Vice-President and Chief Financial Officer

opportunities to create additional value through consolidation and rationalization; a process at which the company is adept, as our record has shown.

In terms of corporate developments, there were a number of highlights in fiscal 1998.

Midyear, Laidlaw Environmental Services, Inc. (LESI) completed the process of acquiring Safety-Kleen Corp. which provides environmental services to some 400,000 generators of small quantities of hazardous waste. As a result of this $2.2 billion transaction, financed with $1.5 billion in cash and by the issuance of 166.5 million LESI common shares, Laidlaw's ownership position in LESI was reduced from 67% to 35%, albeit of an entity doubled in size on a revenue basis. LESI has adopted the Safety-Kleen name and brand image.

Since our ownership fell to less than 50%, Laidlaw ceased accounting for Safety-Kleen on a consolidated basis at the end of our second quarter, adopting instead the equity method. This treatment simply nets our investment into a single line on the income statement – equity in earnings of associated companies – for the last six months of the fiscal year. We carry our investment in Safety-Kleen on our balance sheet at $738 million and in keeping with our belief that there is substantial opportunity for Safety-Kleen's stock value to appreciate, we expect to hold this interest for some time.

A New Platform For Growth

The year was also notable for the progress we made in providing further shape and substance to our new vision of Laidlaw and potentially opening up another platform for growth.

In October 1997, Laidlaw acquired Greyhound Canada Transportation Corp., broadly expanding the company's ability to serve the intercity travel market in Canada.

In October, this year, we announced that a plan of merger had been finalized with Dallas-based Greyhound Lines, Inc., whereby Laidlaw offered to acquire all the outstanding common shares of Greyhound for $6.50 per common share. At our discretion, up to $4.00 of the $6.50 offer price can be satisfied with Laidlaw common shares.

Laidlaw	
Passenger	**Education Services** • school busing **Transit & Tour Services** • municipal transit • intercity coach • tour coach
Patient	**Ambulance Services** • American Medical Response • Canadian Medical Response **Emergency Dept. Management** • EmCare

If we elect to include Laidlaw shares, notice will be given five days prior to a Greyhound shareholders' meeting called for the purpose of voting on the merger, expected in January 1999. The total value of the transaction is approximately $675 million. Greyhound is the principal supplier of intercity bus travel in the United States. We forecast their revenue for 1999 to be about $900 million.

The effect of these transactions – the acquisitions made in 1998 and proposed for 1999 – reinforce our view of Laidlaw's future as being predominantly a transportation company. Both Greyhound acquisitions provide platforms in Canada and the United States to which tourism and other coach operations can and will be added. The tour coach industry is highly fragmented with approximately 6,000 operators serving a market of about $6 billion annually. With these quick steps, Laidlaw will have acquired the base and a tremendous brand equity on which to become a very large player in these growing markets.

Passenger Services turned in record results for the year. Changing conditions in the healthcare market provide new opportunities for Patient Services.

Financial Results

Consolidated revenue for the year, (excluding Safety-Kleen) increased 42% to $3.31 billion from the $2.32 billion reported for fiscal 1997.

Income from continuing operations before a dilution gain and restructuring charges increased 32% to $263.0 million or $0.80 per share from the $199.9 million or $0.63 per share reported for the 1997 year. After a dilution gain of $100.7 million or $0.30 per share and restructuring charges of $17.7 million or $0.05 per share, both associated with LESI's acquisition of Safety-Kleen, net income for the 1998 fiscal year was $346.0 million or $1.05 per share compared with $610.5 million or $1.92 per share for fiscal 1997. Net income, last year, included restructuring charges of $154.7 million or $0.49 per share and income from, and a gain on sale of, the company's solid waste operations – $565.3 million or $1.78 per share. There was an average of 329.8 million shares outstanding this year, an increase of 4% over fiscal 1997.

A Strong Ability To Finance Growth

The past year again demonstrated Laidlaw's ability to generate superior cash flows. Our financial condition remains healthy. Excluding Safety-Kleen, Laidlaw generated $499.2 million in cash from continuing operations before restructuring charges and financing working capital, compared with $425.0 million in the previous year.

Excluding Safety-Kleen, capital spending on asset replacement and additions increased to $291 million from $195 million primarily to expand our school bus and coach fleet, while acquisition spending was $690 million compared with $1.61 billion in 1997. At year end, our consolidated long-term debt was $2.29 billion compared with $2.19 billion last year, while shareholders' equity increased to $3.09 billion compared with $2.79 billion yielding a debt/equity ratio of 0.74:1 compared with 0.78:1 for fiscal 1997.

A Record Year For Passenger Services

Passenger Services reported its best performance to date. The full year's contribution from the acquisitions of the DAVE Companies Inc. and Vancom, Inc., along with Greyhound Canada's 11 months as part of Laidlaw, coupled with school bus route additions on the U.S. west coast and in the Midwest, resulted in record revenue, margins and operating income. In total, 16 acquisitions adding $189 million in annualized revenue were completed. Operating margins were improved to 11.9% from 11.0% last year, reflecting successful new contract bidding, better safety practices, and therefore, lower insurance costs. Revenue increased 21% to $1.65 billion from the $1.36 billion reported last year.

A New Management Structure

In order to strengthen management's focus on its two passenger-related markets, the Passenger Services Group has been recast along its business lines. In September 1998, the group was divided into Education Services, for the management of school busing and a Transit & Tour group encompassing our intercity, public transit and tourism businesses.

This structure provides a president and discrete management team for each of the passenger transportation specialties. Their mandate is to grow through continued acquisitions, contract bidding and conversion of publicly run fleets to Laidlaw management. Subsequent to the anticipated Greyhound transaction, all intercity and tour operations will be assumed by Greyhound management.

Extending Our Reach In Emergency Care

We extended our ability to serve patients requiring unscheduled, episodic emergency care by acquiring the premier emergency department management company in the United States, EmCare Holdings Inc., and immediately thereafter doubled its size and broadened its scope with the acquisition of Spectrum Emergency Care, Inc.

During fiscal 1998, Laidlaw expanded and solidified its new direction, focusing on providing specialized transportation for students, travellers and patients.

In the ambulance transportation side of the business, 1998 was a year of further internal consolidation aimed at strengthening market positions and matching operating costs to a changing reimbursement atmosphere. Customers continue to seek ways to manage down their costs of providing service to their subscribers or Medicare recipients.

Managing A Changing Environment In Patient Services

Payors in the healthcare industry – insurers, Health Maintenance Organizations (HMOs) and Medicare/Medicaid – are determined to lower the costs of serving their customers. While this effort has reduced the number of ambulance transports, shifting some toward wheelchair van transport, it also provides American Medical Response (AMR) with new opportunities to market itself as the only ambulance company capable of providing service to regionally or nationally operating HMOs. AMR's size and scope provides it with unique capabilities to help clients reach their efficiency targets.

During the year, revenue growth in Patient Services came principally from the EmCare and Spectrum acquisitions, augmented by eight other purchases of emergency department management companies.

The past year saw serious declines in the profitability of general physician practice management companies, which provide their service to HMOs and insurers on a globally capitated or flat dollar-per-member-per-month basis. On the other hand, the emergency department specialty, which encompasses the company's business and which operates on a fee-for-service basis is thereby more able to match costs to revenue and did not suffer the same fate. The EmCare/Spectrum integration consumed a great deal of management energy and is essentially complete. The company has sharpened its focus on gaining new contracts with encouraging results. Its market position and reputation will stand it in good stead despite the turmoil in the healthcare sector.

Patient Services' operating margins for 1998 were 10.5% compared with 11.9% last year. This difference reflects both the inclusion of the emergency department management business, which has lower operating margins than ambulance services, and the changing mix of revenue available to AMR. Revenue for these services increased to $1.66 billion, an increase of 73% over the $957 million reported last year.

Increasing The Focus On Standards Of Conduct

The U.S. Federal Health Insurance Portability and Accountability Act has placed an increased responsibility on directors of corporations engaged in the healthcare industry to ensure that a program is in place to detect fraud and abuse in the delivery of healthcare services.

Early in the year, we established a new committee of the board of directors responsible for issues relating to compliance and ethics. John Grainger, Laidlaw's Executive Vice-President and Chief Operating Officer, and independent directors, Martha Hesse, and William Sanger were appointed to the committee.

For many years, Laidlaw has had a Code of Business Conduct outlining the principles by which Laidlaw employees will carry on our business. Managers are required to annually sign a declaration that they have read the Code, understood its contents and have and will abide by its requirements.

This year we established a staff department, headed by a Director of Corporate Compliance who is responsible to the new board committee. A wider corporate Code of Conduct has been developed to include the mandate of the legislation, which essentially makes each employee engaged in the delivery of healthcare services responsible for avoiding fraud and abuse. Employees are required to read, sign and adhere to its contents. Communication systems and training programs have been developed and implemented to support the application of the Code.

Income Tax Opinion

On July 1st, the company received an opinion from the United States Tax Court to the effect that certain advances from a Laidlaw-related foreign entity, based in the Netherlands, during the tax years 1986, 1987 and 1988, were equity rather than debt and interest deductions claimed on these advances were disallowed. As a result, tax of approximately \$46.2 million, together with interest of approximately \$88.8 million to August 31, 1998, would be payable. The company currently has available tax reserves of more than \$200 million for these purposes.

We have extended our corporate Code of Conduct, in place for a decade. It outlines the principles by which Laidlaw employees carry on our business.

While not part of these proceedings, the Internal Revenue Service (IRS) has asserted similar claims against Laidlaw for subsequent tax years, as outlined in Note 18 on page 52 of this report.

Presently, Laidlaw is engaged in discussions with the IRS in order to resolve the issues relating to all fiscal years from 1986 to 1994. If the company is unsuccessful in negotiating a resolution, it will appeal the opinion and strongly contest the claimed deficiencies for subsequent fiscal years.

Year 2000

Laidlaw has been evaluating the impact of the "Year 2000 Issue", that is the inability of date-sensitive computer systems to distinguish between the year 2000 or 1900 or some other date, when reading only two zeros in the date field. Errors would result when information using dates beyond 1999 is processed. Costs associated with resolving the problem are expected to be approximately \$45 million. The company is well advanced in addressing this issue in all of its business operations.

Future Outlook

We have moved from primarily being a waste management company to a specialty transportation company. As we enter 1999, our transformation is nearing completion. We have established leadership positions in each sector our businesses serve and we are rapidly approaching the \$5 billion revenue target we set for ourselves by the year 2000.

Our challenge remains to grow and strengthen each of our businesses, both internally and through acquisition, as we face the new millennium. I believe the men and women of Laidlaw are more than up to this challenge. I would like to acknowledge the tremendous efforts of the 85,000 Laidlaw employees this past year. Our Board of Directors continues to provide rigorous stewardship of the company and I thank them for their invaluable assistance to me.

Most sincerely,

James R. Bullock
President and Chief Executive Officer
November 9, 1998

While Laidlaw's businesses may appear quite different from each other, actually they have many common themes, practices and management techniques. Shared ideas and experiences create internal efficiencies which yield lower costs for service delivery, thereby improving the companies' competitive positions.

common factors; uncommon service

People Directed

All Laidlaw businesses provide services essential to the North American public. As a specialized transportation company, Laidlaw safely moves people, either as passengers or patients. In addition, Laidlaw-managed physicians extend patient care into the hospital emergency setting. Laidlaw is well placed to benefit from changing North American demographics – rising numbers of school-aged children and young adults, and aging baby-boomers with more time for vacations and an increasing need for healthcare services.

Timely Logistics

All Laidlaw services are time-sensitive. Students need to be in school on schedule; intercity and municipal transit buses must arrive and depart as their passengers expect; ambulances must meet strict response criteria from dispatch to the site of an emergency.

Above all, the skills of Laidlaw's front-line service delivery people are the assets which make the organization successful. Drivers, paramedics and doctors have a common mission, the well-being of the people for whom they are responsible.

Transactional

Serving millions of people every day creates an enormous need to document transactions. From generating tickets for bus travel to the detailed data which describes care given to patients, documentation is essential to providing excellent service and generating accurate records for each transaction.

An Effective Consolidator

Laidlaw's history as a consolidator of service businesses has brought it to its current market leadership positions. The sectors in which it operates remain highly competitive and relatively unconsolidated, providing substantial room for future growth.

Shared Infrastructure

Size is an advantage in purchasing equipment and services. As one of the largest buyers of transportation equipment in North America, Laidlaw benefits from substantial cost advantages as a result of standardization, volume and predictability of demand. Preventative maintenance systems assure longevity and safety while insurance costs are spread over a fleet size second to none. Insurance costs are reduced through extensive driver safety-training programs.

Regulation And Compliance

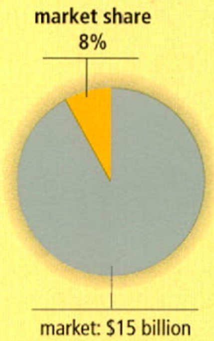
Laidlaw has developed special expertise in providing service in tightly regulated environments, in acquiring and maintaining operating licenses and authorities for specific transport routes; meeting rigid vehicle specifications; and observing strict protocols for patient care, often in life-threatening situations.

Technology

Laidlaw's operations depend on and are enhanced by a variety of electronic technologies. Dispatch communications and global positioning systems, particularly for ambulances or school buses, are critical to effective service delivery. Computer-driven vehicle maintenance scheduling and parts inventory control help ensure vehicles are roadworthy. Equally important are the accuracy and timeliness of well-designed and administered billing and cash management processes. Management information and billing data are electronically transferred from operating locations to regional management and billing centers.

passenger services

education services



As the largest provider of contracted student transportation in North America, Laidlaw, with 39,000 school buses, safely driven by highly trained staff, carries more than two million students every school day.

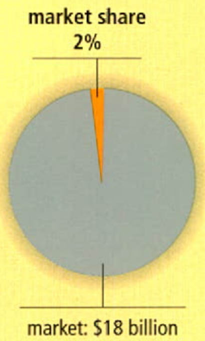
The Market

About $15 billion are spent annually by North American school boards and districts to provide transportation services for students. Of the 450,000 school buses in service, approximately two-thirds are operated by public authorities; the balance, by private-sector companies.

Growth Potential

Laidlaw expects to expand its market share by converting publicly operated fleets to Laidlaw management, competitively bidding for contracts and through the continued acquisition of other private operators. During the last three years some 1,900 buses, formerly operated by educational authorities, have been converted to Laidlaw operations. With the two-thirds of school buses publicly operated, there is a large potential for growth.

intercity, tourism, municipal



Laidlaw has been in the intercity and tour coach business since 1972. The purchase of Greyhound Canada Transportation Corp., in October 1997, moved the company into the premier industry position in Canada.

The Market

Intercity travellers and tourists currently spend more than $6 billion on highway coach transportation annually. Intercity bus travel of less than 1,000 miles is cost competitive with regional airlines. Tour coaches serve local special events and long distance vacation travel.

Growth Potential

Some 6,000 operators serve these markets. This offers Laidlaw a market for consolidation and the opportunity to bring nearly 30 years of management experience to a business that will continue to grow as the retiree market swells and new tourist destinations are developed. The potential to dramatically increase market share is evidenced by Laidlaw's proposed merger, announced in October 1998, with Greyhound Lines, Inc., the only national intercity carrier in the United States.

Laidlaw is the largest supplier of contracted fixed-route and paratransit services to municipalities. Providing paratransit services – transportation for citizens with mobility challenges – accounts for about 60% of Laidlaw's revenue in this market; the balance comes from providing scheduled public transit bus service. Laidlaw operates from 150 locations in 26 states.

The Market

Municipalities provide nearly $10 billion in fixed-route transit services and approximately $800 million in paratransit services annually. More than 90% of fixed-route municipal busing is provided by cities themselves while the balance is contracted to private-sector operators. In the paratransit market, private operators provide more than 80% of the service.

Growth Potential

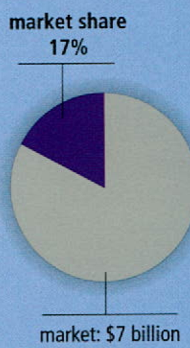
Laidlaw's strategy is aimed at targeted expansion, to be achieved by competitively bidding new contracts, actively selling the cost benefits of contracting to state legislatures and municipalities, and by acquiring high-quality service providers.

Market shares are approximate. They are based on year-end revenue run rates and estimated market sizes.

patient services

healthcare transportation

American Medical Response is the largest provider of emergency and non-emergency medical transportation serving communities, hospitals and other healthcare facilities in 39 states. About 5.5 million patient transports were provided during the 1998 fiscal year.



The Market

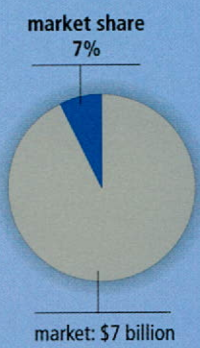
Some $7 billion are spent annually for ambulance services in the United States. Approximately 50% of this spending is for services provided by private-sector service companies.

Growth Potential

Laidlaw's consolidation of the industry, begun in 1993, is continuing. There are more than two thousand independent private-sector operators in the industry. Management is focusing on matching the company's costs to its markets, the quality of revenue derived from its contracts and taking advantage of AMR's geographic coverage to expand services to regional and national healthcare providers.

emergency department management

EmCare is the largest provider of emergency department management services to hospitals in the United States. Some 4,700 doctors, in hospitals across 42 states, provide emergency care during 6.8 million patient visits annually.



The Market

There are some 5,200 emergency departments in U.S. hospitals. About 80% of those contract for physicians' services. Seven billion dollars are spent annually to provide physicians' services in emergency departments.

Growth Potential

During fiscal 1998, Laidlaw grew this service through the acquisition of EmCare, Spectrum and several other ED management firms, to become one of the principal service providers in the industry. Laidlaw sees room for growth by winning new contracts and through the continued consolidation of smaller, local and regional ED management groups who provide some 60% of outsourced services.

Market shares are approximate. They are based on year-end revenue run rates and estimated market sizes.

One-third of students who take the bus to and from school are transported in vehicles provided, maintained and driven by private-sector companies. Laidlaw Education Services is the new name for the company's 20-year-old core passenger transportation business, now managed as a separate service, distinct from Laidlaw's coach and para-transit operations. Education Services focuses exclusively on strengthening and building Laidlaw's position as the clear leader in its market, responsible for more than two million students' safe arrival at school and their return home, every school day.

new focus

Education Services
(l-r)
Mike Griffus
Senior Vice-President, Western Region
Steve Hemmerlein
Senior Vice-President, Midwest Region
Patrick Vaughan
Senior Vice-President, Northeast Region
Bob Hach
President, Education Services
Mike Rushin
Senior Vice-President, Atlantic/Southeast Region
Bob Richards
Senior Vice-President, Canadian Region

Led by a management team that encompasses five senior vice-presidents, each responsible for a geographic region within the United States and Canada, Laidlaw Education Services is headquartered in Naperville, Illinois.

Market leadership is more than being the largest in the business. Market leadership, above all, depends on sustaining a high level of safe, reliable and efficient service to school districts, their students and parents. Leadership also demands locally focused management able to respond effectively to local needs.

Education Services operates from 450 locations where drivers, mechanics, dispatchers, bus routing specialists and other staff live and are part of the communities they serve.

With safety as the first priority, Education Services' training programs for drivers, mechanics and students are second to none. Driving skills training helps keep students out of danger, while student management training helps drivers ensure their passengers arrive at school, ready to learn. Student safety awareness programs teach students from kindergarten through grade six how to safely board, ride and get off the bus.

This training pays dividends in passenger safety, service quality and reduced insurance costs. Education Services again reduced year-over-year accident frequency and consequent insurance claim expense.

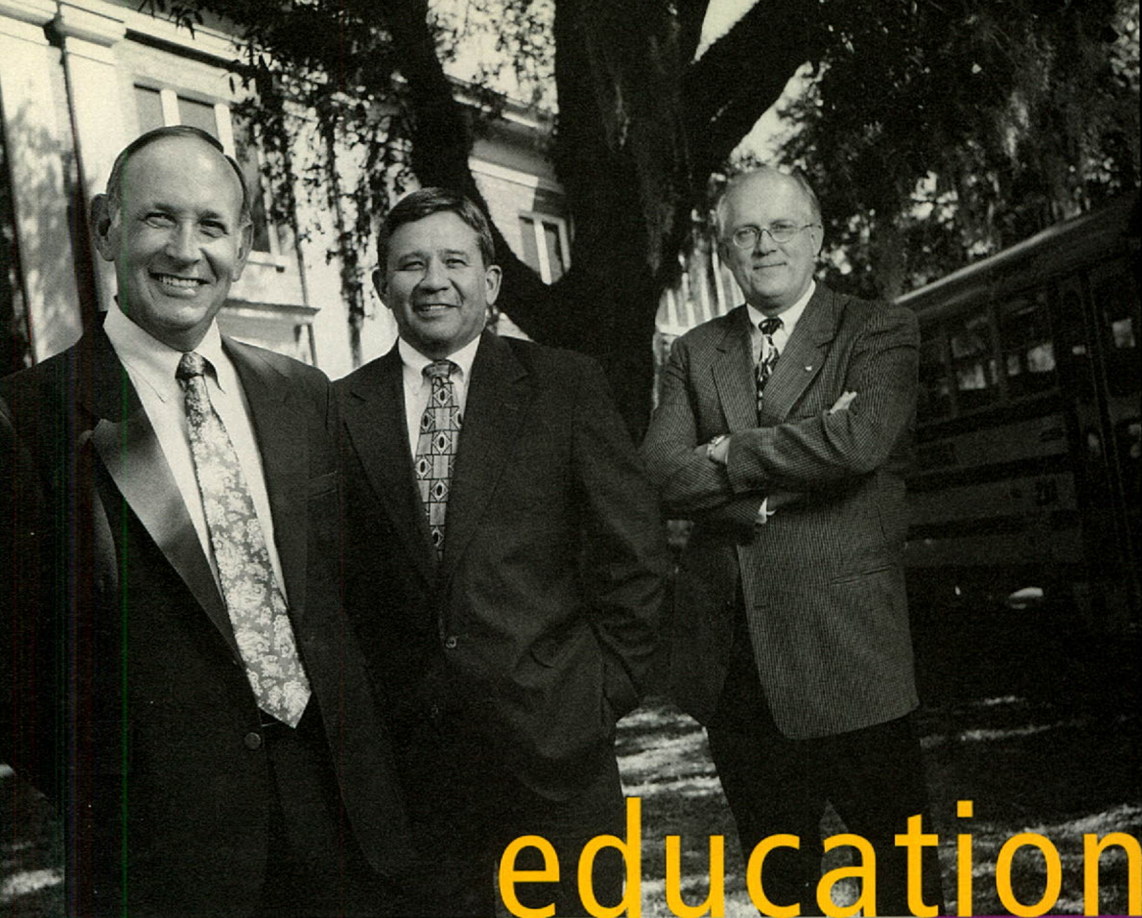
School boards continue to face cost reductions and consolidations yet are expected to provide continuing quality education to their students. For the boards which operate two-thirds of the North American school bus fleet, Laidlaw Education Services has an answer – conversion of their fleets to private-sector operation.

The advantages are several. Laidlaw can lower costs, improve service and take on the management burden through applying its purchasing strategies, insurance programs, financing ability, driver selection, safety-training programs and specialized routing programs.

With nearly 40,000 school buses on the road, Laidlaw is a major fleet operator in North America. Our highly trained maintenance staff, many of whom have achieved Automotive Service Excellence certification, use our proprietary computerized vehicle tracking system – called V-Trak – to monitor each vehicle's requirement for preventative maintenance and service.

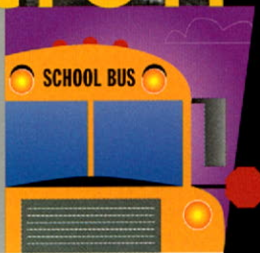
The strong showing by Education Services during 1998 results from a combination of factors. Management's ability to derive the benefits from the major acquisitions made during the last three years, keep and build on the acquired business and win new contracts, has never been stronger. Maintaining relationships with customers is key to the value of our acquisitions. Education Services worked particularly diligently in successfully retaining the contracts held by Vancom and National School Bus. In Tacoma and Spokane, where Laidlaw and the former Mayflower had provided service for some 20 years, five-year renewals were won through competitive bidding.

New routes were bid for and won in all operating regions.



education

From left, Ken Smith, Chairman of the School Board, Larry Blackwell, Director of Transportation, Steve Ratliff, Assistant Superintendent for Administrative Services, "The partnering with Laidlaw has resulted in the smoothest school opening in memory."



Education Services is supplementing its acquisition and competitive bidding growth by increasing its emphasis on marketing the advantages of contracting. During the last three years nearly 1,900 formerly district run vehicles have been converted to Laidlaw management, more than 1,000 in 1998 alone. This newly converted business represents some $50 million in annualized revenue.

Nearly 24 million children travel to and from school each day using the familiar yellow school bus. It is, without a doubt, one of the safest forms of transportation available. But it takes more than Laidlaw's expertly trained drivers and well-maintained vehicles to keep it that way and make it even safer. It takes everybody's help.

When you're travelling on local roads and highways, remember to stop for buses that have their red warning lights flashing – that means there are children boarding or leaving the bus and they may be crossing the road in front of the bus. Be aware of the children on both sides of the street, to make sure they don't dart into the path of your vehicle.

conversion

Santa Rosa County, Florida

Laidlaw client service representatives: Gary Shaw, Senior Director of Business Development (left) and Jim Folkes, Vice-President Operations. (inset) Peter Settle, Vice-President Marketing, Student Transportation.

The Santa Rosa School District in northwestern Florida has converted its bus fleet to Laidlaw operation. The five-year contract, encompassing 300 District employees, 263 buses and 78 ancillary vehicles, is the first of its kind to be awarded in Florida. Laidlaw will provide new buses as required and a computerized routing system to minimize student ride times.

Best known in the transportation industry as the school busing company, Laidlaw is also a market leader in the municipal transit, intercity and tourism coach markets.

To focus on the growth potential in these "non-school bus" markets, a new operating unit, Transit & Tour was established in September 1998.

extending services

The Transit & Tour group serves a diversity of customers – students travelling to and from university, seniors, visiting family, commuters, mobility impaired individuals who are totally reliant on public transit for their mobility, vacationers, conference attendees and visitors to a variety of special events.

Transit & Tour

(l-r)
Michael Forsayeth
President

Bill Yates
Vice-President and
General Manager

Municipal Transit

Laidlaw provides two principal types of contract transit service to municipalities – large and small – across the U.S. More than half of Laidlaw's municipal transit revenue comes from paratransit – providing on-demand service to individuals who qualify under the Americans With Disabilities Act, passed by Congress in 1990. The Act provides for equal access to public transportation services and requires agencies to provide paratransit to complement fixed-route service. Transport is provided in vans specially designed and equipped to safely accommodate passengers with mobility impairments. Municipal authorities contract out most of this $800 million market. Laidlaw is the clear leader in this service segment.

The balance of the municipal market consists of providing scheduled fixed-route city bus and suburb-to-city commuter service. While approximately $10 billion are spent annually providing fixed route services, less than 10% is competitively tendered.

About 8,000 Laidlaw employees, through some 200 contracts with municipalities at 150 locations in 26 states and the District of Columbia, provide transit services to 82 million people. Denver is the company's largest single urban market, followed by Los Angeles and San Francisco. The largest revenue concentration is in California.

Municipalities choose to contract for transit services for a variety of reasons including cost effectiveness, quality of the service provided, professional management, first-rate mechanical fitness programs, and highly trained, safety-conscious drivers who understand that customer satisfaction is the ultimate success measure.

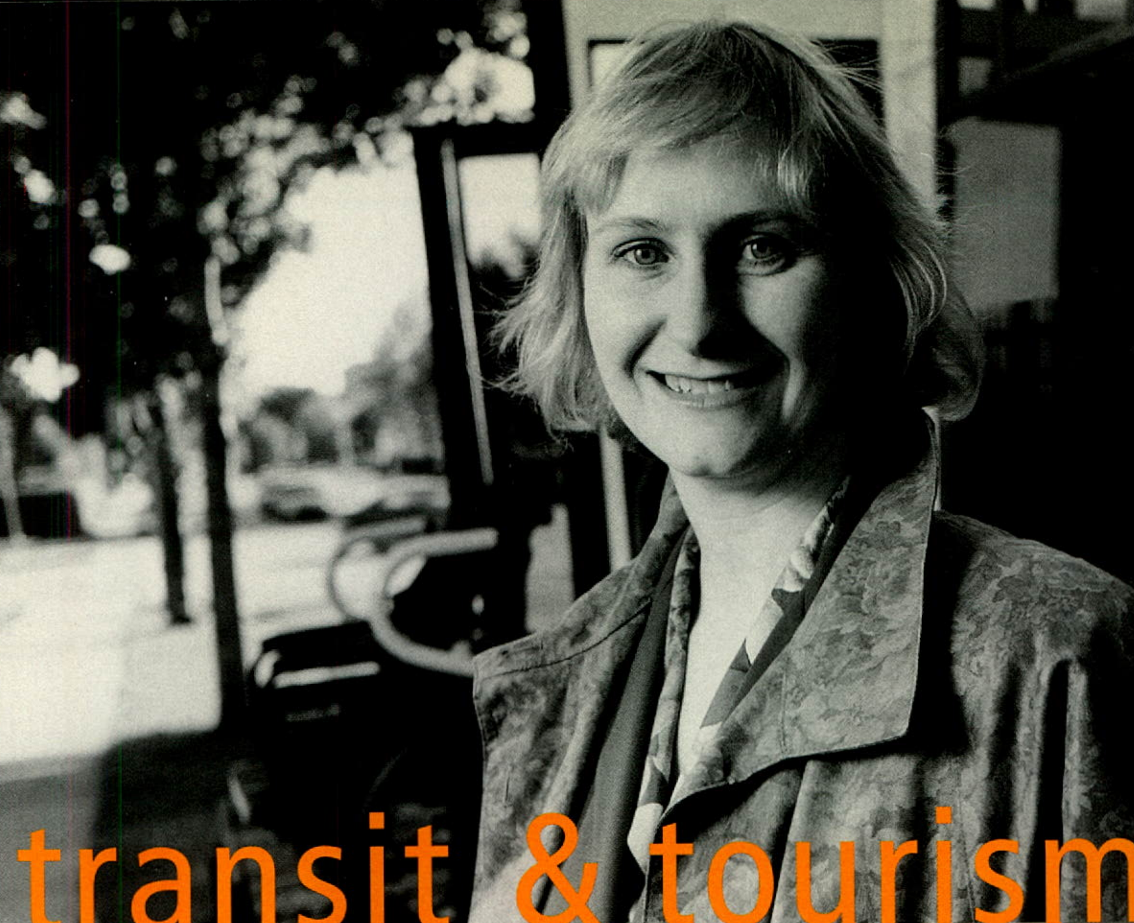
Laidlaw's own maintenance programs often exceed the specifications set by original equipment manufacturers and state and federal regulations. Imperial County Transit in El Centro, southern California, received the highest possible grade in its annual maintenance inspection by the California Highway Patrol. Under its contract, Laidlaw provides the buses, drivers, dispatchers, supervision and maintenance for the system.

Driver training includes classroom and on the road sessions, including defensive driving techniques. For paratransit operators, sensitivity training to help drivers better understand the physical constraints and emotional needs of their passengers is a key course component.

By year end, municipal transit managers had completed their two-year program to improve the quality of revenue in their contract portfolio and define the key markets where Laidlaw wants to maintain or establish a presence. Building on this premise, paratransit operators in San Francisco and Illinois were acquired. Synergies from the Orange County, California-based, DAVE Companies, acquired in July 1997, were achieved as the staff and equipment of this fixed-route operator and pioneer in paratransit service merged smoothly into Laidlaw's operations in 16 states.

Intercity

Laidlaw acquired the intercity bus operations of Greyhound Canada Transportation Corp. in October 1997. Founded in 1929 and headquartered in Calgary, Alberta since 1930, the familiar Greyhound name and logo have become synonymous with reliable travel service for millions of Canadians. The organization currently serves five provinces from Ontario to British



transit & tourism

Nancy Senn, Paratransit Manager, Transit Plus, Milwaukee County Paratransit Services, "Laidlaw has made great strides in assisting Milwaukee County to reach full ADA paratransit compliance."

Columbia and the Yukon Territory. Through arrangements with U.S. carriers, Greyhound serves several cities including New York and Chicago. Coaches stop at 1,100 pick-up and drop-off points, serving more than two million passengers annually.

While passenger transport is Greyhound's primary business, the organization has developed a substantial package delivery system serving some 3,700 locations.

In re-emphasizing its commitment to its customers and to bolster its market leadership position, Greyhound began a reinvestment program to upgrade its fleet. As a first step, 50 new coaches were put into service during the year.

Greyhound's east-west, intercity service is complementary to Laidlaw's other intercity operations in Manitoba and British Columbia.

It also provides a valuable linkage into Laidlaw's local tourism operations in the Toronto/Niagara Falls/Buffalo corridor, the Canadian Rocky Mountains in Alberta and British Columbia as well as the tourist attractions of the City of Vancouver and Vancouver Island on the Canadian West Coast.

access

Milwaukee, Wisconsin

Laidlaw client service representatives: Harold Jalonen, Project Manager (left) and Jim Rude, Area Operations Manager.

Contracted to help Milwaukee County respond to a federal mandate under the ADA, Laidlaw's paratransit team in Milwaukee met the challenge. One hundred and twenty bus operators were hired and trained, local advocacy groups were listened to, and assistance in installing software was provided. Within 60 days, Laidlaw had a new 650 passenger-per-day paratransit system up and running.

solidifying positions

American Medical Response (AMR) is the largest provider of healthcare transportation service in the United States.

Based in Aurora, Colorado, AMR serves communities, managed care organizations and hospitals in 38 states.

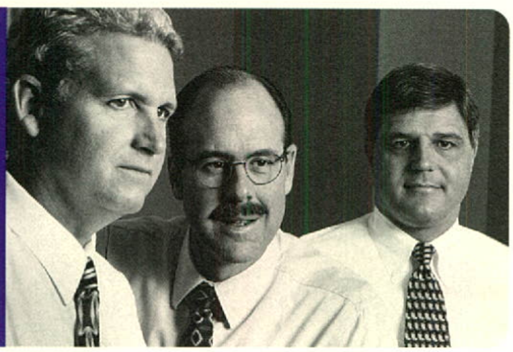
More than 22,000 AMR employees provide a full range of services for patients requiring non-emergency transport to, from and among various healthcare facilities. AMR also provides emergency 911 service to various counties and municipalities. Most of AMR's more than 5.5 million transports consist of non-emergency patient transfers.

American Medical Response

(l-r)
Rob Allen
Chief Financial Officer

George DeHuff
President and
Chief Executive Officer

Greg Gukes
Chief Operating Officer



Healthcare delivery systems in North America are undergoing substantial change. Governments and insurers are seeking to control or reduce the cost of providing services to their citizens and clients.

One result of these initiatives has been a shift in the volume of transports from ambulances into AMR's less costly wheelchair van fleet.

In the United States, the Balanced Budget Act of 1997 has prompted the Healthcare Financing Administration (HCFA), the Medicare payor, to engage the industry in developing a national fee schedule for ambulance transportation. Clarifying the standard definitions of medical necessity will be part of a Negotiated Rule-Making process being used to develop the schedule.

In the current atmosphere, a procedure, whether it be an ambulance transport or a pre-operative laboratory test, is routinely questioned by payors after the service is provided. Generally agreed-upon definitions and standards will reduce overall healthcare delivery costs by reducing paper work and hours of administration which are required today in the billing and fee collection process. Greater certainty will also allow providers to tailor services to specific better-defined needs, thus allowing the lowest-cost procedures consistent with high-level care to be employed.

These changes will not be immediate. Once new rules are established, likely during 2000, they may be phased in over a significant period of time.

In response to these and other market conditions, AMR management has employed a two-part strategy to stabilize the business.

On the one hand, costs have been, and will continue to be, reduced as operations are further integrated and administration and management layers are eliminated.

Underperforming contracts in specific markets are being renegotiated where possible or bid to reflect today's costs of service. After exhausting all other alternatives, AMR has terminated operations in selected markets where available reimbursement was not sufficient to support the provision of quality care. In the few instances where exits from markets have been necessary, ambulance dispatch systems and other assets have been deployed elsewhere in AMR's national network.

On a more positive note, as the largest company in the industry, AMR's geographic coverage makes it possible to package services for regional and national HMOs and hospital groups.

By approaching these organizations as a partner, able to provide a tailored, consistent, multi-location service with a minimum of administration, AMR makes effective use of its market position. Providing a forecastable level of service and, therefore, predictable cost is an AMR strength. Coupling traditional patient transport with AMR's utilization management process called Pathways, adds an additional cost reduction component to the AMR product line.

Pathways people combine mobile medical resources with a telephone triage function, whereby members of a health plan who call for assistance are routed to the right care, at the right place, at the right time and at the right cost, by Pathways' staff, who follow strict assessment protocols. The appropriate

ambulance

"I am very pleased with the quality of service and the trust level is very high with AMR, and has been since 1991." Barbara Pletz, EMS Administrator, San Mateo County and Larry Olson, Administrator, Joint Powers Authority, San Mateo, pre-hospital emergency medical services group, "AMR is an ideal corporate partner who is progressive, professional and committed to high standards in working with the city and fire protection districts in San Mateo County."

response to a patient's needs is determined – and can range from booking a visit to a physician, through providing nurse advice for minor ailments, to ambulance transports in emergency or non-emergency situations. Patient satisfaction increases, as appropriate medical help is available 24 hours a day.

AMR is managing its rapid consolidation from some 200 independent companies into a single national medical transport organization. It is contending with the changes in how healthcare is delivered and paid for.

The organization is in an excellent position for long-term, stable growth and in position to benefit from the increasing healthcare demands of an aging population. It is ready to capitalize on its geographic coverage and its combination of transport capacity with the demand management capability of Pathways.

Having reorganized its people, structure and systems, AMR can and will take full advantage of future opportunities.

response

San Mateo County, California

Key AMR client service representatives: Roger Fielding, Field Supervisor and Cheryl Balderson, Operations Manager.

AMR has held the ambulance service contract with the County of San Mateo since 1990. In response to a request from the County to redesign the system, AMR partnered with the 17 San Mateo fire districts and cities in a unique joint venture which will increase service levels for the 750,000 residents in the County. The new five-year contract begins January 1, 1999.

base building

Laidlaw's acquisition of EmCare in September of 1997 increased the company's ability to extend emergency or episodic patient care from the ambulance into the hospital.

EmCare is the leading emergency department (ED) management company. Founded in 1972, EmCare administers the practices of its physicians and manages emergency departments on behalf of its client hospitals.

EmCare's revenue nearly doubled during the fiscal year through acquisitions of other ED management groups. It has become the leading consolidator in its professional services industry.

EmCare

(l-r)
Bill Miller
President

Leonard Riggs, M.D.
Chief Executive Officer

David Singley
Chief Operating Officer

EmCare increased its geographic coverage from 21 to 42 states, the number of doctors from 1,800 to 4,700 and the number of contracts with hospitals from 150 to more than 400. This was accomplished through the acquisition of nine other ED management groups in eight states from Hawaii to California into the Midwest and the Northeast. EmCare physicians provided care to 6.8 million patients during the year, an increase of almost four million.

The ED management business developed from hospitals' needs to find suitable physicians, validate their credentials, recruit them and manage their practices. By employing specialty firms to provide these services, hospitals are freed of the clinical and administrative burdens of running their emergency departments and, as a result, are better able to concentrate on managing their core competencies.

EmCare's overall objective is to serve and support emergency physicians who provide high-quality care, thus raising patient satisfaction with client hospitals.

In a typical ED, patient acuity levels vary from critical and life threatening to non-urgent. Nevertheless, these patients must be accommodated quickly, their fears allayed, diagnoses made and required treatment begun.

The company has designed programs which separate emergency situations from those which are urgent. These ED management programs are tailored to the specific needs of client hospitals. They are designed to measurably improve patient satisfaction within the ED.

Patient satisfaction can be measured by reduced waiting times, fewer numbers of patients who leave the ED to find treatment elsewhere and fewer complaints related to reception waiting times.

Quality of ED care can be overshadowed by the complex demands of complying with rules and regulations of healthcare administration and reimbursement management. EmCare's ED effectiveness programs are designed to ease the administrative load on the ED. EmCare's processes for creating the documentation required by payors, accurate descriptions of procedures performed by physicians, and submission of accurate bills to payors can measurably reduce payment denials and regulatory compliance challenges.

Collectible revenues for the ED are increased through accuracy and consistency in all phases of the billing process.

At the heart of patient care is the emergency physician. Finding and retaining physicians suited to a particular ED can be a very difficult task in the current competitive environment.

EmCare helps its client hospitals attract and retain high-quality physicians in several ways. These include assisting newly recruited physicians to become oriented to their new work environment. EmCare promotes physician involvement in medical staff affairs such as leadership training for medical directors, and continuing medical education. The medical directors hold key clinical positions in the ED, and are an integral component of the EmCare ED management approach. The objective of these and other physician-oriented programs is to improve the physician's level of personal job satisfaction, reducing turnover which leads to increased levels of patient satisfaction with the hospital.

emergency

Yona Jones R.N., Nurse Manager, Erlanger Medical Center, Dennis Pettigrew, Chief Executive Officer, Erlanger Health System, "The relationship with EmCare has been excellent. They've been responsive to our needs and have operated as a business focusing mainly on relationships, which is the way we feel it needs to be done." Right, James Creel, M.D., Medical Director, EmCare.

EmCare has expanded from its traditional market of serving urban high-volume emergency departments – more than 15,000 patient visits per year – to include suburban and hospitals serving smaller communities.

EmCare's services are not immune to the changes sweeping through the healthcare system. New HCFA requirements have caused EmCare physicians, formerly providing their services as independent contractors, to become employees of the company. The transition is substantially complete.

EmCare's new business development staff have been very successful in winning several new contracts, including Baltimore's Sinai Hospital. This newly opened emergency department is capable of providing care for more than 60,000 patients annually.

caring

Chattanooga, Tennessee

EmCare Service Representatives: Jeff Pannell, Regional Vice-President, and Karey Simmer R.N., Regional Director of Operations.

Chattanooga's Erlanger Medical Center is its region's only Level 1 Adult and Pediatric Trauma Center. No matter what the injury or patient condition, the Erlanger Emergency Department can provide total care 24 hours a day. The Erlanger Health System comprising this emergency department, an urgent care center and a suburban ED, became an EmCare client midyear. Erlanger is also a research and teaching hospital within the University of Tennessee. Twenty emergency physicians provide care during 75,000 patient visits annually.

The Toronto Stock Exchange (TSE) guidelines for effective corporate governance address matters such as the composition and independence of corporate boards, the functions to be performed by boards and their committees and the effectiveness and education of board members. Laidlaw's Board of Directors continually reviews the composition of the board and its committees with respect to the discharge of their responsibilities. The board has adopted specific terms of reference to establish the role and responsibilities of its five committees.

Laidlaw established a new Compliance and Ethics Committee in 1998. While the company has had a Code of Business Conduct for a decade, the company's increased involvement in the healthcare business together with changes in U.S. healthcare regulation required a widening of the Code. It now heightens awareness among all employees in Laidlaw's ambulance and emergency department management businesses for the need to ensure compliance with those regulations and detect and report "fraud and abuse" in the delivery of healthcare services. The committee exercises its mandate through a new corporate compliance department, which has counterparts in the operating units.

The company's objectives are established through the board's review of the budget and strategic plan brought to it by the chief executive officer. The board reviews the company's annual budgets and longer-term strategic plans on an annual basis. The board and the Audit Committee review systems in place to manage the identifiable principal risks to the company as well as the integrity of the internal control and management information systems at all regular quarterly meetings. In doing so, the Audit Committee meets with managers responsible for a broad range of areas, as well as the company's independent auditors.

The Nominating and Corporate Governance Committee, members of which are all unrelated to the company, is responsible for proposing all nominees to the board and its committees and for assessing performance of individual directors and the board as a whole.

The performance assessment process includes annual meetings between myself as chairman of the board and individual directors. This committee also oversees the orientation of new directors and continuing education of incumbents, informing them of the nature of the company's business and the issues it faces as well as the obligations of their position.

As I noted last year, the board considers 12 directors to be the optimum number of members. Laidlaw was fortunate in attracting two new independent directors with experience in the healthcare sector. Messrs. Wilfred Lewitt and William Sanger were nominated and elected at the company's annual meeting in January 1998.

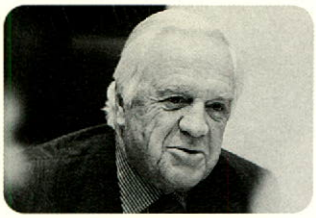
At present, two directors are executive officers of the company. All other directors are considered to be unrelated as defined in the TSE guidelines. No director has a significant business relationship with the company.

The Human Resource and Compensation Committee, in reviewing overall compensation issues for senior management, assesses the performance of the chief executive officer and senior management. The committee monitors succession plans and other broad personnel issues. Under the direction of this committee an external review of North American executive compensation was carried out this past year to ensure the remuneration of Laidlaw's senior corporate management remains competitive.

Most sincerely,

Peter Widdrington

PETER N.T. WIDDRINGTON
Chairman
October 30, 1998



Peter N. T. Widdrington

▲ ■ ▼

President and
Chief Executive Officer
Cuddy International Corporation
London, Ontario
(producers of turkey hatching eggs and poults)
Chairman of the Board
Talisman Energy Inc.
(a senior oil and gas exploration company)

Mr. Widdrington has been Chairman of Laidlaw's Board of Directors since 1990 and a Director since 1986. He assumed his current position at Cuddy International in December 1995 and has been Chairman of Talisman's board since May 1996. He was formerly Chairman of the Toronto Blue Jays Baseball Club (1991-1995) and from 1973-1989 was President and then Chairman until 1991, of John Labatt Limited, an organization he joined in 1955. Mr. Widdrington is also a Director of Canadian Imperial Bank of Commerce, CEC Resources Ltd., Dialysis Centers of America, Radiology Corporation of America and SNC-Lavalin Group Inc.

James R. Bullock

▲

President and Chief Executive Officer
Laidlaw Inc.
Burlington, Ontario

Mr. Bullock has been a Director of Laidlaw since 1991, and was appointed President and Chief Executive Officer in October 1993. Prior to assuming executive responsibilities at Laidlaw, Mr. Bullock was President and Chief Executive Officer of Cadillac Fairview Corporation since 1987, an organization which he joined in 1977. Mr. Bullock is also a Director of The Conference Board of Canada, Imasco Limited, Ontario Hydro, and Chairman of the Board of Directors of Safety-Kleen Corp.

William P. Cooper

▲ ■ ▼

President and Chief Executive Officer
Cooper Construction Limited
Oakville, Ontario
(a construction and development company)

Mr. Cooper has been a Director of Laidlaw since 1983. He has been President and Chief Executive Officer of Cooper Construction Limited since 1978. Established in 1905, Cooper Construction Limited is a construction and development firm serving industrial and suburban office markets principally in the province of Ontario. Mr. Cooper is also a Director of Baton Broadcasting Inc., Mutual Life Assurance Company of Canada and Stelco Inc.

Jack P. Edwards

■

President and Chief Executive Officer
Worldpoint Logistics Inc.
Bellevue, Washington
(a transportation logistics company)

Mr. Edwards has been a Director of Laidlaw since 1996. On October 1, 1998, he became President and Chief Executive Officer of Worldpoint Logistics Inc. Immediately prior, he had been Chief Executive Officer of Danzas Corporation, a worldwide transportation company, since June 1994, following an 18-month term as Chief Operating Officer of Circle International.

William A. Farlinger

●

Chairman
Ontario Hydro
Toronto, Ontario
(an electrical utility)

Mr. Farlinger has been a Director of Laidlaw Inc. since 1994. He has been Chairman of Ontario Hydro since November 1995. Earlier, he spent his entire career with Clarkson Gordon and Ernst & Young serving as Chairman and Chief Executive Officer for seven years prior to his retirement in 1994. He also serves on the boards of Manulife Financial, Cara Operations Limited, and Newcourt Credit Group.

John R. Grainger

◆

Executive Vice-President and Chief Operating Officer
Laidlaw Inc.
Burlington, Ontario

Mr. Grainger has been a Director of Laidlaw since 1997. He became Executive Vice-President and Chief Operating Officer in September of 1997. He joined Laidlaw in February 1990 as Senior Vice-President of Laidlaw Transit. Prior to that, Mr. Grainger had been President of Rentway Canada Ltd. since 1985. He is also a Director of Safety-Kleen Corp.

Donald M. Green
● ▼
Chairman
ACD Tridon Inc.
Burlington, Ontario
(an international automobile parts manufacturer)

Mr. Green has been a Director of Laidlaw since 1980. He has been with ACD Tridon Inc. as President and then as Chairman for the past 35 years. ACD Tridon Inc. is a rapidly growing international automotive parts manufacturer, manufacturing windshield wiper systems, automotive electronics and fasteners with plants located throughout the world. Mr. Green is also Chairman of Commercial Union of Canada Holdings Ltd. and a Director of The National Bank of Canada.

Martha O. Hesse
◆ ▼
President
Hesse Gas Company
Houston, Texas
(a natural gas marketing company)

Ms. Hesse has been a Director of Laidlaw since 1996. Hesse Gas markets fossil fuels to utilities and participates in energy investments. From 1986 through to 1989 Ms. Hesse served as the Chairman of the U.S. Federal Energy Regulatory Commission under Presidents Reagan and Bush. She is also a Director of Arizona Public Service, Mutual Trust Life Insurance Company, Pinnacle West Capital Corporation, AquaAlliance Inc. and a member of the Beacon Council and the CIGNA Utilities Advisory Board.

Wilfred G. Lewitt
●
Chairman
MDS Inc.
Etobicoke, Ontario
(a health and life sciences company)

Mr. Lewitt has been a Director of Laidlaw since 1998. He is Chairman of MDS Inc. of which he was Chief Executive Officer from 1970 until 1996. He is also a Director of Hemosol, Inc., and International Group Inc.

Gordon R. Ritchie
●
Chief Executive Officer
Strategico Inc.
Ottawa, Ontario
(a consulting company)

Mr. Ritchie has been a Director of Laidlaw since 1994. He has been Chief Executive Officer of Strategico Inc., which he founded, since 1988. After a 22-year career in the Canadian federal public service including posts as Associate Deputy Minister of the Department of Regional Industrial Expansion and Deputy Secretary of the Ministry of State for Economic Development, he was appointed Ambassador for Trade Negotiations for the Canada-USA Free Trade Agreement. Mr. Ritchie is also a Director of Cambior Inc. and Maple Leaf Foods Inc.

William A. Sanger
◆
President and Chief Executive Officer
Cancer Treatment Centers of America
Arlington Heights, Illinois
(a cancer treatment company)

Mr. Sanger has been a Director of Laidlaw since 1998. He has been President and Chief Executive Officer of Cancer Treatment Centers of America since April 1997. From 1994 – 1997, he was Executive Vice President and Chief Operating Officer of PhyMatrix Corp., a diversified healthcare company he co-founded which specializes in physician practice management, cancer care, and ancillary services. Prior to PhyMatrix, Mr. Sanger was President and CEO of John F. Kennedy Health Systems in Atlantis, Florida. Mr. Sanger is also a Director of Home Solutions Corporation, Midwestern Regional Medical Center of Chicago, and Memorial Medical Center of Tulsa, OK.

Stella M. Thompson
■
Principal
Governance West Inc.
Calgary, Alberta
(a consulting company)

Mrs. Thompson has been a Director of Laidlaw since 1994. She has been a Principal of Governance West Inc. since 1996 and President of Stellar Energy since 1991. Immediately prior, Mrs. Thompson was a Vice-President of Petro-Canada Inc., since 1988. She is also a Director of Allstate Insurance Company of Canada, AGRA Inc., the Canada Foundation for Innovation, Enmax Corporation, Perigee Inc. and Talisman Energy Inc.

Committees of the Board

● Audit
◆ Compliance and Ethics
▲ Executive
■ Human Resource and Compensation
▼ Nominating and Corporate Governance

Acquisition of Safety-Kleen Corp. by Laidlaw Environmental Services, Inc.

Pursuant to a merger agreement dated March 16, 1998 between the Company's subsidiary Laidlaw Environmental Services, Inc. ("LESI") and Safety-Kleen Corp. ("Safety-Kleen"), LESI acquired the outstanding shares of Safety-Kleen for a total consideration of approximately $2.2 billion, including debt assumed and estimated transaction costs. The consideration was comprised of $1.5 billion in cash and the issue of 166.5 million common shares of LESI. Effective July 1, 1998, LESI began doing business as Safety-Kleen Corp.

As a result of this transaction, the Company's ownership of LESI has been reduced to approximately 35% from the previous level of 67%. The Company ceased to consolidate LESI's results and began to account for LESI using the equity method effective March 1, 1998. This change in accounting method has the following effects on the consolidated financial statements:

- The Consolidated Statement of Income for the year ended August 31, 1998 reports the results of LESI, which comprised the Company's hazardous waste services segment, on an equity basis since March 1, 1998. As a result, the Company's share of the revenue and individual expenses of the segment for the period March 1, 1998 – August 31, 1998 is represented on a net basis under the caption "Equity in earnings (loss) of associated companies". The results for the first six months of the year ended August 31, 1998 of LESI are reported on a consolidated basis.
- The results for the years ended August 31, 1997 and August 31, 1996 of LESI are reported on a consolidated basis.
- The Consolidated Balance Sheet as at August 31, 1998 does not consolidate the individual assets and liabilities of LESI. The Company's carrying value of its investment in the common shares of LESI together with its investment in the LESI PIK Debenture is now included in the Consolidated Balance Sheet under the caption "Investment in Laidlaw Environmental Services, Inc."
- The Consolidated Balance Sheet as at August 31, 1997 reported the assets and liabilities of LESI on a consolidated basis.

In addition, as a result of this transaction, the Company realized a gain on dilution of its ownership in LESI of $100.7 million ($100.7 million after-tax or $0.30 per share). The dilution gain results from the issue of shares by LESI at a price per share in excess of the Company's carrying value per share.

Had the investment in LESI been accounted for by using the equity method effective September 1, 1995 and had the restructuring charges and dilution gain been separately disclosed, the consolidated income statements (summarized) would have been presented as follows: ($ millions)

	Year Ended August 31			Percentage Increase (Decrease)		
	1998 Restated	1997 Restated	1996 Restated	Year 1998 Over 1997	Year 1997 Over 1996	Year 1996 Over 1995
Revenue	$3,305.4	$2,320.7	$1,580.2	42.4 %	46.9 %	46.4 %
Operating expenses	2,453.0	1,702.3	1,195.6	44.1	42.4	46.3
Selling, general and administrative expenses	201.4	123.7	67.0	62.8	84.6	55.5
Depreciation and amortization	280.9	231.5	146.2	21.3	58.3	36.3
Income from operations before restructuring charges	370.1	263.2	171.4	40.6	53.6	52.9
Interest expense	(156.2)	(97.3)	(58.4)	60.5	66.6	3.9
Interest, dividend and other income	83.7	62.5	20.6	33.9	203.4	34.6
Equity in earnings of associated companies*	23.9	17.0	8.2	40.6	107.3	(58.2)
	321.5	245.4	141.8	31.0	73.1	56.2
Income tax expense	(58.5)	(45.5)	(24.6)	28.6	85.0	54.7
Income from continuing operations before dilution gain and restructuring charges	263.0	199.9	117.2	31.6	70.6	56.5
Dilution gain (net of tax)	100.7	—	—	—	—	—
Restructuring charges (net of tax)	(17.7)	(154.7)	—	—	—	—
Income from continuing operations	346.0	45.2	117.2	665.5	(61.4)	56.5
Income from discontinued operations	—	565.3	44.6	(100.0)	1,167.5	(23.0)
Net income	$ 346.0	$ 610.5	$ 161.8	(43.3)	277.3	21.8

**Before the Company's share of LESI's restructuring charges.*

The discussion and analysis that follows is based on the restated figures presented above.

Items in the Consolidated Statements of Income for the three years ended August 31, 1998 (restated using the equity method of accounting for LESI) as a percentage of total revenue and the percentage changes in dollar amounts of the items compared to the previous year are as follows:

	Percentage of Revenue			Percentage Increase		
	Year Ended August 31					
	1998	1997	1996	Year 1998 Over 1997	Year 1997 Over 1996	Year 1996 Over 1995
REVENUE	100.0%	100.0%	100.0%	42.4%	46.9%	46.4%
Operating expenses	74.2	73.4	75.7	44.1	42.4	46.3
Selling, general and administrative expenses	6.1	5.3	4.2	62.8	84.6	55.5
Depreciation and amortization	8.5	10.0	9.3	21.3	58.3	36.3
INCOME FROM OPERATIONS BEFORE RESTRUCTURING CHARGES	11.2%	11.3%	10.8%	40.6	53.6	52.9

Revenue (as restated excluding LESI)

The sources of revenue by business segment are as follows: ($ millions)

Year Ended August 31	1998		1997		1996	
Passenger services	$1,646.3	49.8%	$1,363.5	58.8%	$1,115.9	70.6%
Healthcare services	1,659.1	50.2	957.2	41.2	464.3	29.4
	$3,305.4	100.0%	$2,320.7	100.0%	$1,580.2	100.0%

Management's estimates of the components of changes in the Company's consolidated revenue are as follows:

	Percentage Increase (Decrease)		
	Year 1998 Over 1997	Year 1997 Over 1996	Year 1996 Over 1995
EXPANSION OF CUSTOMER BASE BY ACQUISITION			
Passenger services	12.1 %	15.7 %	19.4 %
Healthcare services	33.3	31.0	23.4
Subtotal	45.4	46.7	42.8
OTHER, PRIMARILY THROUGH VOLUME AND PRICE CHANGES			
Passenger services	0.5	—	3.1
Healthcare services	(2.3)	0.5	0.7
Subtotal	(1.8)	0.5	3.8
REDUCTION OF CUSTOMER BASE THROUGH DIVESTITURES			
Passenger services	—	(0.1)	(0.1)
Healthcare services	(0.8)	(0.2)	(0.2)
Subtotal	(0.8)	(0.3)	(0.3)
FOREIGN EXCHANGE RATE CHANGES			
Passenger services	(0.4)	—	0.1
Healthcare services	—	—	—
Subtotal	(0.4)	—	0.1
Total	42.4 %	46.9 %	46.4 %

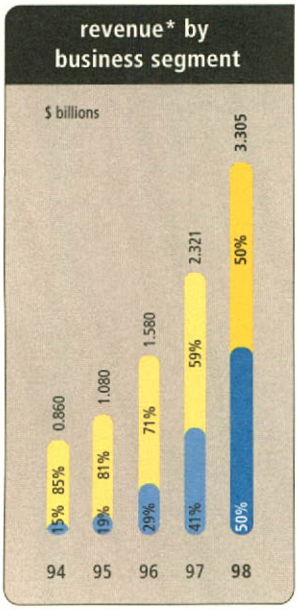
Management's estimates of the components of changes in the revenue of the respective segments are as follows:

	Percentage Increase (Decrease)		
	Year 1998 Over 1997	Year 1997 Over 1996	Year 1996 Over 1995
PASSENGER SERVICES			
Acquisitions	20.5 %	22.3 %	24.0 %
Other, primarily through volume and price changes	0.9	0.1	3.8
Divestitures	(0.1)	(0.1)	(0.1)
Foreign exchange rate changes	(0.6)	(0.1)	0.1
Total	20.7 %	22.2 %	27.8 %
HEALTHCARE SERVICES			
Acquisitions	80.8 %	105.3 %	122.6 %
Other, primarily through volume and price changes	(5.7)	1.6	3.5
Divestitures	(1.8)	(0.7)	(1.0)
Foreign exchange rate changes	—	—	—
Total	73.3 %	106.2 %	125.1 %

In 1998, the growth in passenger services revenue was primarily attributable to acquisitions, which added $280 million (including $252 million from Greyhound Canada Transportation Corp. ("Greyhound Canada") acquired in October 1997, DAVE Companies Inc. ("DAVE") acquired in July 1997 and Vancom, Inc. ("Vancom") acquired in February 1997). The DAVE and Vancom acquisitions contributed $61 million in revenue in the year ended August 31, 1997. There has been significant revenue growth in the U.S. school bus operations, particularly in the California and midwestern U.S. operations. This growth was as a result of route additions and higher pricing on certain underperforming contracts. The impact of the growth was reduced by the exit of underperforming contracts in the U.S. public transit operations.

The growth in healthcare services segment revenue is attributable to acquisitions, which added $773 million (including $267 million from American Medical Response, Inc. ("AMR") acquired in February 1997, $260 million from EmCare Holdings Inc. ("EmCare") acquired in September 1997 and $150 million from Spectrum Emergency Care, Inc. ("Spectrum") acquired in October 1997) in revenue. The negative volume and price growth is partially due to a reduction in ambulance transports because of increased scrutiny of the medical necessity of ambulance transports and a shift towards wheelchair van transports from ambulance transports in certain markets. Additionally, as part of the integration of AMR/MedTrans, attention has been focused on improving the profitability in certain markets. This has resulted in contract dispositions/exits (notably in the Chicago and Philadelphia areas). The divestitures amount relates to the disposition of the disease management business of STAT Healthcare, Inc. ("STAT") to Renal Care Group, Inc. ("RCG") during December 1997. The Company recorded a gain of $16.7 million ($10.0 million after-tax or $0.03 per share) on this disposition. The gain was included in interest, dividend and other income during the quarter ended February 28, 1998.

In 1997, the growth in passenger services revenue was primarily attributable to acquisitions, principally the acquisition of Scott's Hospitality Inc. ("Scotts") in August 1996 and Vancom in February 1997. These acquisitions contributed $239 million of revenue in the year ended August 31, 1997.



Passenger services
Healthcare services
*As restated excluding LESI

The growth in healthcare services revenue in 1997 was primarily attributable to acquisitions which added $489 million in revenue (including $394 million from AMR). During the year ended August 31, 1997, 26 acquisitions were completed.

Acquisitions by segment and the approximate aggregate annualized revenue acquired as at the dates of acquisition are as follows: ($ millions)

	Number of Acquisitions		
Year Ended August 31	1998	1997	1996
Passenger services	16	10	5
Healthcare services	22	26	9
	38	36	14

	Annualized Revenue (Approximate)		
Year Ended August 31	1998	1997	1996
Passenger services	$189.0	$ 214.0	$188.0
Healthcare services	500.0	829.0	278.0
	$689.0	$1,043.0	$466.0

In 1998, the acquisitions of EmCare and Spectrum added approximately $260 million and $160 million in annualized revenue, respectively, to healthcare services. The acquisition of Greyhound Canada added approximately $127 million in annualized revenue to passenger services.

In 1997, the acquisition of AMR added approximately $700 million in annualized revenue to healthcare services. The acquisitions of Vancom and DAVE added approximately $120 million and $87 million in annualized revenue, respectively, to passenger services.

Revenue and growth in revenue from geographic components are as follows: ($ millions)

	Revenue						Growth Rates		
	Year Ended August 31								
	1998		1997		1996		Year 1998 Over 1997	Year 1997 Over 1996	Year 1996 Over 1995
United States	$3,007.3	91.0%	$2,141.8	92.3%	$1,447.3	91.6%	40.4%	48.0%	50.7%
Canada	298.1	9.0	178.9	7.7	132.9	8.4	66.6	34.6	11.3
	$3,305.4	100.0%	$2,320.7	100.0%	$1,580.2	100.0%	42.4	46.9	46.4

In all years, in both the United States and Canada, the growth in revenue was primarily attributable to acquisitions.

Income from operations, cost of operations and operating profit margins (as restated excluding LESI)

Income from operations and growth rates from segment components, before restructuring charges, are as follows: ($ millions)

	Income from Operations						Growth Rates		
	Year Ended August 31								
	1998		1997		1996		Year 1998 Over 1997	Year 1997 Over 1996	Year 1996 Over 1995
Passenger services	$196.0	53.0%	$149.5	56.8%	$115.9	67.6%	31.1%	29.0%	25.4%
Healthcare services	174.1	47.0	113.7	43.2	55.5	32.4	53.1	104.9	181.7
	$370.1	100.0%	$263.2	100.0%	$171.4	100.0%	40.6	53.6	52.9

Wages for operating personnel, equipment operating costs (including fuel and maintenance), insurance for personnel, professional liability, property damage and third party liability and depreciation represent the major components of the cost of operations. Operating costs as a percentage of revenue were 88.8% in 1998, 88.7% in 1997 and 89.2% in 1996.

In 1998, operating costs increased slightly as a percentage of revenue primarily as a result of the revenue reduction in ambulance services and the acquisitions of EmCare, Spectrum and other hospital emergency department businesses ("ED businesses") which have higher operating costs than the Company's other healthcare services operations. Partially offsetting the decline were the route additions in the passenger services segment and the synergies achieved in combining acquired companies in both the passenger and healthcare services segments.

In 1997, operating costs decreased as a percentage of revenue primarily as a result of the acquisition of Scott's and Vancom which have higher margins than the Company's other passenger services operations.

The operating profit margins of the individual segments and consolidated margins, before restructuring charges, are as follows:

Year Ended August 31	1998	1997	1996
Passenger services	11.9%	11.0%	10.4%
Healthcare services	10.5	11.9	12.0
Consolidated	11.2	11.3	10.8

In 1998, the operating profit margin in passenger services was 11.9% compared to 11.0% in 1997. This increase in the operating margin is primarily due to the synergies achieved in combining acquired companies, route additions in markets where the segment already has a presence and the exit of under-performing public transit contracts.

In 1997, the operating profit margin in passenger services was 11.0% compared to 10.4% in 1996. This increase in the operating margin is primarily due to the Scott's and Vancom acquisitions which had higher margins than the Company's other passenger services operations. In addition, certain low margin contracts, including those obtained with the Mayflower Group, Inc. acquisition, had been replaced with more profitable contracts.

The 1998 operating profit margin in healthcare services decreased to 10.5% from 11.9% in 1997. The decrease in the operating margin is primarily due to the acquisitions of EmCare, Spectrum and other ED businesses which have lower margins than the Company's other healthcare services operations and due to the revenue reduction in ambulance services.

The 1997 operating profit margin in healthcare services remained essentially unchanged at 11.9% in 1997 as compared to 12.0% in 1996.

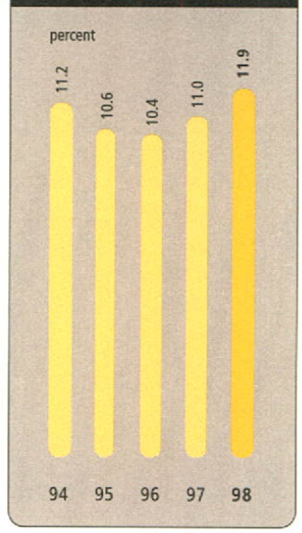
In fiscal 1999, the Company plans to continue to focus on the integration of the fiscal 1998 acquisitions, primarily Spectrum and Greyhound Canada, into the Company's operations to improve the profitability of these assets.

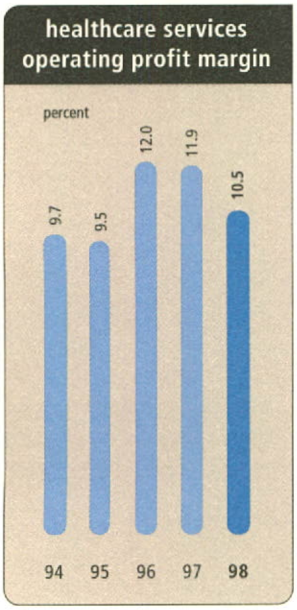
Free cash flows will be reinvested to further the growth of the Company's passenger services and healthcare services businesses.

Restructuring charges

The February 1997 acquisition of AMR more than doubled the size of the Company's healthcare services segment. As a result, a strategic restructuring initiative was implemented to create operating efficiencies, cost savings and revenue enhancement opportunities. This initiative involved consolidation of the

passenger services operating profit margin





Company's existing healthcare services operations along with those of AMR's under the trade name "American Medical Response". In connection with this plan, the Company recorded a restructuring charge of \$35.0 million (\$21.7 million after-tax or \$0.07 per share) during the quarter ended February 28, 1997.

During May 1997, the Company merged its hazardous waste services business into Rollins Environmental Services, Inc. ("Rollins"), receiving aggregate consideration of approximately \$1.1 billion. The combined entity was renamed Laidlaw Environmental Services, Inc. and it subsequently began doing business as Safety-Kleen Corp. See Note 2 of Notes to the Consolidated Financial Statements.

Upon consummation of the merger, several of the hazardous waste services facilities became redundant or were reconstituted and valued inappropriately in the context of the combined Rollins/Laidlaw operations. Accordingly, on closing of the transaction, there was a write down of \$331.7 million (\$200.0 million after-tax) to account for these changed circumstances within the newly merged entity. As the Company then held approximately 66.5% of the equity in LESI, it recorded its share of the write down after minority interest, \$133.0 million after-tax or \$0.42 per share, as a restructuring charge during the quarter ended May 31, 1997.

Seasonality

Passenger services experiences a significant decline in revenue and operating income in the fourth fiscal quarter because of school summer vacations. This impact has been moderated somewhat as the Company has expanded its year-round healthcare services and has acquired Greyhound Canada, which experiences its best results in the fourth quarter. Adverse winter weather moderately affects all of the Company's operations during the Company's second fiscal quarter. See also Note 22 of Notes to Consolidated Financial Statements.

Interest expense (as restated excluding LESI)

In 1998, interest expense increased by 60.5% to \$156.2 million from \$97.3 million in 1997. This increase was due primarily to a 26% increase in the average outstanding debt incurred to finance acquisitions. Significant acquisitions included AMR in February 1997, and EmCare, Spectrum and Greyhound Canada in the quarter ended November 30, 1997. In 1997, interest expense of \$24.0 million was allocated to LESI and interest expense of \$12.0 million was allocated to the solid waste services segment based on their proportional share of the net assets of the Company as compared to no allocation in 1998. The remaining change is due to a decrease in the cost of borrowing of approximately 7%.

Interest expense in 1997 increased by 66.6% to \$97.3 million from \$58.4 million in 1996. This increase was due primarily to the redeployment of capital from the discontinued solid waste services segment to the healthcare services segment with the acquisition of AMR. In 1997, interest expense of \$24.0 million was allocated to LESI and interest expense of \$12.0 million was allocated to the solid waste services segment based on their proportional share of the net assets of the Company as compared to \$43.9 million and \$36.0 million, respectively, in 1996. The remaining change is due to an increase in the average borrowing level of 8% offset by a decrease in the cost of borrowing of approximately 11%.

Interest, dividend and other income (as restated excluding LESI)

In 1998, interest, dividend and other income increased by \$21.2 million to \$83.7 million. The increase is primarily attributable to the gain on sale of \$16.7 million recorded on the disposition of STAT's disease management business to RCG during December 1997, interest of \$17.5 million earned on the LESI PIK Debenture for the full year and improved returns on the Company's investment portfolio. The following income was recorded in the year ended August 31, 1997, but not repeated in the year ended August 31, 1998: gains on sales of United States Filter Corporation ("U.S. Filter") shares, interest accrued on the Allied Waste Industries, Inc. ("Allied") notes and interest earned on short-term deposits resulting from the proceeds from the sale of the solid waste segment.

In 1997, interest, dividend and other income increased by \$41.9 million to \$62.5 million.

The increase relates to interest accrued on the Allied notes received as part of the consideration on the sale of the solid waste segment to Allied in December 1996, gains on sale of U.S. Filter shares, improved returns on the Company's investment portfolio and from gains on the sale of financial instruments.

Equity in earnings (loss) of associated companies (as restated excluding LESI)

LESI's contribution on an equity basis, before restructuring charges, for the years ended August 31, 1998, August 31, 1997 and August 31, 1996 was $23.9 million, $13.5 million and $8.2 million, respectively. The Company also recorded $3.5 million of earnings from its ownership in Allied during the year ended August 31, 1997.

The 1998 contribution, before restructuring charges, increased $10.4 million primarily due to the realization of synergies from the Rollins acquisition in May 1997, and the Safety-Kleen Corp. acquisition in April 1998.

The 1997 contribution, before restructuring charges, increased $5.3 million primarily due to the realization of synergies from the Rollins transaction and a significant increase in event business in the fourth quarter of 1997.

In addition, the Company has recorded an earnings loss of $17.7 million relating to its share of the $50.8 million in restructuring charges recorded by LESI during the quarter ended May 31, 1998. The restructuring charges are primarily as a result of LESI closing some of its facilities and replacing its line of credit as a result of the acquisition of Safety-Kleen Corp.

Income taxes

The effective income tax rate on income from continuing operations (before restructuring charges, dilution gain and equity in earnings (loss) of associated companies) was 21.2% in 1998 as compared to 21.3% in 1997 and 20.5% in 1996. The Company expects the effective tax rate to increase moderately in the future.

Refer to legal proceedings as described in Note 18 of Notes to Consolidated Financial Statements.

Income from discontinued operations

Income from discontinued operations of $565.3 million for the year ended August 31, 1997, consisted of a net gain of $549.7 million as a result of the sale of the Company's solid waste services business to Allied and income, prior to the sale, of $15.6 million. The sale took place in December 1996.

Net income and earnings per share

In 1998, income from continuing operations, before the dilution gain and the Company's share of LESI restructuring charges, increased 31.6% to $263.0 million or $0.80 per share compared with $199.9 million or $0.63 per share for the year ended August 31, 1997. In 1997, income from continuing operations, before restructuring charges, increased 70.6% to $199.9 million or $0.63 per share from $117.2 million or $0.40 per share in 1996.

A dilution gain of $100.7 million ($100.7 million after-tax or $0.30 per share) was recorded during the quarter ended May 31, 1998 as a result of LESI's acquisition of Safety-Kleen Corp.

LESI incurred restructuring charges of $50.8 million after-tax during the quarter ended May 31, 1998. As the Company held approximately 35% of the equity in LESI, it recorded its share of the write down ($17.7 million or $0.05 per share).

A restructuring charge of $35.0 million pre-tax ($21.7 million after-tax or $0.07 per share) was incurred, during the quarter ended February 28, 1997, relating to the AMR acquisition.

LESI incurred a restructuring charge of $331.7 million pre-tax ($200.0 million after-tax), during the quarter ended May 31, 1997, as a result of the acquisition of Rollins. As the Company then held approximately 66.5% of the equity in LESI, it recorded its share of the write down ($133.0 million or $0.42 cents per share) as a restructuring charge.

The weighted average number of Common Shares outstanding during 1998 increased 4% to 329.8 million shares from 317.1 million shares in 1997, primarily as a result of the issue of 5.9 million Common

Shares on conversion of the CareLine, Inc. Convertible Subordinated Notes during May 1997 and the premium of 7.1 million Common Shares paid to Class A shareholders as a consequence of the share reorganization in July 1997.

The weighted average number of Common Shares outstanding during 1997 increased 8.2% to 317.1 million shares from 293.2 million shares in 1996, primarily attributable to the 18.8 million Common Shares issued in conjunction with the Scott's acquisition in August 1996.

Accordingly, earnings per share from continuing operations was $1.05 per share, for the year ended August 31, 1998. In 1997, earnings per share from continuing operations decreased to $0.14 per share from $0.40 per share in 1996.

There were no earnings per share from discontinued operations for the year ended August 31, 1998 compared to $1.78 per share for the year ended August 31, 1997 and $0.15 in 1996.

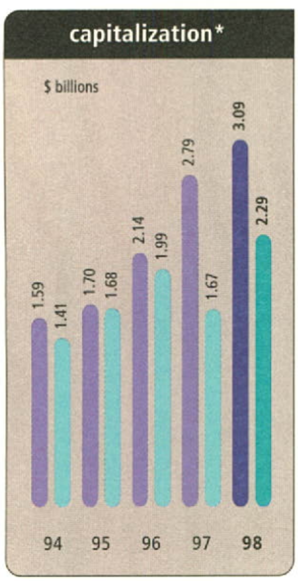
Total earnings per share decreased 45.3% to $1.05 per share, for the year ended August 31, 1998, from $1.92 in 1997, and $0.55 in 1996.

The Company's consolidated financial statements have been prepared in accordance with Canadian GAAP, which conform in all material respects with U.S. GAAP, except as disclosed in Note 20 of Notes to Consolidated Financial Statements.

Financial condition

The Company's capital (restated for the years ended August 31, 1997 and 1996 using the equity method of accounting for LESI) consisted of: ($ millions)

August 31	1998		1997		1996	
Deferred items						
Income taxes	$ —	— %	$ 106.3	2.2%	$ 8.2	0.2%
Other	169.8	3.1	166.5	3.5	81.6	1.9
Long-term debt	2,293.7	41.3	1,281.8	27.0	1,599.4	37.9
ADT-Linked Debentures	—	—	392.0	8.3	392.0	9.3
Capital stockholders' equity	3,089.9	55.6	2,794.8	59.0	2,136.8	50.7
	$5,553.4	100.0%	$4,741.4	100.0%	$4,218.0	100.0%



*As restated excluding LESI

The $106.3 million decrease in deferred income taxes primarily relates to the deferred tax assets assumed on acquisition and to a reclassification from deferred to current income taxes payable.

Long-term debt increased by a net of $1,011.9 million since August 31, 1997 primarily as a result of acquisition expenditures and the redemption of the ADT-Linked Convertible Debentures for cash.

Capital stockholders' equity increased by $295.1 million, primarily due to the following:

(i) net earnings retained of $286.1 million after dividends of $59.9 million, and

(ii) the issuance of $10.0 million in Common Shares in conjunction with the acquisition of EmCare.

Whereas capital expenditures of $306.3 million were financed from operating cash flows, acquisitions of $690.2 million were financed by the issuance of debt of $563.9 million and the assumption of debt of $126.3 million.

On August 31, 1998, the Company had available a $1.4 billion syndicated bank facility (1997 – $1.4 billion) of which approximately $0.84 billion (1997 – $1.06 billion) was unused. The revolving period of the facility extends 364 days and if not extended, the facility, to the extent it is drawn at the end of the revolving period, becomes repayable over a five year period. Under this agreement, the Company is required to maintain certain balance sheet ratios, all of which have been met at August 31, 1998.

In 1997, long-term debt decreased by a net of $317.6 million as a result of the net cash proceeds totalling $1.6 billion received as part of the Company's sale of its solid waste business to Allied and the cash received and assumption of debt by LESI totalling $400.0 million in the merger of its hazardous waste business with Rollins. The majority of these cash proceeds were utilized to finance acquisition expenditures of $1,611.3 million (excluding LESI's expenditures of $284.9 million).

In 1997, capital stockholders' equity increased by $658.0 million due to the issuance of shares in conjunction with the conversion of the CareLine Convertible Subordinated Notes and as a result of net earnings retained of $563.5 million after dividends of $47.0 million.

In 1997, capital expenditures of $239.4 million were financed from operating cash flows, whereas acquisitions of $1,896.2 million were financed primarily by the proceeds of the sale of the solid waste business, the proceeds of the merger of its hazardous waste business with Rollins and the assumption of debt of $193.0 million.

Subsequent event

On October 16, 1998, the Company entered into an agreement and plan of merger with Greyhound Lines, Inc. ("Greyhound"), pursuant to which the Company will acquire all Greyhound outstanding common and convertible preferred shares. The merger is subject to the adoption of the merger agreement by the holders of a majority of the outstanding Greyhound common and convertible preferred shares (voting as one class) at a Special Meeting to be called for that purpose, regulatory approvals and other customary closing conditions.

Under the terms of the plan, Greyhound stockholders will receive $6.50 per common, and equivalent common, share, up to $4.00 of which, at the Company's election, may be satisfied with the Company's common shares. Should the Company elect to include its shares, they would be priced at the weighted average price on the Toronto and New York stock exchanges for the five trading days immediately preceding the fifth trading day prior to the Special Meeting of Greyhound stockholders, which is expected to be held in January 1999. If the Company elects to include its stock, the Company will make and announce that election prior to the opening for trading on the fifth trading day prior to the date of the Special Meeting. There are approximately 72.3 million common and equivalent common shares of Greyhound stock outstanding.

The aggregate value of the transaction, including debt assumed and transaction costs, is expected to be approximately $675 million. The Company may satisfy up to $290 million of the purchase price by the issue of the Company's common shares. The cash portion of the purchase price (a minimum of approximately $205 million and a maximum of approximately $495 million) is expected to be provided from the Company's revolving bank facility.

Liquidity

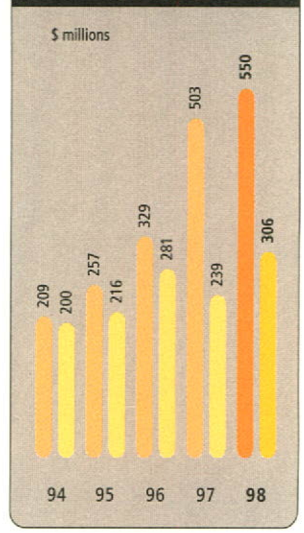
Cash provided by continuing operating activities before financing working capital and restructuring charges and acquisition accruals was $550.2 million, $503.4 million and $329.4 million in 1998, 1997 and 1996, respectively, representing percentage changes from the previous years of 9.3%, 52.8% and 28.0%.

Cash, short-term deposits and marketable securities were $268.3 million, $240.7 million and $225.8 million at August 31, 1998, 1997 and 1996, respectively.

In 1998, trade and other accounts receivable (restated for the year ended August 31, 1997 using the equity method of accounting for LESI) increased by $127.3 million to $574.5 million. The average number of days sales outstanding increased to 79 days from 78 days in 1997 primarily due to the growth in the healthcare services segment which has a higher days sales outstanding than the Company's other businesses due to the regulated nature of the business.

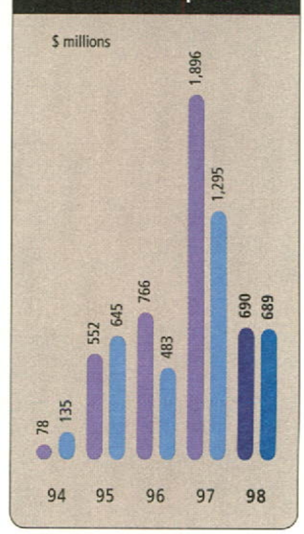
In 1997, trade and other accounts receivable (restated for the years ended August 31, 1997 and 1996 using the equity method of accounting for LESI) increased by $196.6 million to $447.2 million. The average number of days sales outstanding decreased to 78 days from 79 days in 1996.

cash provided by continuing operating activities* and capital expenditures



*Before financing working capital, restructuring charges, special and non-recurring charges and acquisition accruals

acquisition expenditures and annualized revenue acquired



The Company believes that the existing level of working capital of $285.7 million is adequate for normal growth and operating needs. Trade and other accounts receivable (restated for the year ended August 31, 1997 using the equity method of accounting for LESI) continues to represent the largest portion of current assets, totalling $574.5 million at August 31, 1998 (1997 – $447.2 million).

Capital expenditures and capital resources

Net expenditures for the purchase of capital assets for normal replacement requirements, and increases in services were $306.3 million, $239.4 million and $280.5 million in 1998, 1997 and 1996, respectively. Excluding LESI, the expenditures were $291.1 million, $194.6 million and $174.5 million in 1998, 1997 and 1996, respectively.

Capital expenditures for the purchase of capital assets for fiscal 1999 are expected to be approximately $260.0 million, which represents normal replacement and upgrading requirements and purchases of additional capital assets necessary for planned increases in services. It also includes replacement of capital assets which are not Year 2000 compliant. They do not include the financing of acquisitions and new contracts, which are continuously being pursued by the Company, and for which there is no determinable budget. The Company believes that current operating cash flows are adequate to finance these expenditures. At September 30, 1998, the Company had unused bank lines of credit of approximately $600 million.

Expenditures on the acquisition of businesses were $690.2 million, $1,896.2 million and $766.4 million in 1998, 1997 and 1996, respectively. Excluding LESI, expenditures on the acquisition of businesses were $690.2 million, $1,611.2 million and $758.4 million in 1998, 1997 and 1996, respectively.

Since September 1, 1996, the significant acquisitions (excluding LESI) were as follows:

- On October 14, 1997, the Company purchased Greyhound Canada, an inter-city bus operation, for $63.2 million. The purchase price was financed primarily by the Company's revolving bank debt facility.
- On October 3, 1997, the Company purchased Spectrum, an emergency department management business, for $94.1 million. The purchase price was financed primarily by the Company's revolving bank debt facility and the assumption of debt of $69.6 million.
- On September 4, 1997, the Company purchased EmCare, an emergency department management business, for $418.5 million. The purchase price was financed by the Company's revolving bank debt facility.
- On February 18, 1997, the Company purchased AMR, a healthcare services business, for $1,247.7 million. The purchase price was financed primarily by the proceeds of sale of the solid waste services segment.

Historically, as revealed in the current year's acquisitions, acquisitions have generally been financed initially with revolving/term bank loans and replaced later with longer term public issues of debt or equity. In 1997, the acquisition of AMR was financed using the proceeds on the sale of the solid waste services segment.

Year 2000 issue

The Year 2000 Issue arises because many computer systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900, or some other date, resulting in errors when information using dates beyond 1999 is processed. In addition, similar problems may arise in some systems which use certain numeric combinations which coincidentally correspond to dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced, on, or after January 1, 2000, and, if not addressed prior thereto, the impact on operations and financial reporting may range from minor errors to significant system failures which could affect an entity's ability to conduct normal business operations.

The Company has been evaluating the impact of the Year 2000 Issue on its operations. It has formed a project management team to coordinate the identification, evaluation and implementation of changes to resolve the issue. It is engaged in a three stage process to identify, assess, and convert/test all of its computer and operational equipment affected by the Year 2000 Issue well in advance of the year 2000.

In August 1998, the Company completed an inventory and assessment of all potentially affected, owned and leased equipment, and has estimated both funding and staffing requirements to resolve this issue for its own operations, as well as for electronic interfaces with its customers and suppliers.

The Company is using a risk management approach to manage the Year 2000 Issue. During the inventory and assessment phases of the project, all systems (computer and embedded technology), as well as, all customers and suppliers have been characterized by their potential impact to the business. Conversion is taking place with the highest priority placed on the highest risk systems.

Preliminary contingency plans have been put in place for all high risk systems as well as all material suppliers. More detailed contingency planning will be undertaken in early calendar year 1999.

The current estimated cost to resolve the problem for these systems within the Company is $45 million ($15 million in expenses and capital expenditures of $30 million) and, therefore, will not have a material adverse effect upon the Company's consolidated financial position or results of operation. The majority of these expenditures will be undertaken in fiscal year 1999. The Company is on schedule to complete the necessary systems upgrading, replacement and testing no later than mid-calendar year 1999.

The Company has been advised by its vehicle manufacturers that there will be no effect on vehicle performance or safety, related to this issue.

The Company continues to investigate and monitor the year 2000 preparedness of its other suppliers and its customers, particularly in the healthcare services segment. While there can be no guarantees of their preparedness, the Company believes that the best safeguard is to actively communicate with customers and suppliers about their progress, and to work with them to better understand their goals and progress towards meeting theirs.

Despite the Company's efforts, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved within the desired timeframes.

Factors that may affect future results

This report contains various forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including financial, operating and other projections. These statements are based on current plans and expectations of the Company and involve risks and uncertainties that could cause actual future activities and results of operations to be materially different from those set forth in the forward-looking statements.

Important factors that could cause actual results to differ include, among others, risks associated with acquisitions, fluctuations in operating results because of acquisitions and variations in stock prices, changes in applicable government regulations and competition. As a result of these factors, the Company's revenue and income could vary significantly from quarter to quarter, and past financial performance should not be considered a reliable indicator of future performance.

Legal proceedings

See Note 18 of Notes to Consolidated Financial Statements.

eleven year financial review

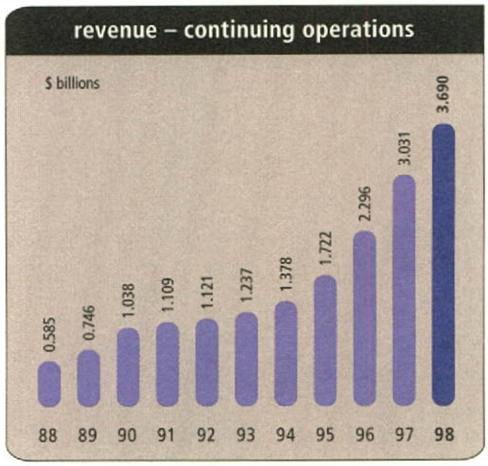
(U.S. $ millions except per share amounts)	1998	1997	1996	1995	1994
OPERATING RESULTS – CONTINUING OPERATIONS (YEAR ENDED AUGUST 31)					
Revenue	$3,690.2	$3,030.7	$2,296.0	$1,722.4	$1,378.1
Operating profit margin*	11.4%	10.9%	10.1%	10.2%	10.2%
Income from continuing operations*	$ 263.0	$ 199.9	$ 117.2	$ 74.9	$ 65.5
Net profit margin (from continuing operations)*	7.1%	6.6%	5.1%	4.3%	4.8%
Cash provided by operating activities**	$ 550.2	$ 503.4	$ 329.4	$ 257.4	$ 208.5
Capital expenditures					
– Sustenance and expansion (net)	$ 306.3	$ 239.4	$ 280.5	$ 215.6	$ 199.5
– Acquisitions	690.2	1,896.2	766.4	551.8	78.3
– Total	996.5	2,135.6	1,046.9	767.4	277.8
FINANCIAL POSITION (as at August 31)					
Long-term debt (including ADT-Linked Debentures)	$2,293.7	$2,192.4	$2,041.3	$1,734.1	$1,426.9
Shareholders' equity	3,089.9	2,794.0	2,136.8	1,697.4	1,585.9
Total assets	6,184.6	6,117.1	4,932.3	4,134.8	3,504.0
COMMON SHARES (year ended August 31)					
Earnings per share from continuing operations* (Note 14)	$ 0.80	$ 0.63	$ 0.40	$ 0.27	$ 0.24
Cash provided by continuing operating activities** per share	$ 1.67	$ 1.59	$ 1.12	$ 0.93	$ 0.75
Dividends per Common Share (in Canadian dollars)	$ 0.260	$ 0.200	$ 0.190	$ 0.160	$ 0.160
Market price (as at August 31, in Canadian dollars)					
Common Shares	$ 13.60	$ 20.30	$ 13.20	$ 12.13	$ 11.13
Net return on average common shareholders' equity*	8.9%	7.8%	8.5%	8.1%	6.8%
Shares outstanding (as at August 31, in millions)					
– Common Shares	330.2	328.8	313.8	277.3	277.2

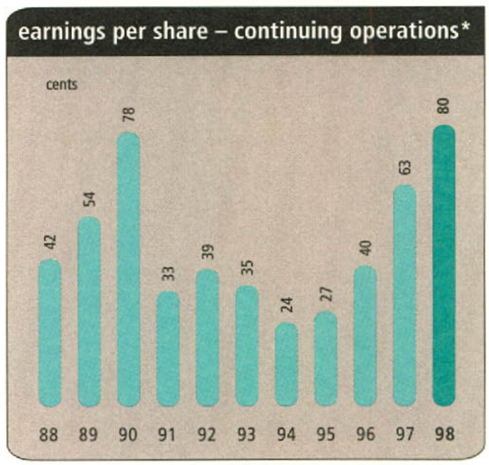
* *Before restructuring charges, special and non-recurring charges, unusual items and dilution gain.*

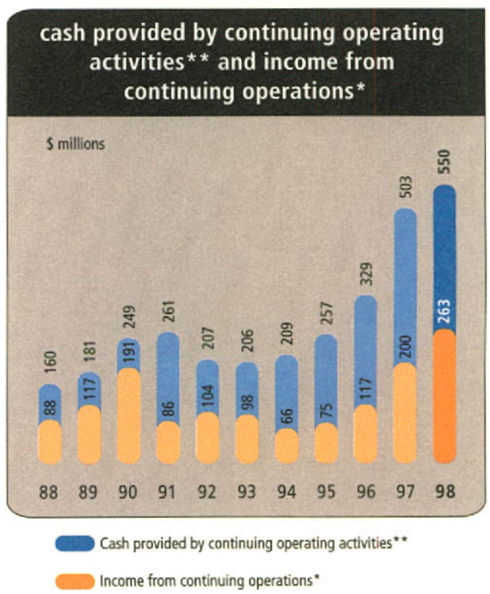
** *Before financing working capital, restructuring charges, special and non-recurring charges and acquisition accruals.*

The above data have been restated to give retroactive effect to the discontinued operations in 1996 and a prior period adjustment reported in 1990.

1993	1992	1991	1990	1989	1988
$1,237.3	$1,121.4	$1,108.6	$1,038.0	$ 746.3	$ 585.4
11.6%	13.8%	13.9%	16.1%	16.9%	18.4%
$ 98.3	$ 103.9	$ 86.0	$ 190.6	$ 117.3	$ 87.7
7.9%	9.3%	7.8%	18.4%	15.7%	15.0%
$ 205.8	$ 206.8	$ 261.2	$ 249.1	$ 180.7	$ 159.6
$ 148.6	$ 133.9	$ 108.3	$ 157.3	$ 67.5	$ 113.8
151.6	31.5	113.2	285.5	198.1	153.2
300.2	165.4	221.5	442.8	265.6	267.0
$1,367.0	$1,250.5	$1,488.6	$1,421.2	$ 892.7	$ 507.0
1,553.3	1,960.0	1,682.1	2,053.9	1,462.2	891.6
3,394.6	3,602.1	3,542.5	3,848.9	2,620.9	1,571.9
$ 0.35	$ 0.39	$ 0.33	$ 0.78	$ 0.54	$ 0.42
$ 0.74	$ 0.78	$ 1.06	$ 1.07	$ 0.89	$ 0.90
$ 0.160	$ 0.160	$ 0.310	$ 0.270	$ 0.230	$ 0.185
$ 9.25	$ 10.00	$ 13.13	$ 21.25	$ 19.25	$ 15.50
6.4%	7.5%	6.1%	15.1%	19.0%	20.5%
277.2	277.2	253.3	239.0	218.3	189.5







management's responsibility for financial reporting

The accompanying financial statements of Laidlaw Inc. and all the information in this annual report are the responsibility of management and have been reviewed and approved by the Board of Directors.

The financial statements have been prepared by management in accordance with generally accepted accounting principles. Where alternative accounting methods exist, management has chosen those methods deemed most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has ensured that the financial information presented throughout the annual report is consistent with that in the financial statements.

Laidlaw Inc. maintains systems of internal accounting and administrative controls which are of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board, and all of its members are outside directors. The Committee meets quarterly with management, as well as with internal and external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee has reported its findings to the Board which has approved the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or reappointment of the external auditors.

The consolidated statements have been audited on behalf of the shareholders by the external auditors, PricewaterhouseCoopers LLP, in accordance with generally accepted auditing standards. PricewaterhouseCoopers LLP has full and free access to the Audit Committee.

J.R. Bullock
President and Chief Executive Officer

L.W. Haworth
Senior Vice-President and Chief Financial Officer
October 13, 1998

auditors' report to the shareholders

We have audited the consolidated balance sheets of Laidlaw Inc. as at August 31, 1998 and 1997 and the consolidated statements of income and retained earnings and changes in financial position for each of the three years in the period ended August 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 1998 and 1997 and the results of its operations and the changes in its financial position for each of the three years in the period ended August 31, 1998 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Hamilton, Canada
October 13, 1998
(except for Note 21 which is dated October 16, 1998)

PricewaterhouseCoopers LLP
Chartered Accountants

consolidated statements of income and retained earnings

Year Ended August 31 (U.S. $ millions except per share amounts)	1998	1997	1996
REVENUE	$3,690.2	$3,030.7	$2,296.0
Operating expenses	2,722.2	2,214.1	1,720.5
Selling, general and administrative expenses	240.6	199.5	145.8
Depreciation and amortization	305.7	286.2	196.7
Restructuring charges (Note 12)	—	366.7	—
INCOME (LOSS) FROM OPERATIONS	421.7	(35.8)	233.0
Interest expense	(177.0)	(137.5)	(107.6)
Interest, dividend and other income	76.3	60.2	22.0
Equity in earnings (loss) of associated companies (Note 2)	(3.0)	3.5	—
Dilution gain (Note 2)	100.7	—	—
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST	418.7	(109.6)	147.4
Income tax recovery (expense) (Note 13)	(68.0)	91.0	(30.2)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST	350.7	(18.6)	117.2
Minority interest	(4.7)	63.8	—
INCOME FROM CONTINUING OPERATIONS	346.0	45.2	117.2
INCOME FROM DISCONTINUED OPERATIONS (Note 11)	—	565.3	44.6
NET INCOME	$ 346.0	$ 610.5	$ 161.8
EARNINGS PER SHARE (Note 14)			
Continuing operations	$ 1.05	$ 0.14	$ 0.40
Discontinued operations	—	1.78	0.15
Net income	$ 1.05	$ 1.92	$ 0.55
RETAINED EARNINGS – BEGINNING OF YEAR	$ 721.0	$ 157.5	$ 37.1
Net income	346.0	610.5	161.8
Dividends – Preference Shares	(0.4)	(0.4)	(0.5)
– Common Shares	(59.5)	(46.6)	(40.9)
RETAINED EARNINGS – END OF YEAR	$1,007.1	$ 721.0	$ 157.5
DIVIDENDS PER SHARE			
(Cdn. $) – Preference Shares	$ 1.00	$ 1.00	$ 1.00
– Common Shares	$ 0.26	$ 0.20	$ 0.19
(U.S. $ equivalent)			
– Preference Shares	$ 0.694	$ 0.730	$ 0.734
– Common Shares	$ 0.180	$ 0.146	$ 0.139

The accompanying notes are an integral part of these statements.

consolidated balance sheets

Year Ended August 31 (U.S. $ millions)	1998	1997
ASSETS		
CURRENT ASSETS		
Cash	$ 6.5	$ 3.8
Short-term deposits and marketable securities		
– at cost which approximates market value	261.8	236.9
Trade and other accounts receivable (net of allowance for doubtful accounts		
of $222.2; August 31, 1997 – $150.0)	574.5	658.1
Inventories	44.9	54.4
Income taxes recoverable	—	41.9
Assets for sale	—	78.2
Other current assets	29.2	33.9
TOTAL CURRENT ASSETS	916.9	1,107.2
LONG-TERM INVESTMENTS		
Investment in Laidlaw Environmental Services, Inc. (d/b/a Safety-Kleen Corp.) (Note 2)	738.1	—
Other (Note 3)	249.2	191.9
	987.3	191.9
PROPERTY AND EQUIPMENT (Note 4)	1,192.7	2,251.0
OTHER ASSETS		
Goodwill (net of accumulated amortization of $184.9;		
August 31, 1997 – $117.9)	3,033.8	2,516.8
Deferred charges	37.7	50.2
Deferred income taxes	16.2	—
	3,087.7	2,567.0
TOTAL ASSETS	$6,184.6	$6,117.1

The accompanying notes are an integral part of these statements.

Signed on behalf of the Board

James R. Bullock, Director

Donald M. Green, Director

Year Ended August 31 (U.S. $millions)	1998	1997
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 141.9	$ 173.2
Accrued liabilities (Note 5)	356.2	410.8
Income taxes payable	95.1	—
Current portion of long-term debt (Note 7)	38.0	39.8
TOTAL CURRENT LIABILITIES	631.2	623.8
DEFERRED ITEMS		
Income taxes	—	52.9
Other (Note 6)	169.8	344.6
	169.8	397.5
LONG-TERM DEBT (Note 7)	2,293.7	1,800.4
MINORITY INTEREST	—	109.4
ADT – LINKED DEBENTURES (Note 9)	—	392.0
COMMITMENTS AND CONTINGENCIES (Note 18)		
CAPITAL STOCKHOLDERS' EQUITY		
Preference Shares (Note 10)	8.4	8.7
Common Shares; issued and outstanding 330,156,836 (August 31, 1997 – 328,768,305) (Note 10)	2,246.5	2,230.6
Cumulative foreign currency translation adjustments	(172.1)	(166.3)
Retained earnings	1,007.1	721.0
TOTAL CAPITAL STOCKHOLDERS' EQUITY	3,089.9	2,794.0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$6,184.6	$6,117.1

The accompanying notes are an integral part of these statements.

consolidated statements of changes in financial position

Year Ended August 31 (U.S. $ millions)	1998	1997	1996
NET CASH PROVIDED BY (USED IN):			
Operating activities	$ 330.9	$ 336.4	$ 400.3
Investing activities	(931.5)	(614.8)	(707.4)
Financing activities	628.2	293.3	386.4
	27.6	14.9	79.3
CASH, SHORT-TERM DEPOSITS AND MARKETABLE SECURITIES – BEGINNING OF YEAR	240.7	225.8	146.5
CASH, SHORT-TERM DEPOSITS AND MARKETABLE SECURITIES – END OF YEAR	$ 268.3	$ 240.7	$ 225.8
OPERATING ACTIVITIES			
Income from continuing operations	$ 346.0	$ 45.2	$ 117.2
Add (deduct) items not affecting cash:			
Depreciation and amortization	305.7	286.2	196.7
Restructuring charges (net of tax) (Note 12)	—	154.7	—
Dilution gain (Note 2)	(100.7)	—	—
Deferred income taxes	16.6	18.8	9.0
Deferred other	—	—	5.4
Minority interest	5.1	2.0	—
Equity in (earnings) loss of associated companies	3.0	(3.5)	—
Gain on sale of assets (Note 16)	(16.7)	—	—
PIK Debenture interest	(8.8)	—	—
Other	—	—	1.1
Cash provided by continuing operating activities before financing working capital, restructuring charges and acquisition accruals	550.2	503.4	329.4
Cash used in financing working capital (Note 15)	(99.1)	(110.3)	(22.2)
Cash used for restructuring charges and acquisition accruals	(120.2)	(39.6)	—
Net cash provided by continuing operating activities	330.9	353.5	307.2
Net cash provided by (used in) discontinued operating activities	—	(17.1)	93.1
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 330.9	$ 336.4	$ 400.3
INVESTING ACTIVITIES			
Purchase of property and equipment	$ (312.9)	$ (237.1)	$ (289.1)
Proceeds from sale of property and equipment	26.7	24.2	15.4
Purchase of other assets	(20.1)	(26.5)	(6.8)
Expended on acquisitions (Note 17)	(690.2)	(1,896.2)	(766.4)
Net increase in other long-term investments	(99.4)	(26.0)	(1.3)
Decrease in working capital relating to investment activities	—	—	14.4
Proceeds from sale of solid waste services segment (Note 11)	—	1,576.0	—
Proceeds from sale of assets	164.4	20.2	8.9
Proceeds from sale of investment in ADT Limited and Attwoods plc	—	—	448.8
Net cash used in continuing investing activities	(931.5)	(565.4)	(576.1)
Net cash used in investing activities of discontinued operations	—	(49.4)	(131.3)
NET CASH USED IN INVESTING ACTIVITIES	$ (931.5)	$ (614.8)	$ (707.4)
FINANCING ACTIVITIES			
Proceeds from issue of long-term debt	$ 2,060.2	$ 1,740.7	$ 1,065.9
Repayment of ADT-Linked Convertible Debentures (Note 9)	(392.0)	—	—
Long-term debt assumed on acquisition (Note 17)	126.3	193.0	357.8
Repayments of long-term debt and other non-current liabilities	(1,122.0)	(1,832.8)	(1,281.8)
Minority interest introduced	—	173.7	—
Proceeds from share issues (Note 10)	15.9	80.3	331.2
Dividends	(59.9)	(47.0)	(41.4)
Repurchase of preference shares for redemption (Note 10)	(0.3)	(0.3)	(0.3)
Net cash provided by continuing financing activities	628.2	307.6	431.4
Net cash used in financing activities of discontinued operations	—	(14.3)	(45.0)
NET CASH PROVIDED BY FINANCING ACTIVITIES	$ 628.2	$ 293.3	$ 386.4

The accompanying notes are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Laidlaw Inc. ("the Company") have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") and all figures are presented in U.S. dollars, as the majority of the Company's operating assets are located in the United States. Except as indicated in Note 20, the consolidated financial statements conform, in all material respects, with accounting principles generally accepted in the United States ("U.S. GAAP").

The preparation of financial statements in accordance with generally accepted accounting principles requires the Company to make estimates and assumptions that affect reported amounts of assets, liabilities, revenue and expenses, and disclosure of contingencies. Future events could alter such estimates in the near term. (See also Notes 6 and 18.)

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

Consolidation

The consolidated financial statements include the accounts of Laidlaw Inc. and all of its subsidiary companies. All significant intercompany transactions are eliminated. The purchase method of accounting for business combinations has been used.

Revenue recognition

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

Healthcare services – Revenue is recognized at the time ambulance or emergency healthcare services are provided. Such amounts are reported at the estimated amounts due from patients, third-party payors and others for services rendered, net of contractual adjustments and uncompensated care. Contractual adjustments represent the difference between gross billable charges and the portion of those charges allowable by third-party payors. Uncompensated care is the difference between the charges allowable and the expected collections from third-party payors and patients.

Hazardous waste services – Revenue, along with the related costs of treatment, disposal and transportation, is recorded at the time of performance of services, shipment of products, or acceptance of waste at the Company's service centers. Revenue from the Company's treatment and disposal opertions, primarily landfill and incineration facilities, is recognized when the waste material is disposed of, whether burned, landfilled, or treated. Pursuant to contracts with its customers, the Company accepts title to waste material at such time and provides contractual indemnification to its customers against future liability with respect to the waste materials.

Income taxes

Deferred income taxes are provided for all significant timing differences arising from recognizing certain expenses, principally depreciation, in different periods for income tax and financial reporting purposes.

Inventories

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

Long-term investments

Investments in shares of associated companies, over which the Company has significant influence, are accounted for by the equity method. Equity earnings are recorded to the extent that any increase in the carrying value is determined to be realizable. Other long-term investments are carried at cost.

Property and equipment

Property and equipment are stated at cost. Depreciation and amortization of property and equipment is provided substantially on a straight-line basis over their estimated useful lives which are as follows:

Buildings – 20 to 40 years, and

Vehicles and other – 3 to 15 years.

The Company periodically reviews the carrying values of its capital assets to determine whether such values are recoverable. The amount of any impairment is charged against income.

Other assets

Goodwill is amortized on a straight-line basis over 40 years. The Company reviews the value assigned to goodwill to determine if it has been permanently impaired in value. The measurement of possible impairment is based primarily on the ability to recover the balance of the goodwill from expected future operating cash flows on an undiscounted basis. The amount of any impairment is charged against income. Deferred charges, other than deferred financing costs, are amortized on a straight-line basis over a two to five year period depending on the nature of the deferred costs. Deferred financing costs are amortized over the life of the related debt instrument.

Deferred items – other

Non-current portions of self-insurance and acquisition related liabilities are classified as other deferred items.

Foreign currency translation

The Company's Canadian operations are of a self-sustaining nature. Assets and liabilities are translated to U.S. dollars at the exchange rate in effect at the balance sheet date and revenue and expenses at weighted monthly average exchange rates for the year.

Financial instruments

The Company's accounts receivable, PIK Debenture (as defined in Note 2) and long-term debt constitute financial instruments. Based on available market information, the carrying value of the Company's accounts receivable approximates their fair value as at August 31, 1998 and 1997. Overall, concentration of credit risks in accounts receivable is limited, due to the large number of customers comprising the Company's customer base throughout North America. A significant component of the healthcare services revenue is derived from Medicare and Medicaid. Given that these are government programs, the credit risk for these customers is low. The Company performs ongoing credit evaluations of its other customers, but does not require collateral to support customer accounts receivable. The Company establishes an allowance for doubtful accounts based on the credit risk applicable to particular customers, historical trends and other relevant information. See Note 2 for fair value information pertaining to the PIK Debenture. See Notes 7 and 8 for fair value information pertaining to long-term debt and derivative financial instruments.

2. ACQUISITION OF SAFETY-KLEEN CORP.

Pursuant to a merger agreement dated March 16, 1998 between the Company's subsidiary, Laidlaw Environmental Services, Inc. ("LESI") and Safety-Kleen Corp., LESI acquired the outstanding shares of Safety-Kleen Corp. for a total consideration of approximately \$2.2 billion, including debt assumed and estimated transaction costs. The consideration was comprised of \$1.5 billion in cash and the issue of 166.5 million common shares of LESI. Effective July 1, 1998, LESI began doing business as Safety-Kleen Corp.

As a result of this transaction, the Company's ownership of LESI has been reduced to approximately 35% from the previous level of 67%. The Company ceased to consolidate LESI's results and began to account for LESI using the equity method effective March 1, 1998.

In addition, as a result of this transaction, the Company realized a gain on dilution of its ownership in LESI of \$100.7 million (\$100.7 million after-tax or \$0.30 per share). The dilution gain results from the issue of shares by LESI at a price per share in excess of the Company's carrying value per share.

The Company's investment in LESI is comprised of the following: ($ millions)

5% Subordinated Convertible, Pay-in-kind Debenture ("PIK Debenture") due May 15, 2009	$350.0
Investment in 123.9 million LESI common shares (Ownership 35.3% at August 31, 1998)	388.1
Total investment as at August 31, 1998	$738.1

Interest on the PIK Debenture is receivable semi-annually, on November 15 and May 15, until maturity. Beginning on May 15, 2002, and continuing until maturity, the PIK Debenture is convertible, at the option of the Company, into common shares of LESI based on a conversion price per share of $3.75 (the "Conversion Price"). Beginning on May 15, 2002, and continuing until maturity, LESI has the option to redeem the PIK Debenture for cash if the common shares of LESI are trading at a market price greater than or equal to 120% of the Conversion Price. The PIK Debenture ranks junior in right of repayment (principal and interest) to all other long-term debt, including the bank credit facility of LESI.

The estimated fair value of the PIK Debenture is based on quoted market prices, where available, along with present value calculations which are calculated using current rates for similar financial instruments with the same remaining maturity. The Company estimates that the fair value of the PIK Debenture at August 31, 1998 was $350.5 million

Interest payments receivable during the first two years after issuance of the PIK Debenture are required to be satisfied by the issuance of LESI common shares, based on the market price of the common shares at the time the interest payments are receivable. At LESI's option, any other interest or principal payments, other than optional early redemption, may be satisfied by issuing LESI common shares, based on the market price at the time such payments are receivable. During the year ended August 31, 1998, the Company received 3,920,410 common shares of LESI in satisfaction of interest receivable. Any receipt of LESI common shares as payment for interest owing, though increasing the Company's percentage ownership in LESI, is not expected to be significant enough to change the Company's method of accounting for the investment.

The investment in LESI common shares (market value of $364.0 million as at August 31, 1998) is accounted for by the equity method.

The equity in earnings (loss) of associated companies for the year ended August 31, 1998 is comprised of the Company's share in LESI's: ($ millions)

Net income for the period March 1, 1998 – August 31, 1998 before restructuring charges	$ 14.7
Restructuring charges	(17.7)
Total	$ (3.0)

The Company is contingently liable in respect of various present or future liabilities and obligations of LESI under guarantees in the aggregate amount of approximately $41.5 million. These obligations relate to closure and post-closure financial assurances. LESI is obligated to assume these financial assurances from the Company during fiscal 1999.

The Company has provided a corporate guarantee, in the amount of $111 million, to provide financial assurance for the costs of cleanup and/or environmental impairment restoration incurred following closure or following a final order to cease operations and commence closure of the hazardous waste management facility operated by LESI in Pinewood, South Carolina. The corporate guarantee is to be maintained until replaced by an acceptable alternative.

The Company has indemnified LESI of any environmental liability or environmental claim arising as a result of the Marine Shale Processors or the Mercier, Quebec facilities which occurred prior to May 15, 1997. The Company has indemnified LESI for any costs greater than one million dollars incurred in each year following May 15, 1997. This yearly indemnification shall be maintained until May 15, 2003. The Company does not believe that these matters will be material to the Company's operations or financial condition.

The Company has guaranteed certain long-term debt of LESI in the amount of $75.7 million.

Had the investment in LESI been accounted for by using the equity method effective September 1, 1995, the consolidated income statements (summarized) would have been presented as follows: ($ millions)

	1998		1997		1996	
Year ended August 31	Actual	Restated	Actual	Restated	Actual	Restated
Revenue	$3,690.2	$3,305.4	$3,030.7	$2,320.7	$2,296.0	$1,580.2
Operating expenses	2,722.2	2,453.0	2,214.1	1,702.3	1,720.5	1,195.6
Selling, general and administrative expenses	240.6	201.4	199.5	123.7	145.8	67.0
Depreciation and amortization	305.7	280.9	286.2	231.5	196.7	146.2
Restructuring charges	—	—	366.7	35.0	—	—
Income (loss) from operations	421.7	370.1	(35.8)	228.2	233.0	171.4
Interest expense net of other income	(100.7)	(72.5)	(77.3)	(34.8)	(85.6)	(37.8)
Equity in earnings (loss) of associated companies	(3.0)	6.2	3.5	(116.0)	—	8.2
Dilution gain	100.7	100.7	—	—	—	—
	418.7	404.5	(109.6)	77.4	147.4	141.8
Income tax recovery (expense)	(68.0)	(58.5)	91.0	(32.2)	(30.2)	(24.6)
Minority interest	(4.7)	—	63.8	—	—	—
Income from continuing operations	346.0	346.0	45.2	45.2	117.2	117.2
Income from discontinued operations	—	—	565.3	565.3	44.6	44.6
Net income	$ 346.0	$ 346.0	$ 610.5	$ 610.5	$ 161.8	$ 161.8

Had the investment in LESI been accounted for by using the equity method of accounting as at August 31, 1997, the balance sheets (summarized) would have been presented as follows: ($ millions)

	1998	1997	
August 31	Actual	Actual	Restated
ASSETS			
Total current assets	$ 916.9	$1,107.2	$ 884.4
Long-term investments			
Investment in LESI	738.1	—	604.7
Other	249.2	191.9	142.0
	987.3	191.9	746.7
Property and equipment	1,192.7	2,251.0	1,066.4
Other assets	3,087.7	2,567.0	2,477.0
TOTAL ASSETS	$6,184.6	$6,117.1	$5,174.5
LIABILITIES			
Total current liabilities	$ 631.2	$ 623.8	$ 433.1
Deferred items	169.8	397.5	272.8
Long-term debt	2,293.7	1,800.4	1,281.8
Minority interest	—	109.4	—
	3,094.7	2,931.1	1,987.7
ADT-LINKED DEBENTURES	—	392.0	392.0
TOTAL CAPITAL STOCKHOLDERS' EQUITY	3,089.9	2,794.0	2,794.8
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$6,184.6	$6,117.1	$5,174.5

3. LONG-TERM INVESTMENTS – OTHER

Included in other long-term investments is the Company's investment in United States Filter Corporation ("U.S. Filter"). The Company owns 2,806,263 shares (1997 – 3,646,783 shares) of U.S. Filter at a book value of $42.0 million (1997 – $50.4 million). These shares (market value of $50.5 million as at August 31, 1998) have been designated as a hedge against the 5.75% exchangeable notes due December 31, 2000 (see Note 7).

In addition, other long-term investments include the Company's investment of 3,203,595 shares of Renal Care Group, Inc. ("RCG") with a book value of $66.8 million at August 31, 1998. These shares were received as partial consideration on the sale of the Company's disease management business in December 1997, as described in Note 16. These shares had a market value of $64.7 million as at August 31, 1998.

4. PROPERTY AND EQUIPMENT

August 31 ($ millions)	1998			1997		
	Cost	Accumulated Depreciation and Amortization	Net	Cost	Accumulated Depreciation and Amortization	Net
Land	$ 63.8	$ —	$ 63.8	$ 58.4	$ —	$ 58.4
Buildings	134.1	41.0	93.1	119.8	32.1	87.7
Vehicles and other	1,651.2	615.4	1,035.8	1,452.7	532.4	920.3
	1,849.1	656.4	1,192.7	1,630.9	564.5	1,066.4
LESI (Note 2)	—	—	—	1,484.1	299.5	1,184.6
	$1,849.1	$656.4	$1,192.7	$3,115.0	$864.0	$2,251.0

5. ACCRUED LIABILITIES

August 31 ($ millions)	1998	1997
Accrued wages and benefits	$ 85.2	$ 28.1
Current portion of self-insurance liabilities (Note 6)	58.8	69.5
Interest payable	54.4	19.7
Other	157.8	178.3
	356.2	295.6
LESI (Note 2)	—	115.2
	$356.2	$410.8

6. DEFERRED ITEMS – OTHER

August 31 ($ millions)	1998	1997
Self-insurance liabilities	$ 58.5	$ 69.1
Professional liability insurance	25.9	—
Other	85.4	97.4
	169.8	166.5
LESI (Note 2)	—	178.1
	$169.8	$344.6

The Company's $117.3 million (1997 – $138.7 million) of self-insurance liabilities as at August 31, 1998 (current liabilities of $58.8 million and non-current liabilities of $58.5 million) represent claim reserves for the Company's self-insurance programs. The Company maintains a self-insurance program for auto liability, general liability and worker's compensation claims, where permitted, for the first $5 million of any one occurrence. The Company purchases aggregate stop loss insurance to limit the Company's exposure to losses between $2 million and $5 million and full insurance for losses in excess of $5 million. The current portion of these liabilities represents the payments expected to be made during the next 12 months.

Professional liability insurance for up to a limit of $1 million per occurrence is provided to the majority of physicians who are employed or contracted by the Company. The Company has procured such insurance coverage for professional liability claims on a claims-made basis. The current policy expires on January 1, 2000 and provides an aggregate self insurance retention for the first $14.0 million of claims incurred and reported during the period January 1, 1998 to January 1, 2000. On January 1, 2000 the Company has the option of purchasing unlimited tail insurance for the period January 1, 1998 to January 1, 2000 for a premium of $20.0 million. Although the majority of the professional liability insurance available for physicians is provided in this manner, the contracted physicians may obtain their own professional liability insurance directly or through the contracting hospital.

7. LONG-TERM DEBT

August 31 ($ millions)	1998	1997
Laidlaw Inc.		
Revolving bank debt with interest rates, as a result of swap agreements averaging 6.75% at August 31, 1998 (1997 – 4.15%)	$ 454.8	$ 110.8
8.75% debentures due January 1, 2000	200.0	200.0
5.75% exchangeable notes due December 31, 2000	48.5	63.0
10.95% debentures due April 16, 2001 (Canadian dollar denominated debentures of $100.5)	63.8	72.4
7.70% debentures due August 15, 2002, with an interest rate, as a result of swap agreements of 7.01% (1997 – 7.06%)	200.0	200.0
8.50% debentures due December 16, 2002 (Canadian dollar denominated debentures of $92.1)	58.5	66.3
7.05% debentures due May 15, 2003, with an interest rate, as a result of swap agreements of 6.50% (1997 – 6.53%)	100.0	100.0
6.65% debentures due October 1, 2004	225.0	—
7.875% debentures due April 15, 2005, with an interest rate, as a result of swap agreements of 7.03% (1997 – 7.31%)	150.0	150.0
6.50% debentures due May 1, 2005	200.0	—
6.70% debentures due May 1, 2008	100.0	—
8.25% debentures due May 15, 2023	100.0	100.0
8.75% debentures due April 15, 2025 with an interest rate, as a result of swap agreements of 7.26% (1997 – 7.28%)	150.0	150.0
6.72% debentures due October 1, 2027, redeemable at the option of the holder on October 1, 2007 at par value plus accrued interest	200.0	—
Notes due at various dates to 2023 with interest rates from 5.0% to 9.0%	81.1	68.4
	2,331.7	1,280.9
Laidlaw Environmental Services, Inc. (Note 2)		
Term bank loans, with interest rates from 8.10% to 9.23%	—	315.0
Term bank loans (Canadian dollar denominated of $83.3), with interest rates from 5.88% to 6.14%	—	60.0
Promissory note, due May 2003, with an interest rate of 5.98%	—	60.0
Notes due at various dates to 2027 with interest rates from 6.00% to 9.00%	—	124.3
	2,331.7	1,840.2
Less current portion	38.0	39.8
	$2,293.7	$1,800.4

On August 31, 1998, the Company had available a $1.4 billion syndicated bank facility (1997 – $1.4 billion) of which approximately $0.8 billion (1997 – $1.1 billion) was unused. The revolving period of the facility extends 364 days and if not extended, the facility, to the extent it is drawn at the end of the revolving period, becomes repayable over a five year period. Under this agreement, the Company is required to maintain certain balance sheet ratios, all of which have been met at August 31, 1998.

In November 1995, Laidlaw One, Inc., a wholly owned subsidiary of the Company, issued 2,965,829 – 5.75% exchangeable notes due December 31, 2000 for $63.0 million. The notes are unconditionally guaranteed by the Company. Each note is exchangeable at maturity into 1.5 to 1.2296 shares of common stock of U.S. Filter based on the then current market price of the shares. The Company has the option of paying cash equal to the then current price of the shares. In June 1998, the Company repurchased 683,600 of the exchangeable notes in exchange for 840,520 shares of U.S. Filter and approximately $1 million in cash. As at August 31, 1998, the Company could satisfy the notes by delivery of 1.2296 (1997 – 1.2296) shares of common stock of U.S. Filter per note (total of 2,806,263 shares), plus cash equal to the accrued but unpaid interest thereon (see Note 3).

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

Year ending August 31, 1999	$ 38.0
2000	228.3
2001	117.3
2002	204.1
2003	161.7
thereafter	1,582.3
	$2,331.7

The fair value of all long-term debt, exclusive of interest rate swaps, based primarily on quoted market prices, at August 31, 1998 amounted to approximately $2,484 million (1997 – $1,984 million).

8. DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into interest rate swap contracts and interest rate options to lower funding costs and alter interest rate exposures. The floating rates on swaps are based primarily on U.S. dollar LIBOR and reset on a quarterly or semi-annual basis.

Notional amounts, weighted average maturities and range of maturities for derivatives as at August 31, 1998 and 1997, are as follows: ($ millions)

	1998			1997		
	Notional Amount	Weighted Average Maturities	Range of Maturities	Notional Amount	Weighted Average Maturities	Range of Maturities
Interest Rate Swaps	$1,664.0	10.1 yrs.	0.2–29.6 yrs.	$1,403.0	6.6 yrs.	0.5–27.6 yrs.
Interest Rate Options	$ 650.0	0.7 yrs.	0.2–1.0 yrs.	$ 300.0	1.9 yrs.	1.9 yrs.

Credit risk arises from the possible inability of counterparties to meet the terms of their contracts on a net basis. All of the Company's derivative agreements have been entered into with major financial institutions which are expected to fully perform under the terms of the agreements. The Company's credit exposure on swaps is related not to the notional balances of the interest rate swaps and options, but to the current and potential replacement costs of all profitable contracts at year end. At August 31, 1998 this credit exposure is immaterial. Credit exposure will increase along with the market value of the swaps and options, if interest rates increase, and decrease if interest rates decline.

Derivative financial instrument fair values represent an approximation of amounts the Company would have paid to or received from counterparties to unwind its positions prior to maturity. The Company's fair value obligation for all interest rate derivative contracts as of August 31, 1998, was approximately $23 million (1997 – $12 million). At August 31, 1998, the Company had no plans to unwind these positions prior to maturity.

9. ADT-LINKED DEBENTURES

August 31 ($ millions)	1998	1997
6.00% ADT-Linked Convertible Debentures due January 15, 1999 (including Canadian dollar denominated tranche of $59.9 at 6.75%) redeemed in September 1997	$ —	$280.0
Premium due on redemption of ADT-Linked Convertible Debentures	—	112.0
	$ —	$392.0

On September 30, 1997, the Company redeemed for cash, its $280.0 million issue of ADT-Linked Convertible Debentures, at a total cost of approximately $392.0 million. Funds were provided from the Company's revolving bank debt facility.

10. CAPITAL STOCK

(a) Authorized

An unlimited number of Common Shares.

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

(b) Issued and fully paid preference shares

August 31 ($ millions except per share amounts)	1998	1997
5% Cumulative Convertible First Preference Shares Series G; issued at Cdn. $20 per share, redeemable at the Company's discretion, at Cdn. $20 per share; issued and outstanding 573,070 (1997 – 593,070)	$8.4	$8.7

(c) Material changes in all classes of Capital Stock since September 1, 1995:

(i) On July 23, 1997, the Company's shareholders approved a share reorganization resulting in a single class of voting shares. The reorganization resulted in a reclassification of the Company's Class A Shares and Class B Non-Voting Shares into a single new class of voting common shares ("Common Shares"). Under the reorganization, each Class A Share was converted into Common Shares on the basis of 1.15 Common Shares for each Class A Share and each Class B Non-Voting Share was converted into Common Shares on the basis of one Common Share for each Class B Non-Voting Share. The conversion of the Class A Shares resulted in an additional 7,144,529 Common Shares being issued.

(ii) On October 27, 1995, the Company issued 16,507,972 Common Shares and assumed warrants, which expire in 2003, to issue an additional 1,048,236 Common Shares at prices ranging from $7.727 per share to $11.591 per share, for a total of $145.6 million in conjunction with the acquisition of CareLine, Inc. ("CareLine"). During 1996, 174,999 Common Shares were issued on the exercise of warrants for proceeds of $1.4 million. During 1997, an additional 94,886 Common Shares were issued on the exercise of warrants for proceeds of $0.8 million. During 1998, an additional 161,999 Common Shares were issued on the exercise of warrants for proceeds of $1.6 million.

In addition, the Company assumed $75.0 million of 8% Convertible Senior Subordinated Notes due 2001 in conjunction with the CareLine acquisition. These notes were convertible into Common Shares at the option of the holder at a conversion price of $10.91 per share. During 1996, $10.1 million in principal value of these notes were converted into 925,756 Common Shares. During 1997, the remaining balance of $64.2 million in principal value of these notes was converted into 5,882,184 Common Shares.

(iii) In conjunction with the acquisition of Scott's Hospitality Inc. ("Scott's"), the Company issued 18,685,583 Common Shares on August 9, 1996 in the amount of $173.0 million, and an additional 117,646 Common Shares on September 13, 1996 in the amount of $1.1 million.

(d) Employee stock option plans

A total of 335,750 options to purchase Common Shares at Cdn. $22.75 per share remain outstanding under the 1984 Employee Stock Option Plan. These options are exercisable May 1, 1999 provided that, if the closing price per share on The Toronto Stock Exchange on any of the ten trading days immediately preceding May 1, 1999 is less than the exercise price, the date of exercise will be postponed until May 1, 2000, when these options will expire if unexercised. At August 31, 1998, a total of 7,277,825 options to purchase Common Shares were outstanding under the 1991 employee stock option plan. All options under this plan are for a term of ten years from the date of grant and become exercisable with respect to 20% of the total number of shares subject to the option, one year after the date of grant, and with respect to an additional 20% at the end of each 12 month period thereafter on a cumulative basis during the succeeding four years. Both plans provide for the granting of stock options to certain senior employees and officers of the Company at the discretion of the Board of Directors. All options are subject to certain conditions of service and, in certain circumstances, a non-competition agreement.

The following sets out information with respect to the employee stock option plans:

Year Ended August 31		1998	1997	1996
Options outstanding at beginning of year		6,431,225	7,109,825	5,884,675
Options granted during the year		2,338,000	1,883,000	1,694,250
Options terminated during the year		(584,950)	(853,000)	(242,500)
Options exercised during the year		(570,700)	(1,708,600)	(226,600)
Options outstanding at end of year		7,613,575	6,431,225	7,109,825
Options exercisable at end of year		2,740,465	2,093,125	2,025,725
Options available for future grants at end of year		812,225	2,580,275	3,779,025
Total exercise price of options outstanding at end of year (Cdn. $ millions)		$124.1	$92.8	$91.8
Option price ranges:				
Options granted:	Cdn. $	$19.90 –$20.30	$19.05	$14.30
	US. $	$14.625–$15.25	$11.75	—
Options terminated:	Cdn. $	$ 8.50 –$22.75	$8.50 –$18.417	$8.50 –$14.30
	US. $	$15.25	$11.75	—
Options exercised:	Cdn. $	$ 7.625–$19.05	$7.625–$18.417	$8.50 –$14.00
	US. $	—	—	—
Options outstanding at year end:	Cdn. $	$ 7.625–$22.75	$7.625–$22.75	$7.625–$22.75
	US. $	$11.75 –$15.25	$11.75	—

During 1998, a total of 570,700 (1997 – 1,708,600) Common Shares were issued under the plans for proceeds of $4.2 million (1997 – $15.8 million).

(e) Directors' stock option plan

At August 31, 1998, 297,000 Common Shares were reserved for issuance on the exercise of options granted under the directors' stock option plan. All options under this plan are for a term of ten years from the date of the grant and become exercisable with respect to 20% of the total number of shares subject to the option on each of the five successive anniversaries of the date of the grant. Options are subject to certain conditions of service.

During 1998, options to purchase 55,000 (1997 – 26,000) Common Shares were granted.

At August 31, 1998 the aggregate options outstanding entitled non-executive directors to purchase 135,000 (August 31, 1997 – 83,000) Common Shares at prices ranging from Cdn. $14.30 to $19.90 per share.

During 1998, a total of 3,000 (1997 – nil) Common Shares were issued under the plan.

11. DISCONTINUED OPERATIONS

On December 30, 1996, the Company sold its solid waste services business, "Laidlaw Waste Systems," to Allied Waste Industries, Inc. ("Allied") for a total consideration of $1,624.2 million consisting of: (i) $1.2 billion in cash, (ii) 14.6 million common shares of Allied, representing 19.9% of Allied's common shares, (iii) a $150.0 million, 12-year 7% note, (iv) a $168.3 million, 12-year zero coupon note, and (v) 12-year warrants to purchase 20.4 million Allied common shares at $8.25 each. A gain on sale of $549.7 million, net of provisions, was recognized in the second quarter of fiscal 1997.

On May 15, 1997 the Company disposed of the Allied shares, notes and warrants for $376 million in cash.

The results of operations of the Company's solid waste services segment for the years ended August 31, 1997 and 1996 have been shown as discontinued operations. Interest had been allocated to the solid waste services segment based on its share of the Company's net assets. Income taxes were allocated based on the Company's effective tax rate. Summarized financial information for the solid waste services segment is as follows:

Year Ended August 31 ($ millions)	1998	1997	1996
Revenue	$ —	$266.0	$763.5
Operating expenses	—	173.5	526.9
Selling, general and administrative expenses	—	29.5	50.2
Depreciation and amortization	—	31.2	95.9
Income from operations	—	31.8	90.5
Interest expense net of other income	—	(12.0)	(35.7)
Income before income taxes	—	19.8	54.8
Income taxes	—	4.2	10.2
Income from discontinued operations prior to sale	—	15.6	44.6
Gain on sale of discontinued operations, net of income taxes of $132.0	—	549.7	—
Income from discontinued operations	$ —	$565.3	$ 44.6

The 1997 operating results were for the four months ended December 30, 1996.

12. RESTRUCTURING CHARGES

The February 1997 acquisition of American Medical Response, Inc. ("AMR") more than doubled the size of the Company's healthcare services segment. As a result, a strategic restructuring initiative was implemented to create operating efficiencies, cost savings and revenue enhancement opportunities. This initiative involved consolidation of the Company's existing healthcare services operations along with those of AMR's under the trade name "American Medical Response". In connection with this plan, the Company recorded a restructuring charge of $35.0 million ($21.7 million after-tax or $0.07 per share) during the quarter ended February 28, 1997.

During May 1997, the Company merged its hazardous waste services business into Rollins Environmental Services, Inc. ("Rollins"), receiving aggregate consideration of approximately $1.1 billion. The combined entity was renamed Laidlaw Environmental Services, Inc. and it subsequently began doing business as Safety-Kleen Corp. (see Note 2).

Upon consummation of the merger, several of the hazardous waste services facilities became redundant or were reconstituted and were valued inappropriately in the context of the combined Rollins/Laidlaw operations. Accordingly, on closing of the transaction, there was a write down of $331.7 million ($200.0 million after-tax) to account for these changed circumstances within the newly merged entity. As the Company then held approximately 66.5% of the equity in LESI, it recorded its share of the write down after minority interest, $133.0 million after-tax or $0.42 per share, as a restructuring charge during the quarter ended May 31, 1997.

13. INCOME TAXES

Income (loss) before income taxes and minority interest and provision for (recovery of) income taxes by geographic area are as follows:

Year Ended August 31 ($ millions)	1998	1997	1996
INCOME (LOSS) BEFORE INCOME TAXES			
United States and foreign			
Before restructuring charges, equity in earnings (loss) of associated companies and dilution gain	$415.9	$ 295.0	$ 249.5
Equity in earnings (loss) of associated companies	(3.0)	3.5	—
Restructuring charges	—	(362.1)	—
Dilution gain	100.7	—	—
	513.6	(63.6)	249.5
Canada			
Before restructuring charges	(94.9)	(41.4)	(102.1)
Restructuring charges	—	(4.6)	—
	(94.9)	(46.0)	(102.1)
Total			
Before restructuring charges, equity in earnings (loss) of associated companies and dilution gain	321.0	253.6	147.4
Equity in earnings (loss) of associated companies	(3.0)	3.5	—
Restructuring charges	—	(366.7)	—
Dilution gain	100.7	—	—
	$418.7	$(109.6)	$ 147.4
PROVISION FOR (RECOVERY OF) CURRENT INCOME TAXES			
United States and foreign			
Before restructuring charges	$ 49.5	$ 34.5	$ 40.4
Restructuring charges	—	—	—
	49.5	34.5	40.4
Canada			
Before restructuring charges	1.9	0.7	(19.2)
Restructuring charges	—	—	—
	1.9	0.7	(19.2)
Total			
Before restructuring charges	51.4	35.2	21.2
Restructuring charges	—	—	—
	$ 51.4	$ 35.2	$ 21.2
PROVISION FOR (RECOVERY OF) DEFERRED INCOME TAXES			
United States and foreign			
Before restructuring charges	$ 24.3	$ 22.5	$ 8.8
Restructuring charges	—	(143.0)	—
	24.3	(120.5)	8.8
Canada			
Before restructuring charges	(7.7)	(3.7)	0.2
Restructuring charges	—	(2.0)	—
	(7.7)	(5.7)	0.2
Total			
Before restructuring charges	16.6	18.8	9.0
Restructuring charges	—	(145.0)	—
	$ 16.6	$(126.2)	$ 9.0
TOTAL PROVISION FOR (RECOVERY OF) INCOME TAXES			
Before restructuring charges	$ 68.0	$ 54.0	$ 30.2
Restructuring charges	—	(145.0)	—
	$ 68.0	$ (91.0)	$ 30.2

The Company's effective income tax rates on income from continuing operations before restructuring charges, equity in earnings (loss) of associated companies and dilution gain are as follows:

Year Ended August 31	1998	1997	1996
Combined basic Canadian Federal and Provincial income tax rates	44.5 %	43.5 %	43.5 %
Effect of lower tax rates applicable to U.S. and foreign income	(24.4)	(22.8)	(22.1)
Other	1.1	0.6	(0.9)
Effective income tax rates	21.2 %	21.3 %	20.5 %

Refer to legal proceedings as described in Note 18.

14. EARNINGS PER SHARE

The earnings per share figures are calculated using the weighted average number of shares outstanding during the respective fiscal years. Assumed exercise of the warrants and employee and director's stock options would not be dilutive.

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

Year Ended August 31 ($ millions except per share amounts)	1998	1997	1996
Income from continuing operations	$ 346.0	$ 45.2	$117.2
Restructuring charges (net of tax and minority interest) (Notes 2 and 12)	17.7	154.7	—
Dilution gain (net of tax) (Note 2)	(100.7)	—	—
Income from continuing operations before restructuring charges and dilution gain	263.0	199.9	117.2
Preference share dividends	(0.4)	(0.4)	(0.5)
Income from continuing operations before restructuring charges and dilution gain available to common shareholders	262.6	199.5	116.7
Restructuring charges (net of tax and minority interest)	(17.7)	(154.7)	—
Dilution gain (net of tax)	100.7	—	—
Income from continuing operations available to common shareholders	345.6	44.8	116.7
Income from discontinued operations (Note 11)	—	565.3	44.6
Net income available to common shareholders	$ 345.6	$ 610.1	$161.3
Weighted average number of shares outstanding (millions)	329.8	317.1	293.2
Earnings per share			
– Continuing operations before restructuring charges and dilution gain	$ 0.80	$ 0.63	$ 0.40
– Restructuring charges (net of tax and minority interest)	(0.05)	(0.49)	—
– Dilution gain (net of tax)	0.30	—	—
– Continuing operations	1.05	0.14	0.40
– Discontinued operations	—	1.78	0.15
– Net income	$ 1.05	$ 1.92	$ 0.55

15. STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended August 31 ($ millions)	1998	1997	1996
CASH PROVIDED BY (USED IN) FINANCING WORKING CAPITAL COMPRISES:			
Trade and other accounts receivable	$ (66.5)	$(205.3)	$ (99.8)
Income taxes	70.9	(32.6)	37.9
Inventories	4.6	(10.4)	(1.9)
Other current assets	(12.4)	1.3	(5.6)
Accounts payable and accrued liabilities	(95.7)	136.7	47.2
	$ (99.1)	$(110.3)	$ (22.2)

16. SALE OF ASSETS

During October 1997, the Company sold JTM Industries, Inc. to Industrial Quality Services, Inc. The total consideration received by the Company was $52.3 million, consisting of $5.8 million in cash, a Promissory Note for $29.0 million with an interest rate of U.S. prime plus 1.5% (payment received during April 1998) and a 9% Promissory Note for $17.5 million due October 14, 2005. The transaction resulted in an immaterial loss.

During December 1997, the Company sold the disease management business of its subsidiary STAT Healthcare, Inc. to RCG. The total consideration received by the Company was $73.6 million, consisting of $3 million cash, assumed debt of approximately $3.8 million and 3.2 million shares (after a 3:2 share split) of RCG. The transaction resulted in a pre-tax gain of $16.7 million ($10.0 million after-tax or $0.03 per share) and was included in interest, dividend and other income.

As well, during December 1997, the Company's subsidiary, LESI sold its municipal solid waste landfill in Carbon County, Utah to Allied. The total consideration received by LESI was $90 million, consisting of $19 million in cash, assumed debt of approximately $51 million, a promissory note for $10 million with interest at 7% due March 1, 2000, and a $10 million contingency payable due March 1, 2000, upon the satisfaction of certain earnings targets. As well, LESI was reimbursed $14.7 million in cash for trust funds securing obligations of the landfill. The transaction resulted in an immaterial loss.

17. ACQUISITIONS

During the year ended August 31, 1998, the Company purchased 16 passenger services businesses and 22 healthcare services businesses.

During 1997, the Company purchased ten passenger services businesses, 26 healthcare services businesses and two hazardous waste services businesses. During 1996, the Company purchased five passenger services businesses and nine healthcare services businesses and one hazardous waste services business.

These acquisitions have been accounted for as purchases, and accordingly, these financial statements include the results of operations of the acquired businesses from the dates of acquisition.

The expenditures are summarized as follows:

Year Ended August 31 ($ millions)	1998	1997	1996
Assets acquired, at fair value			
Property and equipment	$ 84.1	$ 612.8	$203.6
Goodwill	660.4	1,424.5	664.6
Long-term investments and other assets	11.5	28.9	4.7
	756.0	2,066.2	872.9
Liabilities assumed			
Deferred items	(19.9)	(255.8)	(76.0)
Working capital	(45.9)	85.8	(30.5)
Expended on acquisitions	$690.2	$1,896.2	$766.4
Financed by			
Debt incurred	$563.9	$1,529.5	$ 90.0
Debt assumed	126.3	193.0	357.8
Minority interest introduced	—	173.7	—
Shares issued	—	—	318.6
	$690.2	$1,896.2	$766.4

Details of the businesses acquired during the year ended August 31, 1998 are as follows: ($ millions)

	Passenger Services		Healthcare Services		Total
	Greyhound Canada	Other	EmCare	Other	
Assets acquired, at fair value					
Property and equipment	$ 49.3	$ 29.9	$ 1.2	$ 3.7	$ 84.1
Goodwill	35.8	43.6	452.8	128.2	660.4
Long-term investments and other assets	2.6	8.9	—	—	11.5
	87.7	82.4	454.0	131.9	756.0
Liabilities assumed					
Deferred items	6.7	(15.3)	(22.7)	11.4	(19.9)
Working capital	(31.2)	(13.2)	(12.8)	11.3	(45.9)
Expended on acquisitions	$ 63.2	$ 53.9	$418.5	$154.6	$690.2
Financed by					
Debt incurred	$ 58.0	$ 29.9	$348.9	$127.1	$563.9
Debt assumed	5.2	24.0	69.6	27.5	126.3
	$ 63.2	$ 53.9	$418.5	$154.6	$690.2

EmCare Holdings Inc. ("EmCare"), a healthcare services business, was acquired on September 4, 1997.

Greyhound Canada Transportation Corp. ("Greyhound Canada"), a passenger services business, was acquired on October 14, 1997.

Pro forma data (unaudited)

Condensed pro forma income statement data, as if acquisitions and divestitures each year had occurred at the beginning of the previous year and as if the investment in LESI had been accounted for on an equity basis from September 1, 1996, are as follows:

Year Ended August 31 ($ millions except per share amounts)	1998	1997
Income statement data		
Revenue	$3,409.3	$3,485.0
Income from continuing operations before restructuring charges and dilution gain	266.3	224.0
Earnings per share from continuing operations before restructuring charges and dilution gain	$0.81	$0.71

18. COMMITMENTS AND CONTINGENCIES

Lease commitments ($ millions)

Rental expense incurred under operating leases was $78.2, $87.1 and $75.8 in 1998, 1997 and 1996, respectively.

Rentals payable under operating leases for premises and equipment are as follows:

Year ending August 31, 1999	$ 49.1
2000	38.0
2001	28.3
2002	22.1
2003	14.1
thereafter	35.7
	$187.3

Legal proceedings

The Company's United States subsidiaries petitioned the United States Tax Court (captioned as Laidlaw Transportation, Inc. and Subsidiaries et al v. Commissioner of Internal Revenue, Docket Nos. 9361-94 and 9362-94) with respect to their consolidated federal income tax returns for the fiscal years ended August 31, 1986, 1987 and 1988. The principal issue involved related to the timing and deductibility for tax purposes of interest attributable to loans owing to related foreign persons. The Tax Court issued an opinion on June 30, 1998 concluding that advances from the Company's related foreign entity, based in Holland, were equity rather than debt and that interest deductions claimed were disallowed. Based on this opinion, taxes of $46.2 million (plus interest of approximately $88.8 million as of August 31, 1998) would be payable.

Similar claims have been asserted with respect to the consolidated federal income tax returns for the fiscal years ended August 31, 1989, 1990 and 1991. A petition has been filed with the United States Tax Court with respect to these years (captioned as Laidlaw Transportation, Inc. and Subsidiaries v. Commissioner of Internal Revenue, Docket No. 329-98). The income taxes at issue for these years is approximately $143.5 million (plus interest of approximately $156.7 million as of August 31, 1998).

In September 1998, the subsidiaries received a Thirty Day Letter proposing that the subsidiaries pay additional taxes of approximately $96.0 million (plus interest of approximately $51.2 million as of August 31, 1998) relating to disallowed deductions in federal income tax returns for the fiscal years ended August 31, 1992, 1993, and 1994 based on the same issues.

Entry of the decision relating to the Tax Court opinion has been deferred to allow the Company and the Commissioner of Internal Revenue to engage in discussions to resolve the issues relating to all fiscal years from 1986 through 1994. Should these negotiations be unsuccessful, the Company intends to appeal the opinion of the Tax Court and vigorously contest the claimed deficiencies for subsequent fiscal years. Should the Company ultimately be required to pay all claims on these issues for the fiscal years 1986 through 1994, the net after tax cost to the Company (including interest as of August 31, 1998), could be approximately $500 million.

Subsequent to its 1994 fiscal year, the Company established an entity in Ireland which has provided some financing to the Company's United States subsidiaries. Although distinct and separate from the Holland entity, nevertheless it is possible that similar issues may be raised with respect to it.

Although the final outcome of these issues cannot be predicted with certainty, the Company, based upon a thorough review of the facts, including the available reserves of more than $200 million for these purposes, believes that the ultimate disposition of these issues will not have a materially adverse effect upon the Company's consolidated financial position or results of operations.

Corporate guarantees

(Refer to Note 2)

Healthcare services revenue

A substantial majority of the Company's healthcare services revenue is attributable to payments received from third party payors including Medicare, Medicaid and private insurers. The Company is subject to various regulatory requirements in connection with its participation in the Medicare and Medicaid programs. The federal Healthcare Financing Administration has proposed rules which would revise the policy on Medicare coverage of ambulance services focusing on the medical necessity for the particular ambulance services. Although rule changes in this area would impact the business of the Company, the Company does not believe that such changes would have a material adverse effect on its business.

The Company, like other Medicare and Medicaid providers, is subject to governmental audits of its Medicare and Medicaid reimbursement claims. Accordingly, retroactive revenue adjustments from these programs could occur. The Company is also subject to the Medicare and Medicaid fraud and abuse laws which prohibit any bribe, kick-back or rebate in return for the referral of Medicare or Medicaid patients. Violations of these prohibitions may result in civil and criminal penalties and exclusion from participation in the Medicare and Medicaid programs. The Company believes that it is in substantial compliance with these laws.

Year 2000 issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using dates beyond 1999 is processed. In addition, similar problems may arise in some systems which use certain numeric combinations which coincidentally correspond to dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed prior, the impact on operations and financial reporting may range from minor errors to significant system failures which could affect an entity's ability to conduct normal business operations. The Company has been evaluating the impact of the Year 2000 Issue on its operations. It is engaged in a three stage process to identify, assess and convert/test all of its computer and operational equipment well in advance of the year 2000. Based on the Company's current estimate, the cost of becoming Year 2000 compliant is not expected to have a material adverse impact on the Company's consolidated financial position or results of operations. However, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

19. SEGMENTED INFORMATION

Services

Year Ended August 31 ($ millions)	1998	1997	1996
		PASSENGER SERVICES	
Revenue	$1,646.3	$1,363.5	$1,115.9
Income from operations	196.0	149.5	115.9
Total identifiable assets	1,904.7	1,727.6	1,482.0
Capital expenditures			
– sustenance and expansion (net)	229.0	139.1	136.5
– acquisitions	117.1	202.4	353.8
Depreciation and amortization	169.3	154.1	113.3
		HEALTHCARE SERVICES	
Revenue	$1,659.1	$ 957.2	$ 464.3
Income from operations *	174.1	78.7	55.5
Total identifiable assets	3,010.6	2,332.8	786.2
Capital expenditures			
– sustenance and expansion (net)	56.7	53.8	28.4
– acquisitions	573.1	1,408.9	404.6
Depreciation and amortization	110.6	76.3	31.9
		HAZARDOUS WASTE SERVICES	
Revenue	$ 384.8	$ 710.0	$ 715.8
Income (loss) from operations **	51.6	(264.0)	61.6
Total identifiable assets	—	1,547.3	1,418.2
Capital expenditures			
– sustenance and expansion (net)	15.2	44.8	106.0
– acquisitions	—	284.9	8.0
Depreciation and amortization	24.8	54.7	50.5

The 1998 results of the hazardous waste services segment are for the six months ended February 28, 1998 (Note 2).

* *Including a restructuring charge of $35.0 million in 1997 (Note 12).*

** *Including a restructuring charge of $331.7 million in 1997 (Note 12).*

Geographic

Year Ended August 31 ($ millions)	1998	1997	1996
		UNITED STATES	
Revenue	$3,333.4	$2,736.7	$2,067.8
Income (loss) from operations *	378.6	(76.3)	205.8
Total identifiable assets	4,528.9	5,091.7	3,221.8
		CANADA	
Revenue	$ 356.8	$ 294.0	$ 228.2
Income from operations **	43.1	40.5	27.2
Total identifiable assets	386.4	516.0	464.6

* *Including a restructuring charge of $362.1 million in 1997 (Note 12).*

** *Including a restructuring charge of $4.6 million in 1997 (Note 12).*

Consolidated

Year Ended August 31 ($ millions)	1998	1997	1996
Revenue	$3,690.2	$3,030.7	$2,296.0
Income from operations *	421.7	330.9	233.0
Restructuring charges (Note 12)	—	(366.7)	—
Interest expense net of interest, dividend and other income	(100.7)	(77.3)	(85.6)
Equity earnings (loss)	(3.0)	3.5	—
Dilution gain (Note 2)	100.7	—	—
Income tax recovery (expense) (Note 13)	(68.0)	91.0	(30.2)
Minority interest	(4.7)	63.8	—
Income from continuing operations	$ 346.0	$ 45.2	$ 117.2
Total identifiable assets of segments	$4,915.3	$5,607.7	$3,686.4
Assets of discontinued operations (Note 11)	—	—	828.0
Corporate assets	1,269.3	509.4	417.9
Total assets	$6,184.6	$6,117.1	$4,932.3
Capital expenditures			
– sustenance and expansion (net)	$ 306.3	$ 239.4	$ 280.5
– acquisitions	690.2	1,896.2	766.4
Depreciation and amortization	305.7	286.2	196.7

* *Excluding restructuring charges of $366.7 million in 1997 (Note 12).*

20. CANADIAN AND UNITED STATES ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with Canadian GAAP which conform in all material respects with U.S. GAAP, except as follows:

(1) Statement of changes in financial position

Under U.S. GAAP, non-cash consideration related to business acquisitions is excluded from the statement of changes in financial position.

In accordance with Canadian GAAP, the Company defines cash and cash equivalents as cash, short-term deposits and marketable securities which are readily convertible into cash. Under U.S. GAAP, marketable securities with an initial maturity greater than three months are excluded from the definition of cash and cash equivalents.

These differences would result in the following under U.S. GAAP:

Year Ended August 31 ($ millions)	1998	1997	1996
Net cash provided by operating activities	$ 330.9	$ 336.4	$ 400.3
Net cash used in investing activities	(780.4)	(271.4)	(149.3)
Net cash provided by (used in) financing activities	501.9	(73.4)	(290.0)
	52.4	(8.4)	(39.0)
Cash and cash equivalents – beginning of year	13.4	21.8	60.8
Cash and cash equivalents – end of year	$ 65.8	$ 13.4	$ 21.8

(2) Stock-based compensation

Effective January 1, 1996, Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") encourages, but does not require, companies to include in compensation costs the fair-value of stock options granted. The Company has decided not to adopt the fair-value method. A company that does not adopt this new method must disclose pro forma net income and earnings per share giving effect to the method of compensation cost described in SFAS 123.

The Company's stock option plan is described in Note 10. Stock options granted by the Company in 1998, (i) were granted at exercise prices equal to the market value of stock on the grant date, (ii) vest 20% per year from the date of grant to 2003; and (iii) expire ten years subsequent to the grant date.

The fair value of the options granted during 1998 was estimated using the Black-Scholes option-pricing model with the assumptions of a dividend yield of 0%, an expected volatility of 45%, a risk-free interest rate of 4.43% to 6.02% and an expected life of five years.

The total value of 2,308,000 stock options that were granted, net of terminated options, by the Company during 1998 was $8.7 million (during 1997, 1,697,000 stock options were granted, net of terminated options, with a total value of $6.0 million). Of this total amount, under SFAS 123, the cost of stock compensation expense for the year ended August 31, 1998 would be $2.9 million (1997 – $1.3 million). The unrecognized value of $14.1 million would be charged to net income in future years according to the vesting terms of the options. The resulting pro forma net income and income per share for the year ended August 31, 1998 under SFAS 123 are $343.1 million and $1.04, respectively (1997 – $609.2 million and $1.92 respectively).

The effects of applying SFAS 123 in this pro forma disclosure are not indicative of future amounts. The Company's adoption of SFAS 123 for pro forma disclosure purposes does not apply to awards prior to 1996, and additional awards in future years are anticipated.

(3) Recent accounting developments

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130 "Reporting Comprehensive Income". This standard is effective for fiscal periods beginning after December 15, 1997 and will be adopted for the interim period ended November 30, 1998. SFAS No. 130 requires that a comprehensive income statement be prepared; having the same prominence as the other financial statements. Comprehensive income is defined as "the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners". The comprehensive income statement reconciles the reported net income to the comprehensive income amount. The implementation of this standard will have no effect on the Company's consolidated results of operations, financial position or cash flows.

Also, in June 1997, the FASB issued SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information". This standard is effective for fiscal periods beginning after December 15, 1997 and will be adopted for the interim period ended November 30, 1998. SFAS No. 131 requires that the Company present the segmented information (Note 19) using a new approach referred to as the management approach. The management approach requires segmented information to be reported based on how management internally evaluates the operating performance of its business segments. In addition, this segmented reporting will be required to be prepared on a quarterly basis. Beginning in the interim period ended November 30, 1998, the Company will present the following segments in the segmented information note: The Passenger Services segment will be divided into the Education Services segment and the Transit & Tour Services segment. The Healthcare Services segment will be divided into the Ambulance Services segment and the Emergency Department Services segment. The implementation of this standard will have no effect on the Company's consolidated results of operation, financial position or cash flows. Restatement of disclosure relating to the prior periods will also be required.

In June 1998, the FASB issued SFAS No. 133 "Accounting of Derivative Instruments and Hedging Activities". This standard is effective for periods beginning after June 15, 1999 and will be adopted for the interim period ended November 30, 1999. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of the derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction, and if it is, the type of hedge transaction. The impact on the Company's consolidated results of operations, financial position or cash flows will be dependent on the level and types of derivatives instruments the Company will have entered into at the time SFAS 133 is implemented.

(4) Accounting developments implemented during the fiscal period

In February 1997, the FASB issued SFAS No. 128 "Earnings Per Share". This standard is effective for financial statements issued for periods ending after December 15, 1997, with restatement of all prior period earnings per share ("EPS") data presented. This statement requires the presentation of basic and diluted EPS. Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS is computed similarly to fully diluted EPS under the existing rules. SFAS No. 128 did not have a material impact on the earnings per share computation.

21. SUBSEQUENT EVENT

On October 16, 1998, the Company entered into an agreement and plan of merger with Greyhound Lines, Inc. ("Greyhound"), pursuant to which the Company will acquire all Greyhound outstanding common and convertible preferred shares. The merger is subject to the adoption of the merger agreement by the holders of a majority of the outstanding Greyhound common and convertible preferred shares (voting as one class) at a Special Meeting to be called for that purpose, regulatory approvals and other customary closing conditions.

Under the terms of the plan, Greyhound stockholders will receive $6.50 per common, and equivalent common, share, up to $4.00 of which, at the Company's election, may be satisfied with the Company's common shares. Should the Company elect to include its shares, they would be priced at the weighted average price on the Toronto and New York stock exchanges for the five trading days immediately preceding the fifth trading day prior to the Special Meeting of Greyhound stockholders, which is expected to be held in January 1999. If the Company elects to include its stock, the Company will make and announce that election prior to the opening for trading on the fifth trading day prior to the date of the Special Meeting. There are approximately 72.3 million common and equivalent common shares of Greyhound stock outstanding.

The aggregate value of the transaction, including debt assumed and transaction costs, is expected to be approximately $675 million. The Company may satisfy up to $290 million of the purchase price by the issue of the Company's common shares. The cash portion of the purchase price (a minimum of approximately $205 million and a maximum of approximately $495 million) is expected to be provided from the Company's revolving bank facility.

22. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly Period ($ millions except per share amounts)	1st	2nd	3rd	4th	Total
Revenue					
– 1998	$1,094.2	$1,026.4	$896.3	$673.3	$3,690.2
– 1997	702.9	694.5	897.8	735.5	3,030.7
Income from operations *					
– 1998	151.6	114.2	117.9	38.0	421.7
– 1997	89.0	67.6	118.7	55.6	330.9
Income from continuing operations before restructuring charges and dilution gain (Notes 2 and 12)					
– 1998	82.0	69.1	85.0	26.9	263.0
– 1997	55.9	47.7	70.2	26.1	199.9
Restructuring charges (net of tax and minority interest)					
– 1998	—	—	(17.7)	—	(17.7)
– 1997	—	(21.7)	(133.0)	—	(154.7)
Dilution gain (net of tax)					
– 1998	—	—	100.7	—	100.7
– 1997	—	—	—	—	—
Income (loss) from continuing operations					
– 1998	82.0	69.1	168.0	26.9	346.0
– 1997	55.9	26.0	(62.8)	26.1	45.2
Income from discontinued operations (Note 11)					
– 1998	—	—	—	—	—
– 1997	13.0	552.3	—	—	565.3
Net income (loss)					
– 1998	82.0	69.1	168.0	26.9	346.0
– 1997	68.9	578.3	(62.8)	26.1	610.5
Earnings per share –					
Income from continuing operations before restructuring charges and dilution gain					
– 1998	$ 0.25	$ 0.21	$ 0.26	$ 0.08	$ 0.80
– 1997	0.18	0.15	0.22	0.08	0.63
Earnings (loss) per share –					
Income from continuing operations (Note 14)					
– 1998	0.25	0.21	0.51	0.08	1.05
– 1997	0.18	0.08	(0.20)	0.08	0.14
Earnings per share –					
Discontinued operations					
– 1998	—	—	—	—	—
– 1997	0.04	1.76	—	—	1.78
Earnings (loss) per share –					
Net income (loss)					
– 1998	0.25	0.21	0.51	0.08	1.05
– 1997	0.22	1.84	(0.20)	0.08	1.92

* *Before restructuring charges of $366.7 million in 1997.*

selected financial information

The Company's Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). These consolidated financial statements conform, in all material respects, with accounting principles generally accepted in the United States ("U.S. GAAP"), except as indicated in Note 20 of Notes to Consolidated Financial Statements.

Year Ended August 31 ($ millions except per share amounts)	1998	1997	1996	1995	1994
INCOME STATEMENT DATA UNDER CANADIAN GAAP					
Revenue	$3,690.2	$3,030.7	$2,296.0	$1,722.4	$1,378.1
Income from operations before restructuring charges	421.7	330.9	233.0	174.9	140.0
Income from continuing operations before restructuring charges, unusual items and dilution gain	263.0	199.9	117.2	74.9	65.5
Income from continuing operations	346.0	45.2	117.2	74.9	48.8
Income from discontinued operations	—	565.3	44.6	57.9	42.0
Net income	346.0	610.5	161.8	132.8	90.8
Earnings per share from continuing operations before restructuring charges, unusual items and dilution gain	0.80	0.63	0.40	0.27	0.24
Earnings per share from continuing operations	1.05	0.14	0.40	0.27	0.18
Income per share from discontinued operations	—	1.78	0.15	0.21	0.15
Earnings per share	1.05	1.92	0.55	0.48	0.33
Dividends per Common Share	0.180	0.146	0.139	0.116	0.118
Average number of Common Shares (millions)	329.8	317.1	293.2	277.2	277.2
APPROXIMATE AMOUNTS UNDER U.S. GAAP					
Income from continuing operations	$ 346.0	$ 45.2	$ 117.2	$ 74.9	$ 48.8
Income from discontinued operations	—	565.3	44.6	57.9	42.0
Net income	346.0	610.5	161.8	132.8	90.8
Earnings per share from continuing operations	1.05	0.14	0.40	0.27	0.18
Income per share from discontinued operations	—	1.78	0.15	0.21	0.15
Earnings per share	1.05	1.92	0.55	0.48	0.33
BALANCE SHEET DATA (AT END OF YEAR) UNDER CANADIAN GAAP					
Working capital	$ 285.7	$ 483.4	$ 293.5	$ 170.1	$ 212.4
Fixed assets, net	1,192.7	2,251.0	1,949.8	1,650.4	1,219.2
Total assets	6,184.6	6,117.1	4,932.3	4,134.8	3,504.0
Long-term debt (including ADT-Linked Debentures)	2,293.7	2,192.4	2,041.3	1,734.1	1,426.9
Shareholders' equity	3,089.9	2,794.0	2,136.8	1,697.4	1,585.9
OTHER DATA					
Operating margin	11.4%	10.9%	10.1%	10.2%	10.2%
Pre-tax margin *	8.6	8.5	6.3	5.6	6.1
After-tax margin *	7.1	6.6	5.1	4.3	4.8
Return on average common shareholders' equity *	8.9	7.8	8.5	8.1	6.8
Return on net assets employed in operations *	7.8	7.6	8.5	8.3	8.4
Long-term debt/capital	41.3	39.9	45.8	46.5	43.9
Long-term debt/equity	74.2	78.5	95.5	102.2	90.0

** Before restructuring charges, unusual items and dilution gain*

The following table sets forth, for the periods and dates indicated, certain information concerning the Canadian dollar exchange rate for translating United States dollars based on the noon buying rate in New York City for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York.

Year Ended August 31	1998	1997	1996	1995	1994
High	Cdn. $1.5745	Cdn. $1.3971	Cdn. $1.3747	Cdn. $1.3820	Cdn. $1.3845
Low	1.3824	1.3409	1.3401	1.3410	1.3226
Average	1.4410	1.3699	1.3623	1.3754	1.3552
End of year	1.5745	1.3890	1.3685	1.3432	1.3712

On October 13, 1998, the noon buying rate in New York City for the U.S. dollar, as reported by the Federal Reserve Bank of New York, was Cdn. $1.5485.

stock market information and dividends

The Company's Common Shares are listed on the Montreal Exchange, The Toronto Stock Exchange and the New York Stock Exchange.

Articles of amalgamation were issued July 28, 1997 reorganizing the Company's capital into one class of voting Common Shares.

The following table sets forth the reported high and low sales prices, in Canadian dollars, for the Common Shares and the Class A Shares and the Class B Non-Voting Shares on The Toronto Stock Exchange for the periods indicated.

	Class A Shares		Class B Non-Voting Shares	
1997 FISCAL YEAR	High	Low	High	Low
First Quarter	$16.65	$12.90	$16.60	$13.00
Second Quarter	18.85	15.50	19.00	15.40
Third Quarter	20.45	17.50	20.85	17.70
Fourth Quarter to July 28, 1997	25.50	18.50	21.95	18.55
			Common Shares	
Fourth Quarter from July 29, 1997			$22.90	$20.05
1998 FISCAL YEAR			High	Low
First Quarter			$22.50	$18.05
Second Quarter			21.55	18.30
Third Quarter			23.40	18.10
Fourth Quarter			18.75	13.60

The following table sets forth the reported high and low sales prices, in U.S. dollars, for the Common Shares and the Class A Shares and the Class B Non-Voting Shares on the New York Stock Exchange for the periods indicated.

	Class A Shares		Class B Non-Voting Shares	
1997 FISCAL YEAR	High	Low	High	Low
First Quarter	$12.25	$ 9.50	$12.38	$ 9.38
Second Quarter	13.88	11.50	14.00	11.25
Third Quarter	14.88	12.63	15.13	12.63
Fourth Quarter to July 31, 1997	18.00	13.50	15.94	13.38
			Common Shares	
Fourth Quarter from August 1, 1997			$16.50	$14.38
1998 FISCAL YEAR			High	Low
First Quarter			$16.25	$12.63
Second Quarter			15.06	12.81
Third Quarter			16.63	12.38
Fourth Quarter			12.88	8.81

As of September 30, 1998, there were 5,144 holders of record of Common Shares.

The Company has paid cash dividends every year since 1969. Cash dividends of $0.05 Canadian per share were paid on each of November 15, 1996, February 15, 1997, May 15, 1997, August 15, 1997 and November 15, 1997. Cash dividends of $0.07 Canadian per share were paid on each of February 15, 1998, May 15, 1998 and August 15, 1998. Cash dividends of $0.07 Canadian per share have been declared payable on November 15, 1998.

Holders of record of shares with U.S. addresses will receive dividends in U.S. dollars based on the then current exchange rate. Dividends paid to non-residents of Canada will be subject to Canadian non-resident withholding tax at the rate of 25% unless reduced by an applicable tax treaty. The present treaty reduced rate for U.S. residents is generally 15%. A holder who is not resident in Canada will not be subject to Canadian capital gains taxes on the disposition of shares unless it is taxable Canadian property within the meaning of the Income Tax Act of Canada and the non-resident is not entitled to relief under an applicable tax treaty.

corporate information

Officers

Peter N.T. Widdrington
Chairman of the Board

James R. Bullock
President and Chief Executive Officer

John R. Grainger
Executive Vice-President and
Chief Operating Officer

Ivan R. Cairns
Senior Vice-President and
General Counsel and Secretary

Leslie W. Haworth
Senior Vice-President and
Chief Financial Officer

Wayne R. Bishop
Vice-President, Controller

Jeffrey Cassell
Vice-President, Risk Management

William S. Schilling
Vice-President, Human Resources

Thomas A.G. Watson
Vice-President, Communications

Major Subsidiaries

American Medical Response
George B. DeHuff III
President and Chief Executive Officer

EmCare, Inc.
Leonard M. Riggs Jr., M.D.
Chief Executive Officer

Laidlaw Transit
Education Services
Robert E. Hach
President
Transit & Tour
Michael P. Forsayeth
President

Laidlaw Environmental Services
Kenneth W. Winger
President and Chief Executive Officer

Executive Offices

3221 North Service Road
P.O. Box 5028
Burlington, Ontario L7R 3Y8
(905) 336-1800
www.laidlaw.com

Transfer Agents and Registrars

CIBC Mellon Trust Company
P.O. Box #1036
Adelaide Street Postal Station
Toronto, Ontario M5C 2K4
(416) 813-4600
(800) 387-0825
ChaseMellon Shareholder Services
Overpeck Centre
85 Challenger Road
Ridgefield Park, New Jersey
07660
(800) 851-9677

Form 10-K

A copy of the Company's Annual Report on Form 10-K for 1998 may be obtained without charge by writing to Laidlaw Inc. or from our website: www.laidlaw.com

Version Française

On peut se procurer la version française de ce rapport en faisant la demande auprès du service des communications, Laidlaw Inc.

This report is printed in Canada using vegetable inks and is recyclable where such programs are available.
Cover and pages 1-20:
chlorine free.
Pages 21-60:
100% recycled fiber including
50% post-consumer waste.

LAIDLAW