Laidlaw Inc.

1997 annual report

corporate profile

Laidlaw Inc. is dedicated to delivering predictable and growing returns to its shareholders. It has grown through acquisition, by improving its operations and by winning new customers.

Laidlaw's 79,500 employees operate from more than 900 locations throughout the United States and Canada. Laidlaw is the leading North American service company providing:

- school busing and public transit;
- emergency and non-emergency healthcare transportation; and
- the management of physicians' practices within hospital emergency departments.

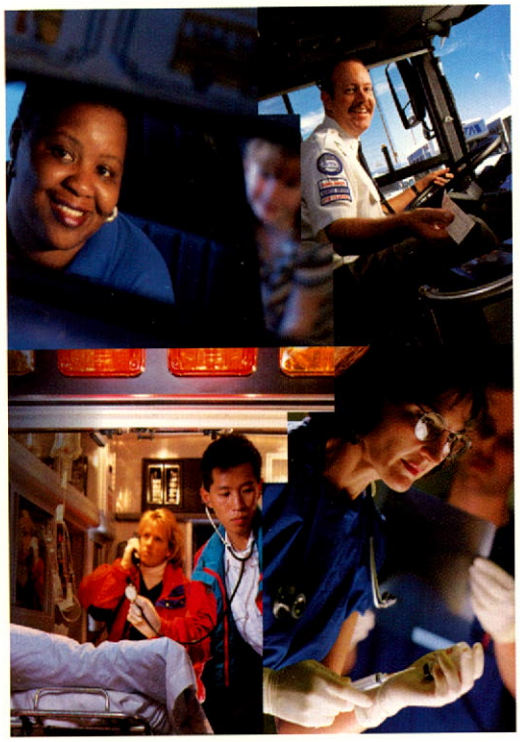
Laidlaw Inc. also serves the needs of North American industrial waste generators through an approximate 67% ownership of its former wholly owned subsidiary – Laidlaw Environmental Services, Inc. – a separate public company since May 1997.

At fiscal year end 1997 more than 90% of Laidlaw's consolidated revenue was generated from operations in the U.S.

ANNUAL MEETING

Laidlaw Inc.'s Annual General Meeting will be held Tuesday, January 13, 1998 at 11:00 a.m. in the Canadian Room of the Royal York Hotel, 100 Front Street West, Toronto, Ontario, Canada.

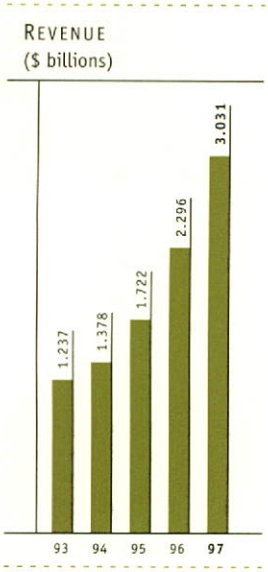
contents

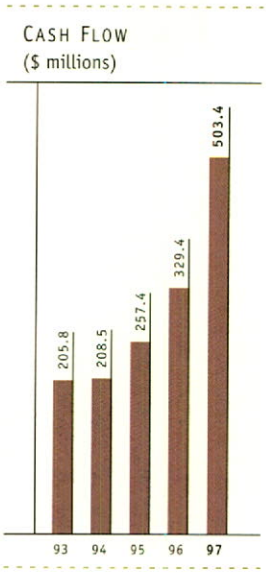


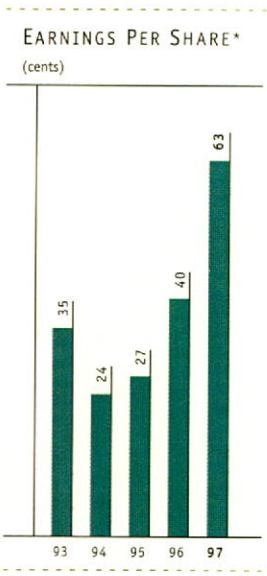
financial highlights

YEARS ENDED AUGUST 31	1997	1996	% CHANGE
(U.S. $ millions except per share amounts)			
REVENUE*	**$3,030.7**	$2,296.0	32
INCOME*	**199.9**	117.2	71
PER COMMON SHARE:			
Income*	**0.63**	0.40	58
Cash from operations*	**1.59**	1.12	42
Dividends ($ Cdn.)	**0.20**	0.19	5
FINANCIAL POSITION			
Long-term debt	**2,192.4**	2,041.3	7
Shareholders' equity	**2,794.0**	2,136.8	31
Total assets	**$6,117.1**	$4,932.3	24
Long-term debt/equity ratio	**0.78:1**	0.96:1	N/A
Average shares outstanding (millions)	**317.1**	293.2	8

** from continuing operations before restructuring charges*

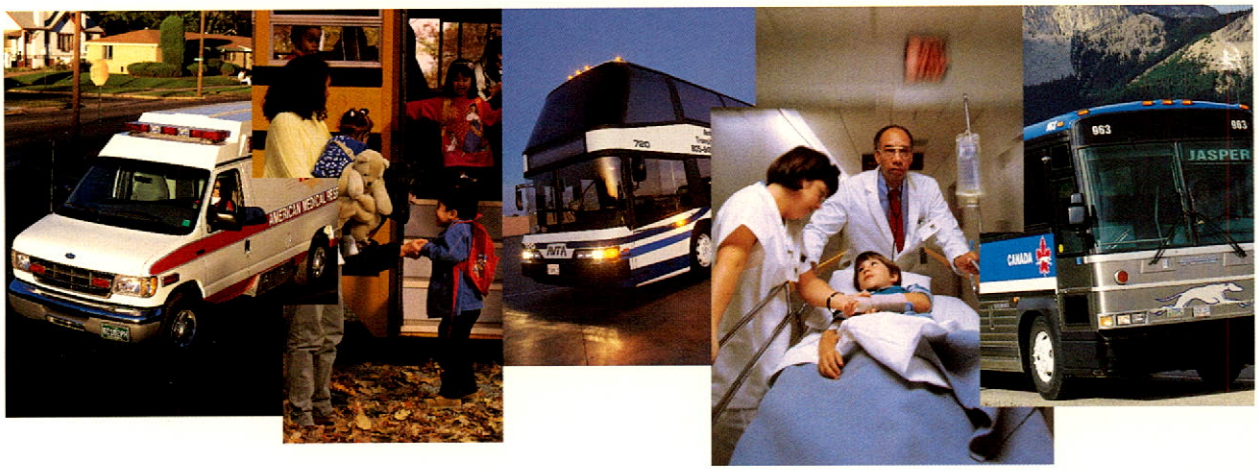






**from continuing operations before restructuring charges, special and non-recurring charges and unusual items*

operating highlights



December 1996

EXIT FROM SOLID WASTE

- Laidlaw's solid waste management operations were sold to Allied Waste Industries, Inc. for $1.6 billion ending a 27-year history in that business.

February 1997

MILESTONE ACHIEVED: NO. 1 IN AMBULANCE SERVICE

- American Medical Response, Inc., acquired for $1.2 billion, more than doubled Laidlaw's presence in the U.S. ambulance service sector.

SCHOOL BUS CAPACITY EXTENDED

- The acquisition of Vancom, Inc., the largest privately owned school bus company in the U.S., increased Laidlaw's fleet size and annualized school bus revenue by 10%.

May 1997

ENVIRONMENTAL SERVICES EXPANDED, TAKEN PUBLIC

- Laidlaw Environmental Services, Inc. was combined with Rollins Environmental Services, Inc., and began trading on the New York Stock Exchange. Value of the transaction to Laidlaw Inc., which retained an approximate 67% interest in the "new" Laidlaw Environmental, was $1.1 billion.

July 1997

COMMON, ALL-VOTING SHARE STRUCTURE APPROVED

- Laidlaw shareholders approved the creation of a single class of common shares, each share having one vote. The new structure replaced the historic Class A voting and Class B non-voting structure. Concurrently, Canadian Pacific Limited sold its holdings in Laidlaw in a fully underwritten, widely purchased, distribution.

MUNICIPAL TRANSIT EXPANDED

- The DAVE Companies Inc., pioneers in dial-a-ride systems for passengers with disabilities who require on-demand bus service, was acquired. DAVE added 1,700 vehicles and bolstered annual municipal transit revenues by more than 45%.

September 1997

PREMIER EMERGENCY DEPARTMENT MANAGEMENT COMPANY ACQUIRED

- EmCare Holdings Inc., the premier manager of emergency physicians' practices and hospital emergency departments (EDs), was acquired for $400 million, greatly expanding Laidlaw's presence in the provision of unscheduled, episodic healthcare in the U.S.

October 1997

GREYHOUND'S CANADIAN INTER-CITY BUS OPERATION ACQUIRED

- Greyhound Canada Transportation Corp. was acquired for $75 million. It operates from Eastern Ontario to Canada's West Coast, and serves more than two million passengers annually. Greyhound expanded Laidlaw's annualized municipal, inter-city and tourism revenue by 50%.

EMERGENCY DEPARTMENT MANAGEMENT CAPACITY DOUBLED

- Spectrum Emergency Care Inc. was acquired, doubling the number of ED management contracts and physicians treating patients. The acquisition increased annualized revenue from the provision of unscheduled, episodic care by 53%.

to our shareholders

We fundamentally changed the nature of Laidlaw's businesses during fiscal 1997. We sold our solid waste management operations, expanded and separated the operation of our hazardous waste business. We concentrated our growth on acquiring businesses which provide essential services to people – passengers and patients.

Since I wrote to you in last year's annual report, Laidlaw Inc. has completed the change from being a waste manager with secondary passenger and healthcare transportation components to being an organization fully focused on serving people's transportation and healthcare needs.

Four key initiatives, taken during the last 12 months, define this transformation.

In December 1996, we sold the solid waste operations for $1.6 billion; in February 1997, we purchased American Medical Response, Inc. (AMR) for $1.2 billion, making Laidlaw the largest provider of ambulance services in the United States. In May, we merged our hazardous waste operations with the largest U.S. provider of incineration services. We received $400 million in cash and the new company trades on the New York Stock Exchange as a separately incorporated entity – Laidlaw Environmental Services, Inc. – in which we maintain an approximate 67% interest.

Finally, in September, just after the fiscal 1997 year end, we committed to the substantial expansion of AMR's emergency department (ED) management business by acquiring the premier U.S. company in the field, EmCare Holdings Inc. We then immediately doubled its service capacity by purchasing Spectrum Emergency Care Inc. in October.

These additions significantly expand our capabilities in the delivery of unscheduled, episodic care, from the ambulance into the hospital emergency department setting. They position Laidlaw to take further advantage of the consolidation underway in this area of healthcare delivery.

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

Also, in October, we completed the acquisition of Greyhound Canada Transportation Corp., the major inter-city scheduled bus operation in Canada. By early next year, Greyhound's operations will be integrated with Laidlaw's existing scheduled and tourism coach services in Western Canada.

How have these initiatives strengthened your investment in Laidlaw? We have reduced our commitment to the waste management businesses, and replaced it

LAIDLAW

Business Line	Service Delivered By
ownership 100%	
PASSENGER SERVICES	Laidlaw Transit • *school busing* • *municipal transit* • *inter-city coach* • *tourism coach*
ownership 100%	
HEALTHCARE SERVICES	American Medical Response Canadian Medical Response • *ambulance services* EmCare • *emergency department management*
ownership 67%	
ENVIRONMENTAL SERVICES	Laidlaw Environmental Services • *hazardous waste management*

with investments in the more dynamic and faster growing transportation and healthcare sectors. These businesses offer greater opportunity to create value through ongoing acquisition and consolidation activity. At the same time, we have strengthened our balance sheet, simplified our share structure and created a Laidlaw whose parts are much more complementary – altogether a more attractive vehicle for demanding investors. We have a stronger platform on which to build profitable growth and a simpler vehicle through which to realize it.

Financial Results

Consolidated revenue for the fiscal year (excluding solid waste operations) grew by 32% to $3.0 billion from the $2.3 billion reported for fiscal 1996.

Income from continuing operations, before restructuring charges related to the acquisition of AMR and to the merger of Laidlaw Environmental Services increased 71% to $199.9 million or $0.63 per share from the $117.2 million or $0.40 per share we reported last year.

Net income, after restructuring charges of $154.7 million (after tax and minority interest) or $0.49 per share, increased to $610.5 million or $1.92 per share compared with $161.8 million or $0.55 per share for fiscal 1996. Net income includes $15.6 million of income from our discontinued solid waste operations and the $549.7 million from a gain on their sale – $0.05 and $1.73 per share respectively. In fiscal 1996, discontinued operations contributed $44.6 million or $0.15 per share.

An average of 317.1 million shares was outstanding in the fiscal year, an 8% increase over the 293.2 million outstanding in fiscal 1996.

Passenger Services

1997 was another year of solid growth and improved results for our school and other bus transportation services. The integration of the 6,000 school buses acquired from Scott's Hospitality Inc. just at the close of last fiscal year has proceeded exceedingly well.

Further expansion this year included the February purchase of Chicago-based Vancom, Inc., the third-largest, private-sector school bus operator in the U.S. With annualized revenues of $120 million, Vancom is now fully integrated into Laidlaw's operations.

In July, we acquired the DAVE Companies Inc., a municipal transit operator and a pioneer in the design and operation of unscheduled, on-demand, paratransit service for the disabled.

In total, 10 acquisitions, adding $214 million in annual revenue, were completed during fiscal 1997.

PASSENGER SERVICES

($ *millions*)	Years Ended 97	96	% Change
Revenue	**$1,363.5**	$1,115.9	22
Operating income	**149.5**	115.9	29
Operating margins	**11.0%**	10.4%	—

Even with this ambitious acquisition program, our Passenger Services Group was able to improve operating margins from 10.4% to 11.0%. Revenue growth and solid safety performance, resulting in lower insurance costs, along with improvements in contract quality, all

contributed positively to results. These factors more than offset increased fuel costs and the loss of some routes in Canada due to education funding reductions.

Overall, the Passenger Services Group delivered a high quality performance, solidifying its market position and demonstrating its skill in profitably integrating acquisitions.

Healthcare Services

Laidlaw more than doubled its presence in the U.S. ambulance services market by reinvesting the cash generated from the sale of our solid waste business to purchase American Medical Response, Inc. The transaction closed in February adding $700 million in annual revenue and more than doubling 1997 income from our healthcare services business.

HEALTHCARE SERVICES

($ millions)	Years Ended 97	96	% Change
Revenue	**$957.2**	$464.3	106
Operating income	**113.7***	55.5	105
Operating margins	**11.9%***	12.0%	—

*before restructuring charges

More than $20 million in operating cost reductions – derived from the removal of duplicate administration, dispatch, operations and billing centers – will be achieved by early calendar 1998.

Margins were essentially flat, year-over-year. However, given the pace of growth – 26 acquisitions accounting for $829 million in revenue; the integration of AMR with MedTrans, our original ambulance service organization; and the restructuring of operations – these results are more than acceptable. Laidlaw's ambulance services are now nationally branded as American Medical Response and have a strong and growing presence in many of America's largest cities.

Environmental Services

The combination of Laidlaw Environmental Services' collection, treatment and landfill capability with the incineration technology operated by Rollins Environmental Services, Inc., represented a great opportunity to rationalize excess assets in the hazardous waste management industry. Not only did the transaction, completed in May, increase annualized revenue by $250 million, it afforded us the opportunity to substantially broaden our service offerings to our customers and reduce the costs of providing those services by some $90 million annually. These results are strong indicators that the "reverse acquisition" of Rollins is achieving the objectives we set. In addition, our remaining 67% investment in the company has strongly appreciated since Laidlaw Environmental began trading as a separate company on the New York Stock Exchange, last May.

ENVIRONMENTAL SERVICES

($ millions)	Years Ended 97	96	% Change
Revenue	**$710.0**	$715.8	(1)
Operating income	**67.7***	61.6	10
Operating margins	**9.5%***	8.6%	—

*before restructuring charges

Results for the year reflect the inclusion of Rollins since mid-May and include only six months of our fly ash recycling business since we decided to sell the operation, mid-year. That transaction was completed after the fiscal year end.

Financing Growth

Laidlaw generated $503 million in cash from continuing operations before restructuring charges and financing working capital in fiscal 1997 – a 53% increase over 1996. In addition, $1.6 billion was realized from the sale of the solid waste operations. We decreased capital spending and used $239 million to replace assets and buy new ones, compared with $281 million last year. Acquisition spending reached $1.9 billion compared with $766 million in 1996. At year end, our long-term debt had increased to $2.2 billion from $2.0 billion, while stockholders' equity increased 31% to $2.8 billion, yielding a debt/equity ratio of 0.78:1 compared

with the 0.96:1 reported for last year. Our long-term debt includes $559 million related to Laidlaw Environmental Services.

Clearly, the changes we've made in reorienting the company's businesses have strengthened our financial position and added to our cash flow available for investment in further growth.

Corporate

We were finally able to realize another goal this year – the reorganization of our common stock into a single class of voting shares.

Laidlaw shareholders voted strongly in favor of the reorganization which saw holders of the Class A voting stock receive a 15% premium and holders of the Class B shares – a vote. Concurrent with the reorganization, Canadian Pacific Limited sold its 17% interest in Laidlaw into the market through a fully underwritten, and I might add, strongly oversubscribed and broad, distribution. As a consequence, Directors representing Canadian Pacific, Messrs. David O'Brien, Ron Gamey and Bill Stinson resigned from the Laidlaw Board. I thank them on your behalf for the very helpful advice and support we've received during this period of fundamental change for Laidlaw.

In August, Mr. John R. Grainger, who has led our Passenger Services Group since 1992 and was ultimately responsible for the successful growth of Med-Trans – our original ambulance services unit – was appointed Executive Vice-President and Chief Operating Officer of Laidlaw Inc. John now has full responsibility for all of the operations of all our business lines. He was also appointed to the Board of Directors.

Our Board Chairman, Peter Widdrington, discusses our approach to corporate governance on page 24 of this report. Laidlaw's Board of Directors has provided strong support and offered highly cogent insights during numerous board meetings, as we've reshaped the company this year. I sincerely thank them for their efforts on your behalf.

At year end, 79,500 people worked for Laidlaw, 20% more than at the end of fiscal 1996. This report features some of our most important assets – the people who, every day, are on the streets and highways and in the EDs of North America delivering the services that make Laidlaw a success. I thank all Laidlaw's employees for their performance and dedication.

In Conclusion

For the balance of our 1998 fiscal year, we expect no dramatic change in market conditions for our transportation and healthcare businesses while we continue to see room for strengthening in the hazardous waste management segment.

Laidlaw today is positioned to benefit from major trends occurring in North America. We now serve the "echo" of the baby boom as enrollment in the education system increases. As the population ages, the demand for healthcare expands, so does the amount of leisure time available for travel. Laidlaw's emergency healthcare and tourism services are well positioned to benefit from these trends. Protecting the environment is also back on the public agenda. Laidlaw's environmental and passenger services make significant contributions to ensuring cleaner land, water and air.

These trends offer substantial growth opportunities for all our services. Our base businesses of school busing and ambulance transport will continue to grow steadily. At the same time, our municipal, inter-city and tourism transportation services and hospital emergency department management will allow for higher growth rates from relatively small, but expanding, bases.

Our focus, now on serving peoples' essential needs, will enable us to continue to build Laidlaw's shareholder value.

Most sincerely,

J.R. Bullock
President and Chief Executive Officer
October 31, 1997

Passenger Services "Every day I say 'Good morning everybody, have a nice day. Drive safely and remember, don't drive faster than your angels can fly.'"

KATHY JACKSON
11-YEAR LAIDLAW DRIVER
PARAMUS, NEW JERSEY

*rely*ability

School Bus

Laidlaw operates the largest private-sector school bus fleet in North America. It is the leading municipal and para-transit operator, the largest inter-city coach service provider in Canada and has a growing presence in tourism transportation.

Laidlaw has been in the school bus service business for 20 years, and is the principal consolidator of the industry in North America. The business is steady, predictable and non-cyclical.

Every school day, it's Laidlaw's job to take students to their schools safely, on time and ready to learn.

Laidlaw Transit:

Bob Hach (standing) Executive Vice-President, Bob Richards (left) Senior Vice-President, Canada, Bill Yates, Vice-President and General Manager, Public Transit

Laidlaw's school bus drivers attend a minimum of five safety meetings a year. Topics covered include Student Management, Loading and Unloading and Reviews of the Danger Zones around the vehicle. Each driver's skill in operating the bus is re-evaluated by a supervisor or driver trainer at least once every 24 months.

Driver training, preventative maintenance programs and pre/post-trip vehicle inspections are also key components in the Laidlaw Safety Program.

In fiscal 1997, Laidlaw expanded its school busing business through acquisitions and the conversion of fleets from public sector management. Operations grew by 4,000 employees, 3,500 vehicles and $127 million in annualized revenue. At year end, the company operated 37,000 buses and safely transported more than two million students each school day. Two major acquisitions accounted for most of the growth in 1997 – the 6,000 school buses acquired from Scott's Hospitality Inc. at year end 1996, and the 3,500 buses purchased from Vancom, Inc. in mid-fiscal 1997. Laidlaw's market share is now 25% of the approximately 150,000 school buses operated by the private sector in North America. Some 5,000 companies operate in the market, with only six having fleets of more than 1,000 units. Only two other operators generate revenues of more than $100 million.

An additional 300,000 vehicles are run by school boards and districts. These publicly operated fleets provide further growth potential through conversion to private-sector management.

trust

Passenger safety is the first concern of Laidlaw's 42,500 bus drivers. Whether taking students to and from their schools, getting people around municipalities, between cities or on sightseeing tours, passenger safety and comfort are paramount. Laidlaw's passenger services operate in 42 states and six provinces in Canada.

Laidlaw provides its customers with substantial savings when compared with costs typically incurred by school district-managed systems. It achieves efficiencies through its buying power for vehicles, parts and insurance; its driver recruitment, training and safety programs; and its sophisticated route design and logistics management.

During the last three years, Laidlaw has added nearly 1,400 school buses to its fleet by winning contracts to operate bus fleets formerly run by the public sector. This indicates school districts are becoming more aware of the efficiencies available from outsourcing student transportation.

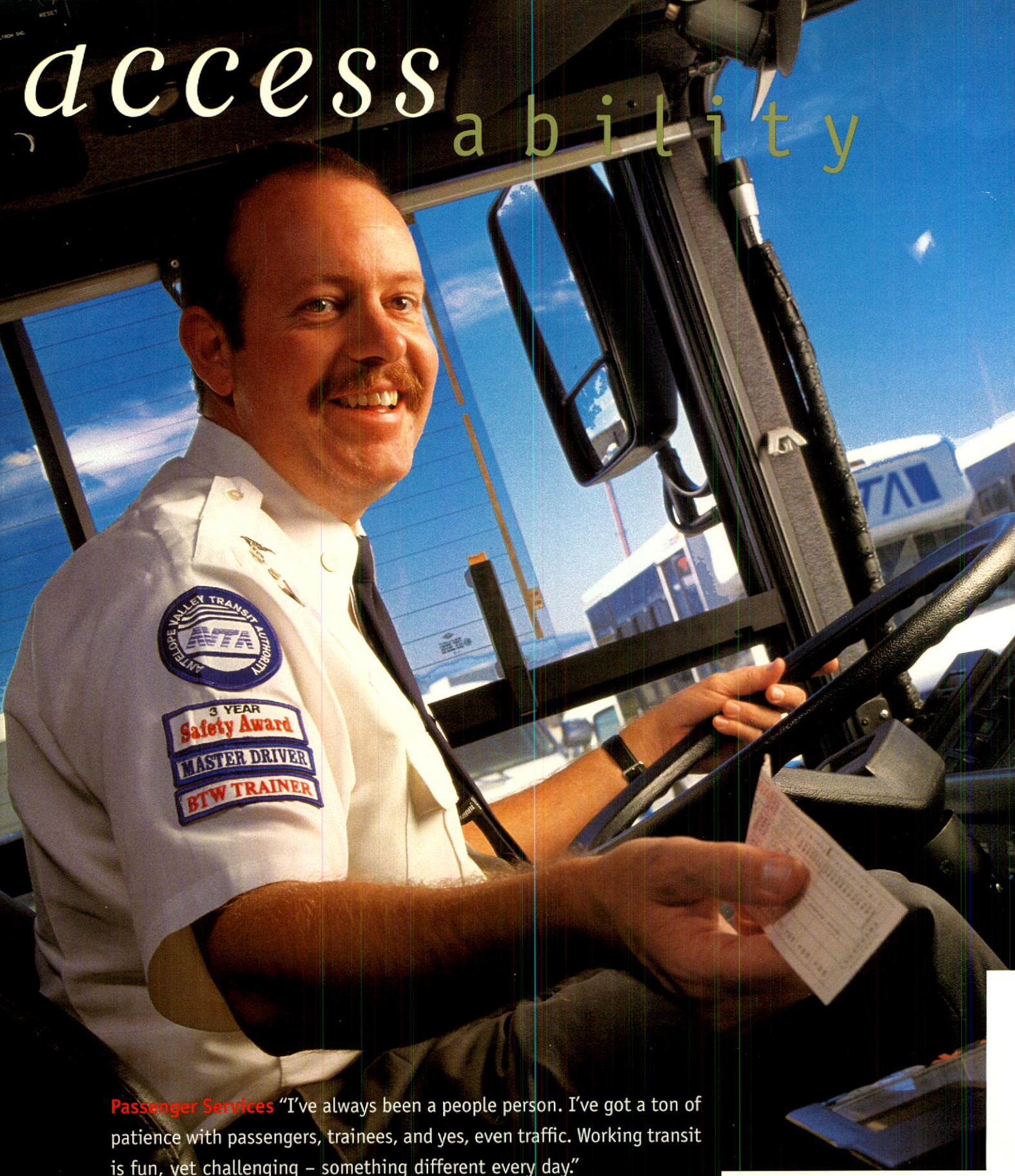
Laidlaw will grow as it continues to acquire and integrate other operators and convert public systems.

PASSENGER SERVICES	YEARS ENDED		
($ millions)	**9 7**	9 6	% CHANGE
Revenue	**$1,363.5**	$1,115.9	22
Income from operations	**149.5**	115.9	29
Annualized revenue acquired	**214.0**	188.0	—
Total identifiable assets	**1,727.6**	1,482.0	17
Employees	**52,600**	46,000	14
Service locations:	**674**	613	10
States	**42**	40	—
Provinces	**6**	6	—
School buses	**37,000**	33,500	10
Transit, inter-city buses	**5,500**	4,000	38
Students transported daily (millions)	**2.07**	1.95	6

Headquarters: Burlington, Ontario

Demand for school busing is increasing as school system enrollments rise, a result of the baby boomer "echo" generation now entering the education system.

access ability



Passenger Services "I've always been a people person. I've got a ton of patience with passengers, trainees, and yes, even traffic. Working transit is fun, yet challenging – something different every day."

RICHARD WHITTEN

THREE-YEAR LAIDLAW DRIVER/DRIVER TRAINER

ANTELOPE VALLEY TRANSIT AUTHORITY

LANCASTER, CALIFORNIA

Greyhound Canada's highway coaches provide essential passenger transport and package delivery from Ontario to British Columbia.

Municipal Transit About 90% of municipal passenger capacity is operated by the cities and towns which own the systems; the balance is outsourced. Laidlaw is the largest private-sector provider of municipal transit in North America with about a 20% market share. The DAVE Companies, a dial-a-ride and fixed route transit operator, with annual revenue of $87 million, was acquired in July, increasing Laidlaw's annual municipal transit revenues to $262 million. Principal markets include Denver, San Francisco, Pittsburgh and Minneapolis.

About 4,300 vehicles are driven and managed by 8,100 Laidlaw people who provide services to 202 municipal transit systems in 27 states and four provinces. Ridership on Laidlaw-managed systems in fiscal 1997 was 82 million passenger trips, an increase of 32% over 1996.

Inter-City In October, subsequent to the fiscal year end, Laidlaw purchased the inter-city bus business of Greyhound Canada Transportation Corp. The acquisition added $135 million in annualized revenue, bringing Laidlaw's total inter-city bus revenue to $190 million. Greyhound is an essential service to hundreds of communities in sparsely populated regions of Canada, particularly Western Canada. Operations are being integrated with Laidlaw's existing inter-city operations in Manitoba and on Vancouver Island. Greyhound operates approximately 400 highway coaches stopping at 1,100 pick-up and drop-off points. Its 1,800 people annually serve more than two million passengers and manage more than three million package shipments.

Tourism Tourism transportation is a highly fragmented industry which offers substantial growth opportunities. Thousands of operators provide transportation to the sightseeing, vacationing and conventioning public across North America. Laidlaw's existing tourism businesses in British Columbia and the Canadian Rocky Mountains will benefit from the added recognition of the Greyhound name. Greyhound also has an established excursion service in Southern Ontario.

Clear opportunities for continued growth are apparent, with some 6,000 operators in these markets, growing demands for paratransit services, the potential for additional conversion of public systems to private management and increasing amounts of leisure time available to an aging population.

Healthcare Services "Helping others is an interesting and exciting challenge for me. Teamwork is essential and saving a life is the ultimate reward."

TOM KAZUOTOMI

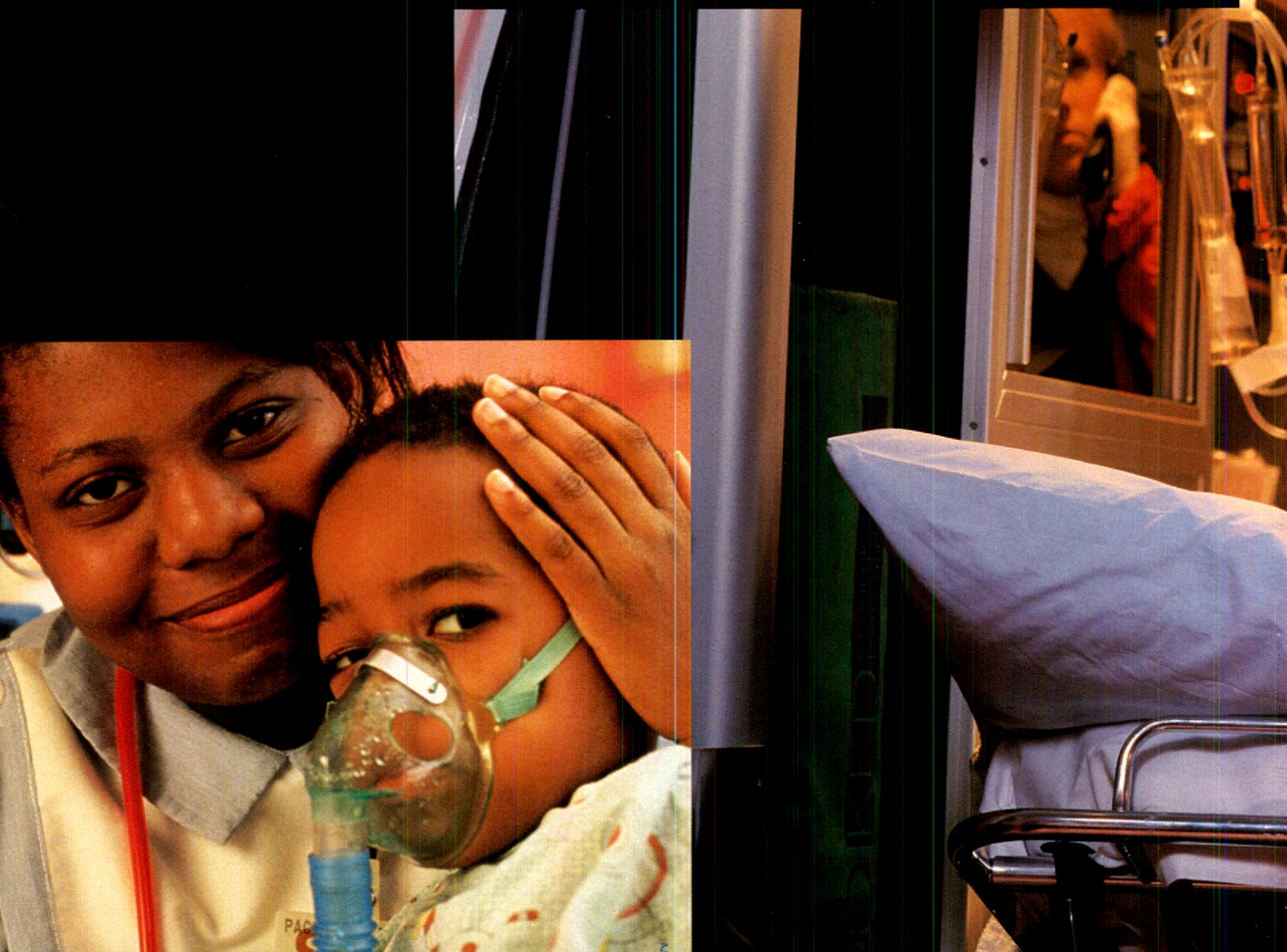
FIVE-YEAR AMR PARAMEDIC, DENVER, COLORADO

(BACKGROUND)

COLLEEN RICHARDSON

EMERGENCY MEDICAL TECHNICIAN, DENVER, COLORADO

response ability




AMERICAN MEDICAL RESPONSE of COLORADO
DENVER DIVISION

Laidlaw's Healthcare Services are focused on providing unscheduled, episodic care. They are designed and managed to provide people in need of medical attention with the care they require, effectively delivered.

Laidlaw entered the U.S. ambulance service industry in June 1993, with the acquisition of San Diego-based MedTrans. At that time annual revenue for the operation was $60 million. Over the past four years, Laidlaw has grown annualized revenue from this business to more than $1 billion.

Kathy Wiljanen, Chief Executive Officer, American Medical Pathways and George DeHuff, President and Chief Executive Officer, American Medical Response.

The ambulance service industry initially had appeal as a growth vehicle because it shared many of the characteristics of the school bus industry. It was highly fragmented with thousands of operators, most of them relatively small. It had municipal contracting processes. It had a transportation component and required sophisticated dispatch systems.

Laidlaw's growth strategy is to buy high-quality service providers in key markets and then use them as platforms onto which other local companies can be added. During this integration process duplicate administration, dispatch and maintenance facilities are eliminated and economies of scale in purchasing vehicles, medical supplies and insurance are achieved.

The industry consolidation is driven by: the increasing cost of more sophisticated technology and training; the retirement of owners who had built the firms; and, demands from health maintenance organizations, or HMOs, seeking integrated providers of healthcare transportation services to meet the needs of their expanding regional membership bases.

Laidlaw's largest acquisition yet undertaken, of Aurora, Colorado-based ambulance service consolidator, American Medical Response, Inc., was completed last February. This acquisition more than doubled Laidlaw's presence in the industry for the second time. The first doubling occurred in 1995 with the purchase of CareLine, Inc. Today, the merged company, operating as AMR, is composed of approximately 140 formerly independent companies. It is a nationally branded, emergency healthcare transportation service company, employing more than 22,300 people. AMR holds about a 17% market share of the ambulance services provided by all suppliers – public, private and volunteer. There are some 2,000 private-sector ambulance operators in the U.S.

Revenue is derived equally by providing unscheduled urgent and emergency care and scheduled non-emergency patient transport. Today, revenue

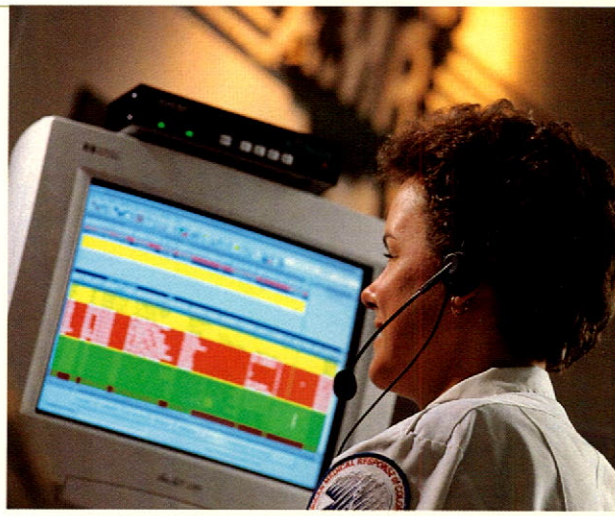
care

Laidlaw is the largest ambulance service and emergency physician practice manager in the U.S. American Medical Response's (AMR) more than 16,000 paramedics and emergency medical technicians annually provide five million ambulance transports, carefully carrying patients to emergency departments, among treatment facilities and to and from their homes in 37 states. Four thousand physicians practice emergency medicine in 370 EmCare-managed emergency departments in 37 states, responding to six million patient visits annually.

is generated on a fee-for-service basis, about evenly distributed among private payors, commercial insurers and the government-funded programs of Medicare and Medicaid. In addition HMOs are expressing interest in an alternative payment model – "capitation" – under which specified services are supplied for a fixed monthly fee.

In the fourth quarter, Laidlaw purchased the two largest ambulance companies in Ontario, Canada. With these acquisitions, a new organization – Canadian Medical Response – was created. It provides nearly 100,000 patient transports annually, more than any other ambulance operator in the country.

Ambulance services is Laidlaw's base healthcare business. AMR will continue to grow in defined markets through acquisitions and their integration.



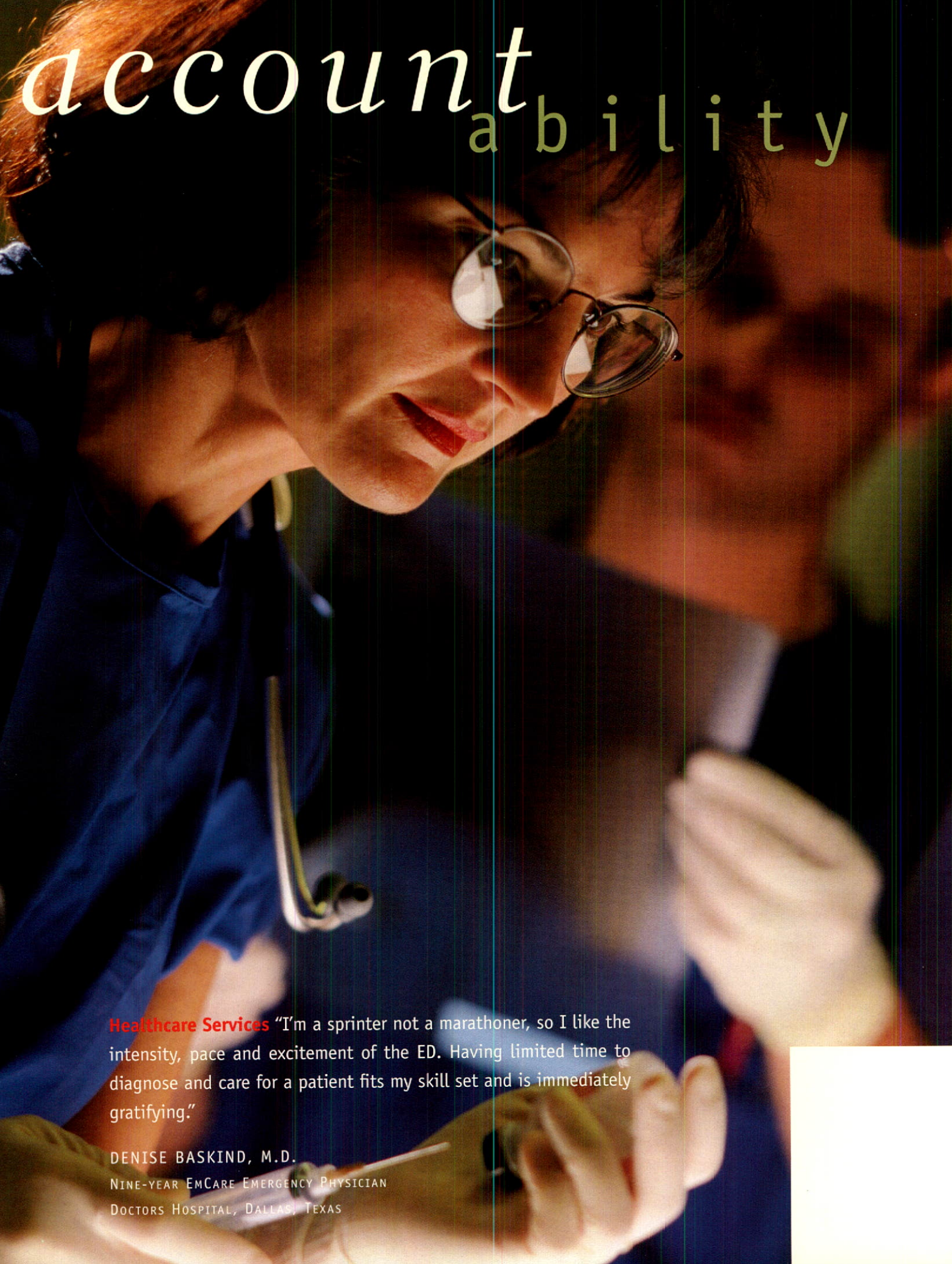
Karen Smith, Pathways Call Management Specialist, begins telephone triage process with an HMO member.

HEALTHCARE SERVICES YEARS ENDED

($ millions)	97	96	% CHANGE
Revenue	**$ 957.2**	$ 464.3	106
Income from operations	**113.7***	55.5	105
Annualized revenue acquired	**829.0**	278.0	—
Total identifiable assets	**2,332.8**	786.2	197
Employees	**22,300**	10,000	123
Service locations:	**164**	71	131
States	**37**	23	—
Provinces	**1**	—	—
Vehicles	**5,000**	2,200	127
Patient transports (millions)	**5.0**	2.1	138

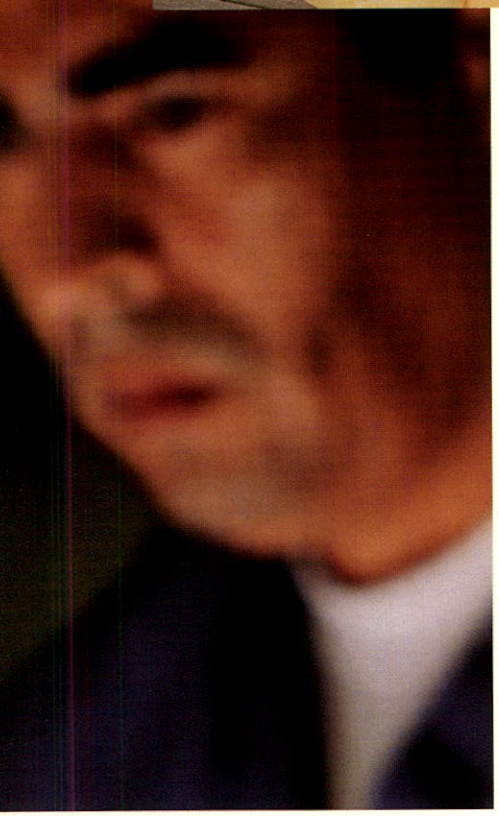
Headquarters: Aurora, Colorado
**excluding restructuring charge of $35.0 million (Note 11)*

account ability



Healthcare Services "I'm a sprinter not a marathoner, so I like the intensity, pace and excitement of the ED. Having limited time to diagnose and care for a patient fits my skill set and is immediately gratifying."

DENISE BASKIND, M.D.
NINE-YEAR EMCARE EMERGENCY PHYSICIAN
DOCTORS HOSPITAL, DALLAS, TEXAS



Emergency Department Management

Outsourcing of emergency physicians' services is a $7 billion market in the U.S. It is a natural extension of Laidlaw's emergency healthcare services.

There are more than 5,000 emergency departments (EDs) in U.S. hospitals and 80% outsource their management and staffing. About 25% of the market is served by "national" physician practice management organizations; the balance by regional or small local groups.

In early September 1997, Laidlaw acquired Dallas, Texas-based EmCare Holdings Inc., recognized as the premium provider of management services to high-volume EDs. With annual revenue of $260 million, EmCare operated in 21 states and managed 1,800 physicians' practices in 153 facilities receiving 2.9 million patient visits annually. In 1997, about $50 million of AMR's revenue was derived from managing physicians' practices. This unit of AMR has been merged with EmCare.

In October, EmCare acquired Spectrum Emergency Care Inc. adding $160 million in annual revenue, 185 contracts in 35 states with 2,000 physicians receiving about two million patient visits annually.

The physician practice management industry is consolidating and growing in importance as HMOs and other integrated healthcare systems seek to manage the level of patient care and associated costs. AMR and EmCare are developing opportunities for cross-selling and packaging of emergency care services in markets where either or both companies operate.

Bill Miller, President and Dr. Leonard Riggs, Chief Executive Officer, EmCare Holdings Inc.

American Medical Pathways

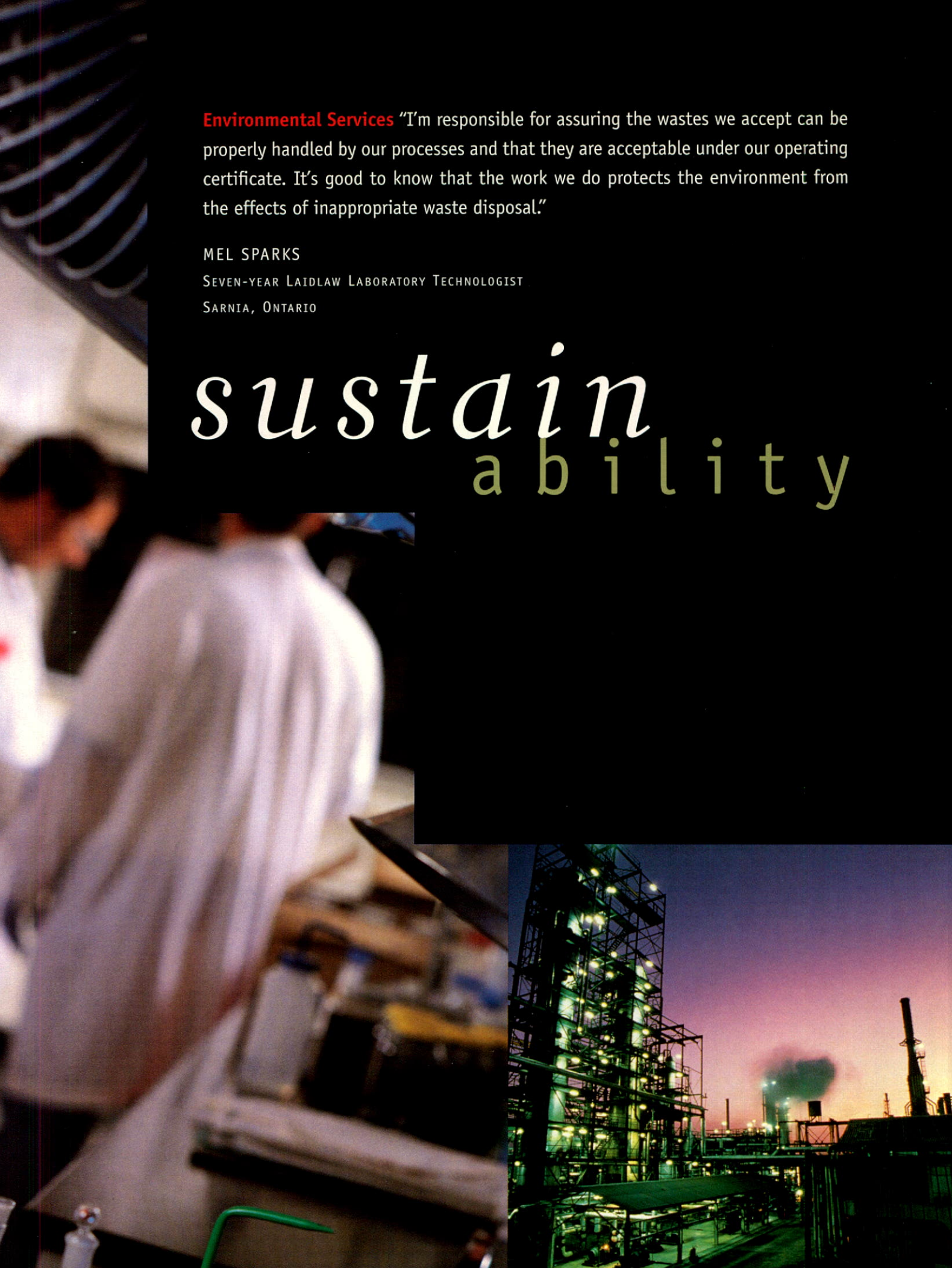
Sixty percent of patients brought to EDs by ambulance are treated and released. To better manage resources and healthcare costs, a nurse triage and telephone advice service, called American Medical Pathways, is being piloted by AMR in cooperation with selected HMOs. Within capitated contracts, Pathways becomes the primary contact for HMO members in need of healthcare. Pathways' nurses assess patients' conditions by telephone according to specific protocols to determine if emergency or non-urgent care is required. If an emergency exists, an ambulance is dispatched. If not, other more appropriate arrangements for treatment can be made.

AMR is uniquely able to deliver these services to large regional HMO clients by virtue of its operating breadth and its ambulance dispatch capabilities.

Environmental Services "I'm responsible for assuring the wastes we accept can be properly handled by our processes and that they are acceptable under our operating certificate. It's good to know that the work we do protects the environment from the effects of inappropriate waste disposal."

MEL SPARKS
SEVEN-YEAR LAIDLAW LABORATORY TECHNOLOGIST
SARNIA, ONTARIO

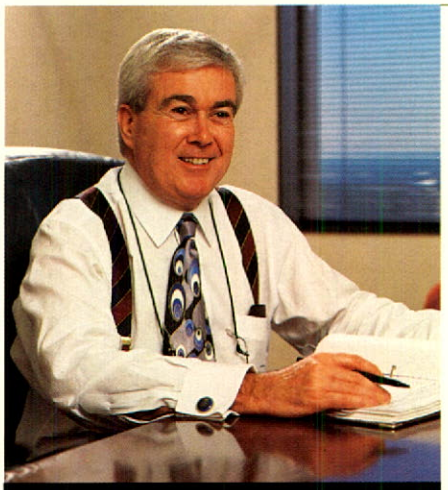
*sustain*ability



Laidlaw Environmental Services has become the largest, most diversified manager of hazardous and industrial wastes in North America. The market for services provided by Laidlaw Environmental is estimated at about $3.5 billion annually. With annualized revenues of approximately $850 million, the company has achieved about a 25% market share.

For the past several years the hazardous waste management industry's financial performance has been less than satisfactory. Prices for services fell in a highly competitive market.

Suppliers suffered from excess treatment and incineration capacity as volume shrunk when generators reduced waste volumes thanks to improved industrial processes.



Ken Winger, President and Chief Executive Officer, Laidlaw Environmental Services, Inc.

Laidlaw's response in 1997 was, once again, to expand its capability, while reducing treatment and incineration capacity through facility integration and closure.

In May 1997, Laidlaw Environmental merged with Rollins Environmental through a "reverse acquisition". Rollins was the U.S.'s primary provider of hazardous waste incineration services, operating five major incinerators capable of safely destroying 325,000 tons of waste annually.

The combination of Laidlaw's transportation system, and its collection and trans-shipment network – 53 service centers – with the long-standing Rollins incineration capability created an organization with the broadest, North American array of services available to waste generators. Equally important, the business combination allowed the new organization to reduce annual operating costs by $90 million through reducing the number of major incinerators to seven, the number of employees from 5,500 to 4,500, and overall operating locations from 134 to 100. The merger of these two, leading, complementary organizations has resulted in the strongest consolidation and integration in the industry thus far.

Operating efficiencies have been gained by maximizing the use of facilities – routing collected wastes most cost-effectively through the Laidlaw system based on their composition, location, required treatment or incineration and their need for landfill.

More than 18,000 generators of hazardous and industrial wastes look to Laidlaw Environmental for cost effective, environmentally sound solutions to their needs. Customers range in size and complexity from small manufacturers generating a few gallons of waste a month to large multi-location chemical, petro-chemical and pharmaceutical concerns.

assurance

Merged with Rollins Environmental Services in May 1997, Laidlaw Environmental Services has become the largest provider of hazardous and industrial waste management services to industries and governments in North America. About 4,500 employees deliver the most comprehensive array of transportation, treatment, incineration and disposal services from facilities in 32 states and seven Canadian provinces. Customers are assured their hazardous and industrial wastes are managed to the highest, environmentally sound standards.

In addition to wastes produced from ongoing manufacturing processes, large volumes of contaminated soils and debris are managed from land reclamation projects or harbor dredging programs. Laidlaw Environmental can manage these short-term, high-volume contracts because it provides an unmatched choice of technologies, access points and management options – all cost effectively provided by one organization.

Laidlaw Environmental Services will continue to grow by making selected acquisitions and by capturing increased market share.

HAZARDOUS WASTE MANAGEMENT

	Years Ended		
($ millions)	**9 7**	9 6	% Change
Revenue	**$ 710.0**	$ 715.8	(1)
Income from operations	**67.7***	61.6	10
Annualized revenue acquired	**252.0**	17.0	—
Total identifiable assets	**1,547.3**	1,418.2	9
Employees	**4,500**	4,300	5
Service locations:	**100**	88	14
States	**32**	26	—
Provinces	**7**	7	—
Incinerators	**9**	4	—
Annual capacity (tons)	**422,000**	318,000	33
Landfills	**12**	12	—
Remaining capacity (millions of cu. yds.)	**261**	254	3
Transfer facilities	**53**	49	8

Headquarters: Columbia, South Carolina
**excluding restructuring charge of $331.7 million (Note 11)*

The Deer Park, Texas incineration facility, acquired in the Rollins merger, is North America's largest, operating hazardous waste incinerator.

chairman's report on corporate governance

The Toronto Stock Exchange guidelines for effective corporate governance address matters such as the constitution and independence of corporate boards, the functions to be performed by boards and their committees and the effectiveness and education of board members. The Company's Board of Directors continually reviews the composition of the Board and its committees with respect to the discharge of their stewardship responsibilities.

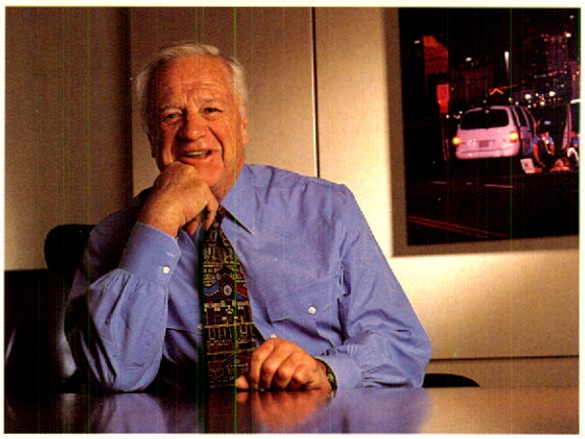
The Board has adopted specific terms of reference to establish the role and responsibilities of each committee.

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 of 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. In reviewing overall compensation issues for senior management, the Human Resource and Compensation Committee has been reviewing the performance of senior management and is examining succession planning issues.

During fiscal 1997, a major objective of the Company was accomplished when the dual class voting structure was eliminated and replaced by a single class of voting common shares. At the same time, Canadian Pacific Limited, which had owned 47% of the voting shares, completed a public distribution of its entire holdings in the Company. Following this, the three Company Directors who were also directors of Canadian Pacific Limited resigned from the Board.

The Board considers twelve Directors to be the optimal size for the Board. John R. Grainger, who has been appointed Executive Vice-President and Chief Operating Officer of the Company, was also appointed to the Board to fill one of the vacancies. A search is presently underway to recruit two additional independent U.S. resident directors. At the present, two Directors are executive officers of the Company. All other Directors are considered to be unrelated as defined in the guidelines. No Director has a significant business relationship with the Company.

The Nominating and Corporate Governance Committee of the Board is responsible for proposing all nominees to the



Board and its committees and for assessing individual Directors and the Board as a whole. The principal component of the assessment process has been annual meetings between myself as Chairman of the Board and individual Directors. I chair the Nominating and Corporate Governance Committee, all members of which are unrelated to the Company. 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. On the recommendation of the Human Resource and Compensation Committee, a revised compensation package for Directors, including a stock option plan and payment of a portion of the annual retainer in Company stock, was implemented during the prior fiscal year.

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. Performance of the Chief Executive Officer in meeting the objectives, outlined in the plan, is reviewed by the Human Resource and Compensation Committee in assessing performance and determining compensation.

Most sincerely,

Peter N.T. Widdrington
Chairman
October 31, 1997

directors

PETER N.T. WIDDRINGTON, 67[1,3,4]

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

Mr. Widdrington has been Chairman of Laidlaw's Board of Directors since August 1990 and a Director since 1986. He assumed his current position with Cuddy International in December of 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., Cuddy International Corporation, Dialysis Centers of America, SNC-Lavalin Group Inc. and Talisman Energy Inc.

JAMES R. BULLOCK, 53[1]

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 had been 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 and Ontario Hydro.

WILLIAM P. COOPER, 57[1,3,4]

President and Chief Executive Officer, Cooper Construction Limited, Toronto, Ontario (construction 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, 52[3]

President and Chief Executive Officer, Danzas Corporation, Bellevue, Washington (worldwide transportation company)

Mr. Edwards has been a Director of Laidlaw since January 1996. He has been President and CEO of Danzas Corporation since June 1994. Immediately prior, he had been Chief Operating Officer of Circle International for 18 months following six years as President and Chief Executive Officer of Itel's Transportation Group.

WILLIAM A. FARLINGER, 67[2]

Chairman, President and Chief Executive Officer, Ontario Hydro, Toronto, Ontario (electrical utility)

Mr. Farlinger has been a Director of Laidlaw since January 1994. He became Chairman of Ontario Hydro in November 1995 and was appointed President and Chief Executive Officer August 1997. From February 1994 he was President and Chief Executive Officer of William A. Farlinger and Associates. Immediately prior, he had been Chairman and Chief Executive Officer of Ernst & Young, Canada, Chartered Accountants, from 1987. He is also a Director of Cara Operations, Hongkong Bank of Canada and Manulife Financial.

JOHN R. GRAINGER, 48

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

Mr. Grainger has been a Director of Laidlaw since August 1997. In addition to his current executive position, he is also President and Chief Operating Officer of Laidlaw Transit, Laidlaw's Passenger Services Group, a position he assumed in May of 1992. 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.

DONALD M. GREEN, 65[2,4]

Chairman, ACD Tridon Inc., Burlington, Ontario (international automotive parts manufacturer)

Mr. Green has been a Director of Laidlaw since 1980. He has been with ACD Tridon Inc. as President and now 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 Deputy Chairman of Commercial Union Assurance Company and Director of The National Bank of Canada.

MARTHA O. HESSE, 55[2]

President, Hesse Gas Company, Houston, Texas (natural gas marketing company)

Ms. Hesse has been a Director of Laidlaw since January 1996. Hesse Gas markets fossil fuels to utilities and participates in energy investments. From 1986 through 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, and a member of The Beacon Group Advisory Council and the CIGNA Utilities Advisory Board.

GORDON R. RITCHIE, 53[3]

Chief Executive Officer, Strategico Inc., Ottawa, Ontario (consulting company)

Mr. Ritchie has been a Director of Laidlaw since January 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 which included posts as Associate Deputy Minister of the Department of Regional Industrial Expansion, Deputy Secretary of the Ministry of State for Economic Development and Ambassador for Trade Negotiations. Mr. Ritchie is also a Director of Cambior Inc., Maple Leaf Foods Inc. and Telemedia Inc.

STELLA M. THOMPSON, 52[3]

President, Stellar Energy Ltd., Calgary, Alberta (consulting company)

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

1 Member of the Executive Committee
2 Member of the Audit Committee
3 Member of the Human Resource and Compensation Committee
4 Member of the Nominating and Corporate Governance Committee

financial review

Items in the Consolidated Statements of Income for the three years ended August 31, 1997 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 (Decrease)		
	Year Ended August 31					
	1997	1996	1995	**Year 1997 Over 1996**	Year 1996 Over 1995	Year 1995 Over 1994
REVENUE	**100.0%**	100.0%	100.0%	**32.0%**	33.3%	25.0%
Operating expenses	**73.1**	74.9	74.3	**28.7**	34.5	28.0
Selling, general and administrative expenses	**6.6**	6.4	6.4	**36.8**	31.6	9.5
Depreciation and amortization	**9.4**	8.6	9.1	**45.5**	25.1	14.6
INCOME FROM OPERATIONS BEFORE RESTRUCTURING CHARGES	**10.9%**	10.1%	10.2%	**42.0**	33.2	24.9

Revenue

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

Year Ended August 31	**1997**		1996		1995	
Passenger services	**$1,363.5**	**45.0%**	$1,115.9	48.6%	$ 873.2	50.7%
Emergency healthcare services	**957.2**	**31.6**	464.3	20.2	206.3	12.0
Hazardous waste services	**710.0**	**23.4**	715.8	31.2	642.9	37.3
	$3,030.7	**100.0%**	$2,296.0	100.0%	$1,722.4	100.0%

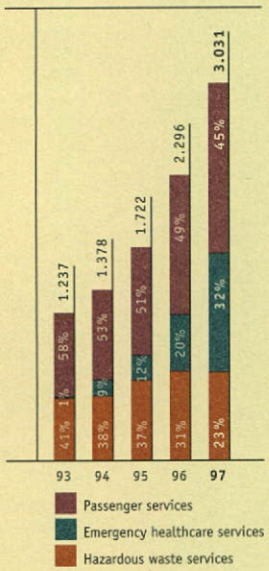
Management's estimates of the components of changes in the Company's consolidated revenue are as follows:

	Percentage Increase (Decrease)		
	Year 1997 Over 1996	Year 1996 Over 1995	Year 1995 Over 1994
EXPANSION OF CUSTOMER BASE BY ACQUISITION			
Passenger services	**10.8 %**	12.3 %	8.4 %
Emergency healthcare services	**21.3**	14.7	5.5
Hazardous waste services	**1.9**	6.7	14.8
Subtotal	**34.0**	33.7	28.7
OTHER, PRIMARILY THROUGH VOLUME AND PRICE CHANGES			
Passenger services	**—**	1.9	2.6
Emergency healthcare services	**0.3**	0.4	—
Hazardous waste services	**(0.7)**	(2.5)	(1.5)
Subtotal	**(0.4)**	(0.2)	1.1
REDUCTION OF CUSTOMER BASE THROUGH DIVESTITURES			
Passenger services	**(0.1)**	(0.1)	(0.6)
Emergency healthcare services	**(0.1)**	(0.1)	—
Hazardous waste services	**(1.4)**	—	(4.2)
Subtotal	**(1.6)**	(0.2)	(4.8)
Total	**32.0 %**	33.3 %	25.0 %

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

	Percentage Increase (Decrease)		
	Year 1997 Over 1996	Year 1996 Over 1995	Year 1995 Over 1994
PASSENGER SERVICES			
Acquisitions	**22.3 %**	24.1 %	15.8 %
Other, primarily through volume and price changes	**0.1**	3.8	4.9
Divestitures	**(0.2)**	(0.1)	(1.1)
Total	**22.2 %**	27.8 %	19.6 %
EMERGENCY HEALTHCARE SERVICES			
Acquisitions	**105.3 %**	122.6 %	58.4 %
Other, primarily through volume and price changes	**1.6**	3.5	—
Divestitures	**(0.7)**	(1.0)	—
Total	**106.2 %**	125.1 %	58.4 %
HAZARDOUS WASTE SERVICES			
Acquisitions	**6.1 %**	18.1 %	39.2 %
Other, primarily through volume and price changes	**(2.3)**	(6.8)	(4.0)
Divestitures	**(4.6)**	—	(11.0)
Total	**(0.8)%**	11.3 %	24.2 %

REVENUE BY BUSINESS SEGMENT
($ billions)



In 1997, the growth in passenger services revenue was primarily attributable to acquisitions, principally the acquisition of Scott's Hospitality Inc. ("Scott's") in August 1996 and Vancom, Inc. ("Vancom") in late February 1997. These acquisitions contributed $239 million of revenue in the year ended August 31, 1997. There has been significant revenue growth throughout the U.S. school bus operations as a result of several conversions, route increases and higher pricing on certain underperforming contracts. The impact of the growth was reduced by lost business in St. Louis and Chicago, route consolidations and the elimination of kindergarten routes in Canada, and the exiting of some underperforming U.S. public transit contracts.

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

Hazardous waste services revenues decreased in 1997 largely due to volume reductions, particularly at the Company's Utah landfill and facility closures as a result of the Rollins Environmental Services, Inc. ("Rollins") transaction. Acquisition revenue of $44 million which relates to Rollins results since May 15, 1997, more than offsets the negative price and volume growth. In addition, JTM Industries, Inc. results have been excluded for the third and fourth quarters as the Company sold this business in October 1997.

In 1996, the growth in passenger services revenue was primarily attributable to acquisitions, principally the acquisition of Mayflower Group, Inc. ("Mayflower") on March 31, 1995. The Mayflower acquisition contributed $300 million of revenue in 1996 compared to $99 million in 1995. The acquisition of Scott's on August 9, 1996 had no impact in 1996.

The growth in emergency healthcare services revenue in 1996 was primarily attributable to the acquisition of nine emergency healthcare companies which contributed $253 million in revenue. The principal acquisition was CareLine, Inc. ("CareLine").

Revenue growth in 1996 for hazardous waste services was primarily associated with acquisitions, principally with the purchase of United States Pollution Control, Inc. ("USPCI") on

December 31, 1994. The USPCI acquisition contributed $315 million of revenue in 1996 versus $200 million in 1995. Hazardous waste services revenue was reduced as a result of the continued downward pressure on pricing and reduced levels of event business.

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	**1997**	1996	1995
Passenger services	**10**	5	8
Emergency health-care services	**26**	9	17
Hazardous waste services	**2**	1	2
	38	15	27

	Annualized Revenue (Approximate)		
Year Ended August 31	**1997**	1996	1995
Passenger services	**$ 214.0**	$188.0	$259.0
Emergency health-care services	**829.0**	278.0	77.0
Hazardous waste services	**252.0**	17.0	309.0
	$1,295.0	$483.0	$645.0

In 1997, the acquisition of AMR added approximately $700 million in annualized revenue to emergency healthcare services. The acquisition of Vancom and The DAVE Companies Inc., added approximately $120 million and $87 million in annualized revenue, respectively, to passenger services. Rollins added approximately $250 million in annualized revenue to hazardous waste services.

In 1996, the acquisition of CareLine added $225 million in annualized revenue to emergency healthcare services, while the acquisition of Scott's added $180 million in annualized revenue to passenger services.

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

	Revenue						Growth Rates		
	Year Ended August 31								
	1997		1996		1995		**Year 1997 Over 1996**	Year 1996 Over 1995	Year 1995 Over 1994
United States	**$2,736.7**	**90.3%**	$2,067.8	90.1%	$1,514.9	88.0%	**32.3%**	36.5%	29.2%
Canada	**294.0**	**9.7**	228.2	9.9	207.5	12.0	**28.8**	10.0	1.0
	$3,030.7	**100.0%**	$2,296.0	100.0%	$1,722.4	100.0%	**32.0**	33.3	25.0

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

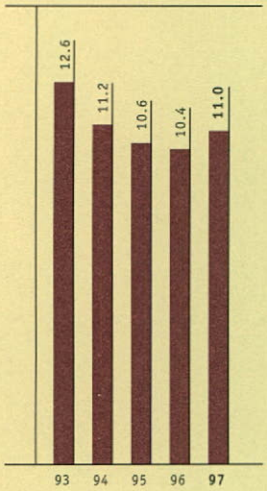
Income from operations, cost of operations and operating profit margins

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

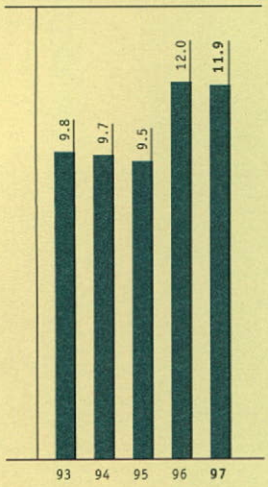
	Income from Operations						Growth Rates		
	Year Ended August 31								
	1997		1996		1995		**Year 1997 Over 1996**	Year 1996 Over 1995	Year 1995 Over 1994
Passenger services	**$ 149.5**	**45.2%**	$ 115.9	49.8%	$ 92.4	52.8%	**29.0%**	25.4%	13.0%
Emergency healthcare services	**113.7**	**34.4**	55.5	23.8	19.7	11.3	**104.9**	181.7	56.3
Hazardous waste services	**67.7**	**20.4**	61.6	26.4	62.8	35.9	**9.9**	(1.9)	37.7
	$ 330.9	**100.0%**	$ 233.0	100.0%	$ 174.9	100.0%	**42.0**	33.2	24.9

Wages for operating personnel, equipment operating costs (including fuel and maintenance), insurance for personnel, property damage and third party liability, depreciation and disposal site fees represent the major components of the cost of operations. Operating costs as a percentage of

PASSENGER SERVICES OPERATING PROFIT MARGIN
(percent)



EMERGENCY HEALTHCARE SERVICES OPERATING PROFIT MARGIN*
(percent)



*before restructuring charges

revenue were 89.1% in 1997, 89.9% in 1996 and 89.8% in 1995.

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. A significant increase in event work in the hazardous waste services segment in the fourth quarter more than offset the impact of the operating losses incurred in the first six months at the Company's Clive incinerator.

In 1996, operating costs increased as a percentage of revenue primarily as a result of downward pricing pressures in hazardous waste services, adverse winter weather conditions during the second quarter and the inclusion of operating results from the Mayflower operations which have lower 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	**1997**	1996	1995
Passenger services	**11.0%**	10.4%	10.6%
Emergency healthcare services	**11.9**	12.0	9.5
Hazardous waste services	**9.5**	8.6	9.8
Consolidated	**10.9**	10.1	10.2

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 have higher margins than the Company's other passenger services operations. In addition, certain low margin contracts including those obtained with the Mayflower acquisition, have been replaced with more profitable contracts.

In 1996, the operating profit margin in passenger services was 10.4% compared to 10.6% in 1995. This decrease was primarily due to the adverse winter weather conditions during the second quarter of the year which resulted in school closures while operating costs, including labour, vehicle maintenance and fuel continued. Most of these lost service days were recovered during the Company's fourth quarter. Also contributing to the decline was the Mayflower acquisition which has lower margins than the Company's other passenger operations.

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

The 1996 operating profit margin in emergency healthcare services increased to 12.0% from 9.5% in 1995. This increase was primarily due to the realization of synergies on prior acquisitions and from the acquisition of CareLine.

The 1997 operating profit margin in hazardous waste services increased to 9.5% from 8.6% in 1996. This increase was primarily due to the realization of synergies from the Rollins transaction and a significant increase in event business in the fourth quarter.

In 1996, the operating profit margin in hazardous waste services was 8.6% compared to 9.8% in 1995. The lower operating margin was primarily due to continued downward pressure on pricing, adverse winter weather conditions during the second quarter, and reduced levels of event business.

In fiscal 1998, the Company plans to continue to focus on the integration of the fiscal 1997 acquisitions, primarily AMR, Vancom and Rollins, 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 emergency healthcare services businesses.

Restructuring charges

The acquisition of AMR during the quarter ended February 28, 1997 more than doubled the size of the Company's emergency healthcare services segment. As a result, a strategic restructuring initiative was undertaken to create operating efficiencies, cost savings and revenue enhancement opportunities. This initiative, which was substantially completed during 1997, involves consolidation of the Company's existing healthcare transportation operations, MedTrans, 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) during the quarter ended February 28,

1997, which consisted primarily of $10.0 million to re-identify the Company's existing vehicles and uniforms under the trade name "American Medical Response", $9.0 million in severance and other employee costs, $7.0 million of lease abandonment costs relating to consolidating the corporate and regional offices, $3.0 million of fixed asset disposals and $6.0 million of other restructuring related charges.

The integration of the former MedTrans and AMR operations is progressing well. Estimated net synergies of $20 million are anticipated to be substantially achieved by the beginning of fiscal 1998.

On May 15, 1997 the Company merged its hazardous waste services business, Laidlaw Environmental Services ("LES") into Rollins. The combined entity was renamed Laidlaw Environmental Services, Inc. ("LESI").

Upon consummation of the merger, a restructuring charge of $331.7 million ($200.0 million after-tax) was recorded to reflect the cost of closing certain of LES's operating facilities that became redundant and to write-down the carrying value of certain LES operating facilities whose carrying value had been impaired due to lower expected future cash flows as a result of the merger.

As the Company holds approximately 66.5% of the equity in LESI, it has effectively, on a net basis, recorded its share of the write down, $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 emergency healthcare services. Adverse winter weather moderately affects all of the Company's operations during the Company's second fiscal quarter. See also Note 20 of Notes to Consolidated Financial Statements.

Interest expense

In 1997, interest expense increased by 27.8% to $137.5 million from $107.6 million in 1996. This increase was due primarily to the redeployment of capital from the discontinued solid waste services segment to the emergency healthcare services segment with the acquisition of AMR. In 1997 interest expense of $12.0 million was allocated to the solid waste services segment based on its proportional share of the net assets of the Company as compared to $36 million in 1996. The remaining change is due to an increase in the average borrowing level of 16% offset by a decrease in the cost of borrowing of approximately 11%.

Interest expense in 1996 increased by 8.5% to $107.6 million from $99.2 million in 1995. This increase was due to an increase of approximately 17% in the average outstanding borrowing level as a result of acquisitions made, offset by a decrease in the cost of borrowing of approximately 8%.

Interest, dividend and other income

In 1997, interest, dividend and other income increased by $41.9 million to $60.2 million. The increase relates to interest accrued on the Allied Waste Industries, Inc. ("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 United States Filter Corporation ("U.S. Filter") shares, improved returns on the Company's investment portfolio and from gains on the sale of financial instruments.

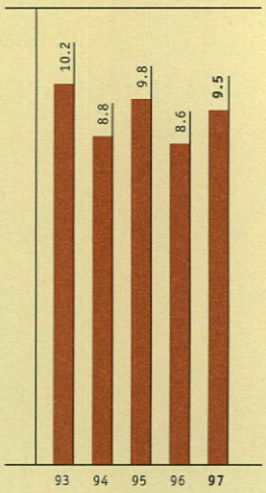
In 1996, interest, dividend and other income increased by $0.1 million to $18.3 million. The increase was attributable to higher investment levels offset partially by lower returns.

Equity in earnings of associated companies

As a result of the Company's sale of the solid waste segment to Allied on December 30, 1996, the Company received 14.6 million shares representing 19.9% ownership interest in Allied. This ownership interest was disposed of on May 15, 1997.

The equity in earnings of associated company consists of the Company's share of the earnings of Allied for the period up to the disposition of the holdings.

HAZARDOUS WASTE SERVICES OPERATING PROFIT MARGIN*
(percent)



*before restructuring charges

Income taxes

The effective income tax rate on income from continuing operations before restructuring charges, increased to 21.0% in 1997 from 20.5% in 1996 and 21.9% in 1995. The higher rate reflects the increase in non-deductible goodwill as a result of the AMR and Vancom acquisitions. The Company expects the effective tax rate to increase moderately in the future.

Minority interest

As a result of the transaction with Rollins, a non-controlling interest of approximately 33.5% exists in LESI. The minority interest's share in the net earnings of LESI from the date of acquisition of Rollins (May 15, 1997) to August 31, 1997 was $3.0 million.

The minority interest's share of the third quarter restructuring charge was $67.0 million.

In addition, there is a minority interest of 20% in one of LESI's landfills. In 1997, the minority interest share of the net earnings of this facility was $0.2 million.

Income from discontinued operations

Income from discontinued operations of $565.3 million in 1997 consists 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 sale, of $15.6 million. This compares to $44.6 million in 1996 (see Note 2 of Notes to Consolidated Financial Statements). The decrease in income over the prior year is a result of 1997 income being included only to the end of December when the sale of the segment took place. The prior year's results are for the full year.

Income from discontinued operations decreased in 1996 to $44.6 million from $57.9 million in 1995, primarily as a result of significantly lower prices for recyclables and from the closure of the Company's high margin Italian landfill.

Net income and earnings per share

In 1997, income from continuing operations before restructuring charges increased 70.6% to $199.9 million or $0.63 per share compared with $117.2 million or $0.40 per share for the year ended August 31, 1996. In 1996, income from continuing operations increased 56.5% to $117.2 million from $74.9 million in 1995.

A restructuring charge of $35.0 million pre-tax ($21.7 million after-tax or $0.07 per share) was incurred during the second quarter related to the AMR acquisition. In addition, a restructuring charge of $331.7 million pre-tax ($200.0 million after-tax) was incurred during the third quarter as a result of the transaction with Rollins. As the Company holds approximately 66.5% of the equity in Laidlaw Environmental Services, Inc. it has recorded its share of the write down ($133.0 million after-tax and minority interest, or $0.42 cents per share) as a restructuring charge.

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. In addition, during the current year, 5.9 million Common Shares were issued on conversion of the 8% Convertible Senior Subordinated Notes in conjunction with the CareLine acquisition.

The weighted average number of Common Shares outstanding during 1996 increased 5.8% to 293.2 million shares from 277.2 million shares in 1995, primarily attributable to the 16.5 million Common Shares issued in conjunction with the acquisition of CareLine on October 27, 1995.

Accordingly, earnings per share from continuing operations was $0.14 per share, for the year ended August 31, 1997. In 1996, earnings per share from continuing operations increased to $0.40 per share from $0.27 per share in 1995.

Earnings per share from discontinued operations increased to $1.78 per share for the year ended August 31, 1997, from $0.15 in 1996 and $0.21 in 1995. In 1997, $1.73 per share relates to the gain on sale of the discontinued operations.

Total earnings per share increased 249.1% to $1.92 per share, for the year ended August 31,

1997, from $0.55 in 1996, and $0.48 in 1995.

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 18 of Notes to Consolidated Financial Statements.

Financial condition

The Company's capital consisted of: ($ millions)

August 31	1997		1996		1995	
Deferred items						
Income taxes	$ 52.9	1.0%	$ 94.5	2.1%	$ 104.0	2.8%
Other	344.6	6.3	179.7	4.0	190.1	5.1
Long-term debt	1,800.4	32.8	1,649.3	37.1	1,385.9	37.2
Minority interest	109.4	2.0	—	—	—	—
ADT-Linked Debentures	392.0	7.1	392.0	8.8	348.2	9.3
Capital stockholders' equity	2,794.0	50.8	2,136.8	48.0	1,697.4	45.6
	$5,493.3	100.0%	$4,452.3	100.0%	$3,725.6	100.0%

On December 30, 1996, the Company sold its solid waste services business "Laidlaw Waste Systems", to Allied for a total consideration of $1,624.2 million, including $1,200.0 million in cash and the balance in Allied shares, notes and warrants. The sale resulted in a gain of $549.7 million. The cash proceeds were used to retire long-term debt of approximately $500 million while the balance of approximately $700 million was invested in short-term deposits. In February 1997, the Company purchased AMR for approximately $1.2 billion. The purchase price was financed using the approximately $700 million in short-term deposits with the balance being financed with borrowings of revolving bank debt.

On May 15, 1997, the Company disposed of the Allied shares, notes and warrants for $376 million in cash. These proceeds were used to repay long-term debt.

On May 15, 1997 the Company merged its hazardous waste services business, LES, into Rollins, a widely-held public company, receiving aggregate consideration of $1.1 billion. The combined entity was renamed LESI, and since it evolved from the merger as a 66.5% owned subsidiary of the Company, the transaction was classified as a reverse take-over and was accounted for as an acquisition (see Note 15 of Notes to Consolidated Financial Statements).

The merger consideration to the Company comprised (i) $400 million in cash or assumption of debt, (ii) a $350 million, 12-year 5% convertible debenture and (iii) an exchange of 120 million common shares representing approximately 66.5% of the equity in LESI. The cash component of the proceeds was used to retire bank debt, and approximately $111 million in long-term debt was assumed in conjunction with this transaction.

The $41.6 million decrease in deferred income taxes primarily relates to the deferred tax recovery provided on the restructuring charges of $145 million, partially offset by the deferred taxes provided on the sale of the solid waste services segment.

The increase in other deferred items is primarily a result of acquisitions.

Long-term debt increased by a net of $151.1 million since August 31, 1996 primarily as a result of debt assumed on acquisition.

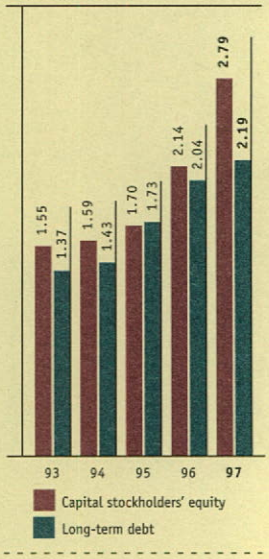
Minority interest represents the 33.5% of the equity of LESI not owned by the Company.

Capital stockholders' equity increased by $657.2 million, primarily due to the following:

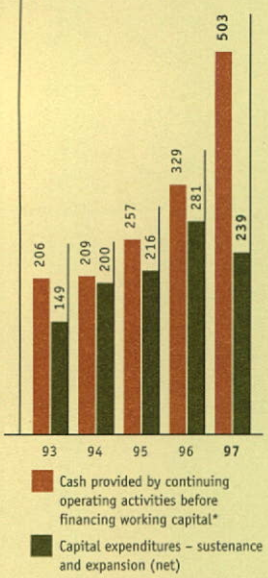
(i) net earnings retained of $563.5 million after dividends of $47.0 million;

(ii) the issuance of $64.2 million in Common Shares upon the conversion of the CareLine Convertible Senior Subordinated Notes.

CAPITALIZATION
($ billions)

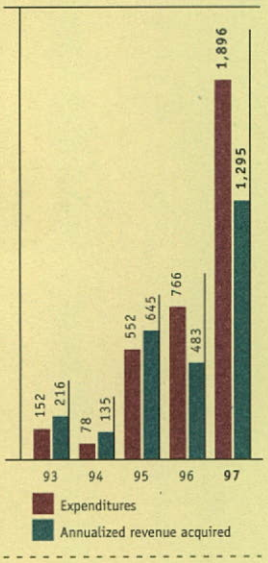


CASH PROVIDED BY CONTINUING OPERATING ACTIVITIES BEFORE FINANCING WORKING CAPITAL* AND CAPITAL EXPENDITURES
($ millions)



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

ACQUISITION EXPENDITURES AND ANNUALIZED REVENUE ACQUIRED
($ millions)



Whereas capital expenditures of $239.4 million were financed from operating cash flows, acquisitions of $1,896.2 million were financed primarily by the proceeds from the sale of the solid waste services segment and the assumption of debt of $193.0 million.

On August 31, 1997, the Company had available a $1.4 billion syndicated bank facility (1996 – $1.4 billion) of which approximately $1.06 billion (1996 – $780 million) 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, 1997.

In 1996, long-term debt increased by a net of $263.4 million as a result of acquisition financing less repayments as a result of the Company's sale of shares of ADT. Capital stockholders' equity increased by $439.4 million due to the issuance of shares in conjunction with the acquisition of CareLine and Scott's and as a result of net earnings retained of $120.4 million after dividends of $41.4 million. In 1996, capital expenditures of $280.5 million were financed from operating cash flows whereas acquisitions of $766.4 million were financed primarily by equity issues of $318.6 million and the assumption of debt of $357.8 million.

Subsequent events

On September 4, 1997, the Company acquired for cash pursuant to a public tender offer, the outstanding shares of common stock of EmCare Holdings Inc. ("EmCare"). EmCare is a leading provider of physician services management in hospital emergency departments and other practice settings. The aggregate value of the transaction is approximately $400 million and funds were provided from the Company's revolving bank debt facility.

On September 9, 1997, the Company commenced a cash tender offer for all the outstanding shares of Greyhound Canada Transportation Corp. ("Greyhound"), Canada's leader in intercity passenger bus service. As of October 14, 1997, the Company owns more than 90% of the outstanding Greyhound shares and will, therefore, complete a compulsory acquisition of the balance. The aggregate value of the transaction is expected to be approximately Cdn. $100 million (U.S. $75 million).

On September 29, 1997, the Company sold $225 million of 6.65% debentures due October 1, 2004 and $200 million of 6.72% debentures due October 1, 2027. Net proceeds of approximately $421.8 million were used to repay revolving bank debt.

On September 30, 1997, the Company redeemed for cash, its $280.0 million issue of ADT-Linked Convertible Debentures, due January 15, 1999, at a total cost of approximately $392.0 million. Funds were provided from the Company's revolving bank debt facility (see Note 9 of Notes to Consolidated Financial Statements).

Liquidity

Cash provided by continuing operating activities before financing working capital and restructuring charges was $503.4 million, $329.4 million and $257.4 million in 1997, 1996 and 1995, respectively, representing percentage changes from the previous years of 52.8%, 28.0%, and 23.5%.

Cash, short-term deposits and marketable securities which can be liquidated readily were $240.7 million, $225.8 million and $146.5 million at August 31, 1997, 1996 and 1995, respectively.

In 1997, trade and other accounts receivable increased by $213.7 million to $658.1 million. The average number of days sales outstanding increased to 79 days from 69 days in 1996 primarily due to the significant growth in the emergency 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 1996, trade and other accounts receivable increased by $99.9 million to $444.4 million. The average number of days sales outstanding increased to 69 days from 61 days in 1995 primarily due to the growth in the emergency healthcare services segment.

The Company believes that the existing level of working capital of $483.4 million is adequate

for normal growth and operating needs. Trade and other accounts receivable continues to represent the largest portion of current assets, totalling $658.1 million at August 31, 1997 (1996 – $444.4 million).

Capital expenditures and capital resources

Net expenditures for the purchase of fixed assets for normal replacement requirements, and increases in services were $239.4 million, $280.5 million and $215.6 million in 1997, 1996 and 1995, respectively.

Capital expenditures for the purchase of fixed assets for fiscal 1998 are expected to be approximately $280 million, which represents normal replacement and upgrading requirements and purchases of additional fixed assets necessary for planned increases in services. 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, 1997, the Company had unused bank lines of credit of approximately $602 million.

Expenditures on the acquisition of businesses were $1,896.2 million, $766.4 million and $551.8 million in 1997, 1996 and 1995, respectively. The acquisition of AMR, in February 1997 represents approximately $1.2 billion of the current year's expenditures.

Since September 1, 1995, the significant acquisitions were as follows:

- On May 15, 1997, the Company acquired Rollins, a hazardous waste services business, by reverse takeover, for $284.6 million. The purchase was financed by the issuance of 60.4 million shares of LESI for a value of $173.7 million and the balance by assumption of debt of $110.9 million.
- On February 18, 1997, the Company purchased AMR, an emergency healthcare services business, for $1,247.7 million. The purchase price was financed primarily by the proceeds on the sale of the solid waste services segment.
- On August 9, 1996, the Company purchased Scott's, a passenger services business, for approximately $348.7 million. The purchase price was financed primarily by the issuance of 18.7 million Common Shares for a value of $173.0 million and the assumption of debt of approximately $164.4 million.
- On October 27, 1995, the Company purchased CareLine, an emergency healthcare services business, for $349.7 million. The purchase price was financed primarily by the issuance of 16.5 million Common Shares for a total of $145.6 million and the assumption of debt of approximately $192.3 million, the majority of which consisted of $75.0 million of debentures convertible into Laidlaw Common Shares at a conversion price of $10.91 per share.

In recent years, other than the acquisition of AMR which was funded from the sale of the solid waste services business, funds for acquisitions have been provided from share issues, assumption of pre-existing debt and from non-core asset sales. Historically, acquisitions of businesses have generally been financed initially with revolving/term bank loans and replaced later with longer term public issues of debt or equity.

Legal proceedings

See Note 16 of Notes to Consolidated Financial Statements.

eleven year financial review

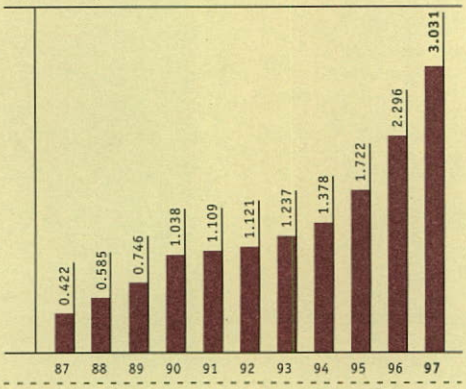
(U.S. $ millions except per share amounts)	**1997**	1996	1995	1994	1993
OPERATING RESULTS – CONTINUING OPERATIONS (YEAR ENDED AUGUST 31)					
Revenue	**$3,030.7**	$2,296.0	$1,722.4	$1,378.1	$1,237.3
Operating profit margin*	**10.9%**	10.1%	10.2%	10.2%	11.6%
Income from continuing operations*	**$ 199.9**	$ 117.2	$ 74.9	$ 65.5	$ 98.3
Net profit margin (from continuing operations)*	**6.6%**	5.1%	4.3%	4.8%	7.9%
Cash provided by operating activities before financing working capital and special and non-recurring charges	**$ 503.4**	$ 329.4	$ 257.4	$ 208.5	$ 205.8
Capital expenditures					
– Sustenance and expansion (net)	**$ 239.4**	$ 280.5	$ 215.6	$ 199.5	$ 148.6
– Acquisitions	**1,896.2**	766.4	551.8	78.3	151.6
– Total	**2,135.6**	1,046.9	767.4	277.8	300.2
FINANCIAL POSITION (as at August 31)					
Long-term debt (including ADT-Linked Debentures)	**$2,192.4**	$2,041.3	$1,734.1	$1,426.9	$1,367.0
Shareholders' equity	**2,794.0**	2,136.8	1,697.4	1,585.9	1,553.3
Total assets	**6,117.1**	4,932.3	4,134.8	3,504.0	3,394.6
COMMON SHARES (year ended August 31)					
Earnings per share from continuing operations* (Note 13)	**$ 0.63**	$ 0.40	$ 0.27	$ 0.24	$ 0.35
Cash provided by continuing operating activities before financing working capital and special and non-recurring charges per share	**$ 1.59**	$ 1.12	$ 0.93	$ 0.75	$ 0.74
Dividends per Common Share (in Canadian dollars)	**$ 0.200**	$ 0.190	$ 0.160	$ 0.160	$ 0.160
Market price (as at August 31, in Canadian dollars)					
Common Shares	**$ 20.30**	$ 13.20	$ 12.13	$ 11.13	$ 9.25
Net return on average common shareholders' equity*	**7.8%**	8.5%	8.1%	6.8%	6.4%
Shares outstanding (as at August 31, in millions)					
– Common Shares	**328.8**	313.8	277.3	277.2	277.2

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

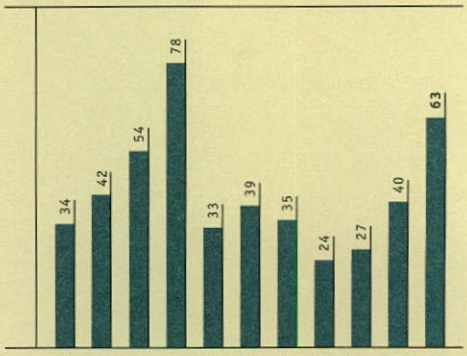
The above data have been restated to give retroactive effect to the discontinued operations and a prior period adjustment reported in 1990.

1992	1991	1990	1989	1988	1987
$1,121.4	$1,108.6	$1,038.0	$ 746.3	$ 585.4	$ 422.2
13.8%	13.9%	16.1%	16.9%	18.4%	18.9%
$ 103.9	$ 86.0	$ 190.6	$ 117.3	$ 87.7	$ 63.1
9.3%	7.8%	18.4%	15.7%	15.0%	14.9%
$ 206.8	$ 261.2	$ 249.1	$ 180.7	$ 159.6	$ 110.2
$ 133.9	$ 108.3	$ 157.3	$ 67.5	$ 113.8	$ 85.4
31.5	113.2	285.5	198.1	153.2	131.3
165.4	221.5	442.8	265.6	267.0	216.7
$1,250.5	$1,488.6	$1,421.2	$ 892.7	$ 507.0	$ 174.3
1,960.0	1,682.1	2,053.9	1,462.2	891.6	847.9
3,602.1	3,542.5	3,848.9	2,620.9	1,571.9	1,204.1
$ 0.39	$ 0.33	$ 0.78	$ 0.54	$ 0.42	$ 0.34
$ 0.78	$ 1.06	$ 1.07	$ 0.89	$ 0.90	$ 0.71
$ 0.160	$ 0.310	$ 0.270	$ 0.230	$ 0.185	$ 0.120
$ 10.00	$ 13.13	$ 21.25	$ 19.25	$ 15.50	$ 21.50
7.5%	6.1%	15.1%	19.0%	20.5%	22.4%
277.2	253.3	239.0	218.3	189.5	175.9

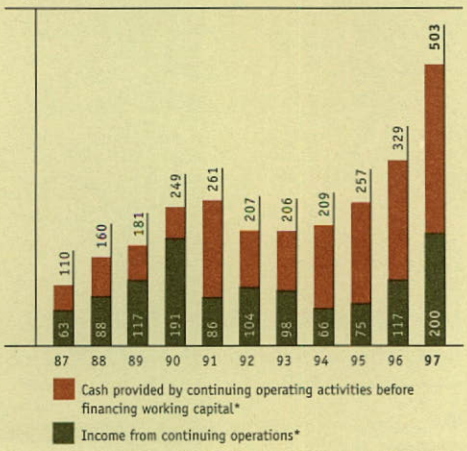
REVENUE – CONTINUING OPERATIONS
($ billions)



EARNINGS PER SHARE – CONTINUING OPERATIONS*
(cents)



CASH PROVIDED BY CONTINUING OPERATING ACTIVITIES BEFORE FINANCING WORKING CAPITAL* AND INCOME FROM CONTINUING OPERATIONS*
($ millions)



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 re-appointment of the external auditors.

The consolidated statements have been audited on behalf of the shareholders by the external auditors, Coopers & Lybrand, in accordance with generally accepted auditing standards. Coopers & Lybrand 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 15, 1997

auditors' report to the shareholders

We have audited the consolidated balance sheets of Laidlaw Inc. as at August 31, 1997 and 1996 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, 1997. 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, 1997 and 1996 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, 1997 in accordance with Canadian generally accepted accounting principles.

Hamilton, Canada
October 15, 1997

Coopers & Lybrand
Chartered Accountants

consolidated statements of income and retained earnings

Year Ended August 31 (U.S. $ millions except per share amounts)	1997	1996	1995
REVENUE	$3,030.7	$2,296.0	$1,722.4
Operating expenses	2,214.1	1,720.5	1,279.5
Selling, general and administrative expenses	199.5	145.8	110.8
Depreciation and amortization	286.2	196.7	157.2
Restructuring charges (Note 11)	366.7	—	—
INCOME (LOSS) FROM OPERATIONS	(35.8)	233.0	174.9
Interest expense	(137.5)	(107.6)	(99.2)
Interest, dividend and other income	60.2	22.0	18.2
Equity in earnings of associated companies	3.5	—	2.0
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST	(109.6)	147.4	95.9
Income tax recovery (expense) (Note 12)	91.0	(30.2)	(21.0)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST	(18.6)	117.2	74.9
Minority interest	63.8	—	—
INCOME FROM CONTINUING OPERATIONS	45.2	117.2	74.9
INCOME FROM DISCONTINUED OPERATIONS (Note 2)	565.3	44.6	57.9
NET INCOME	$ 610.5	$ 161.8	$ 132.8
EARNINGS PER SHARE (Note 13)			
Continuing operations	$ 0.14	$ 0.40	$ 0.27
Discontinued operations	1.78	0.15	0.21
Net income	$ 1.92	$ 0.55	$ 0.48
RETAINED EARNINGS (DEFICIT) – BEGINNING OF YEAR	$ 157.5	$ 37.1	$ (63.0)
Net income	610.5	161.8	132.8
Dividends – Preference Shares	(0.4)	(0.5)	(0.5)
– Common Shares	(46.6)	(40.9)	(32.2)
RETAINED EARNINGS – END OF YEAR	$ 721.0	$ 157.5	$ 37.1
DIVIDENDS PER SHARE			
(Cdn. $) – Preference Shares	$ 1.00	$ 1.00	$ 1.00
– Common Shares	$ 0.20	$ 0.19	$ 0.16
(U.S. $ equivalent)			
– Preference Shares	$ 0.730	$ 0.734	$ 0.727
– Common Shares	$ 0.146	$ 0.139	$ 0.116

The accompanying notes are an integral part of these statements.

consolidated balance sheets

August 31 (U.S. $ millions)	1997	1996
ASSETS		
CURRENT ASSETS		
Cash	$ 3.8	$ 10.9
Short-term deposits and marketable securities – at cost which approximates market value	236.9	214.9
Trade and other accounts receivable (net of allowance for doubtful accounts of $150.0; August 31, 1996 – $67.7)	658.1	444.4
Inventories	54.4	46.5
Income taxes recoverable	41.9	—
Assets for sale	78.2	29.4
Other current assets	33.9	27.4
TOTAL CURRENT ASSETS	1,107.2	773.5
ASSETS OF DISCONTINUED OPERATIONS (Note 2)	—	828.0
LONG-TERM INVESTMENTS (Note 3)	191.9	168.5
PROPERTY AND EQUIPMENT (Note 4)	2,251.0	1,949.8
OTHER ASSETS		
Goodwill (net of accumulated amortization of $117.9; August 31, 1996 – $73.3)	2,516.8	1,180.4
Deferred charges	50.2	32.1
	2,567.0	1,212.5
TOTAL ASSETS	$6,117.1	$4,932.3

The accompanying notes are an integral part of these statements.

Signed on behalf of the Board

James R. Bullock, Director

Donald M. Green, Director

August 31 (U.S. $ millions)	1997	1996
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	**$ 173.2**	$ 165.4
Accrued liabilities	**341.3**	209.3
Current portion of self-insurance liabilities (Note 5)	**69.5**	74.3
Income taxes payable	**—**	16.1
Current portion of long-term debt (Note 7)	**39.8**	14.9
TOTAL CURRENT LIABILITIES	**623.8**	480.0
DEFERRED ITEMS		
Income taxes	**52.9**	94.5
Other (Note 5)	**344.6**	179.7
	397.5	274.2
LONG-TERM DEBT (Note 7)	**1,800.4**	1,649.3
MINORITY INTEREST	**109.4**	—
ADT-LINKED DEBENTURES (Note 9)	**392.0**	392.0
COMMITMENTS AND CONTINGENCIES (Note 16)		
CAPITAL STOCKHOLDERS' EQUITY		
Preference Shares (Note 10)	**8.7**	9.0
Common Shares; issued and outstanding 328,768,305 (August 31, 1996 – 313,820,470) (Note 10)	**2,230.6**	2,150.3
Cumulative foreign currency translation adjustments	**(166.3)**	(180.0)
Retained earnings	**721.0**	157.5
TOTAL CAPITAL STOCKHOLDERS' EQUITY	**2,794.0**	2,136.8
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$6,117.1**	$4,932.3

The accompanying notes are an integral part of these statements.

consolidated statements of changes in financial position

Year Ended August 31 (U.S. $ millions)	1997	1996	1995
NET CASH PROVIDED BY (USED IN):			
Operating activities	$ 336.4	$ 400.3	$ 407.7
Investing activities	(614.8)	(707.4)	(693.8)
Financing activities	293.3	386.4	233.0
	14.9	79.3	(53.1)
CASH, SHORT-TERM DEPOSITS AND MARKETABLE SECURITIES – BEGINNING OF YEAR	225.8	146.5	199.6
CASH, SHORT-TERM DEPOSITS AND MARKETABLE SECURITIES – END OF YEAR	$ 240.7	$ 225.8	$ 146.5
OPERATING ACTIVITIES			
Income from continuing operations before restructuring charges (Note 14)	$ 199.9	$ 117.2	$ 74.9
Add (deduct) items not affecting cash:			
Depreciation and amortization	286.2	196.7	157.2
Deferred income taxes	18.8	9.0	11.4
Deferred other	—	5.4	7.9
Minority interest	2.0	—	—
Equity in earnings of associated companies	(3.5)	—	5.8
Other	—	1.1	0.2
Cash provided by continuing operating activities before financing working capital and restructuring charges	503.4	329.4	257.4
Cash used in financing working capital (Note 14)	(110.3)	(22.2)	(39.1)
Cash used for restructuring charges and acquisition accruals	(39.6)	—	—
Net cash provided by continuing operating activities	353.5	307.2	218.3
Net cash provided by (used in) discontinued operating activities	(17.1)	93.1	189.4
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 336.4	$ 400.3	$ 407.7
INVESTING ACTIVITIES			
Purchase of property and equipment	$ (237.1)	$ (289.1)	$(211.3)
Proceeds from sale of property and equipment	24.2	15.4	10.1
Purchase of other assets	(26.5)	(6.8)	(14.4)
Expended on acquisitions (Note 15)	(1,896.2)	(766.4)	(551.8)
Net increase in other long-term investments	(26.0)	(1.3)	(19.0)
Decrease in working capital relating to investment activities	—	14.4	—
Proceeds from sale of solid waste services segment (Note 2)	1,576.0	—	—
Proceeds from sale of long-term investments	20.2	8.9	0.9
Proceeds from sale of investment in ADT Limited and Attwoods plc	—	448.8	211.6
Net cash used in continuing investing activities	(565.4)	(576.1)	(573.9)
Net cash used in investing activities of discontinued operations	(49.4)	(131.3)	(119.9)
NET CASH USED IN INVESTING ACTIVITIES	$ (614.8)	$ (707.4)	$(693.8)
FINANCING ACTIVITIES			
Proceeds from issues of long-term debt	$ 1,740.7	$ 1,065.9	$ 951.5
Long-term debt assumed on acquisition (Note 15)	193.0	357.8	53.8
Repayments of long-term debt and other non-current liabilities	(1,832.8)	(1,281.8)	(659.7)
Minority interest introduced (Note 15)	173.7	—	—
Proceeds from share issues (Note 10)	80.3	331.2	0.9
Dividends	(47.0)	(41.4)	(32.7)
Repurchase of preference shares for redemption (Note 10)	(0.3)	(0.3)	(0.3)
Net cash provided by continuing financing activities	307.6	431.4	313.5
Net cash used in financing activities of discontinued operations	(14.3)	(45.0)	(80.5)
NET CASH PROVIDED BY FINANCING ACTIVITIES	$ 293.3	$ 386.4	$ 233.0

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 18, 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.

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.

Emergency 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, from service center operations which primarily collect, transport and prepare waste material for transfer to disposal facilities, are recognized when the waste material is accepted at the service center. 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. Revenue from treatment and disposal operations primarily landfill and incineration facilities, are recognized when the waste material is disposed, whether burned, landfilled, or treated.

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, or 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 (excluding landfills) 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 – 5 to 15 years.

Landfill sites, preparation costs and improvements are recorded at cost and amortized on the basis of landfill capacity utilized during the year. Landfill capacity represents total permitted airspace which is measured in the form of cubic yards.

Effective in 1996, the Company commenced capitalizing interest on landfill capacity under development to the cost of the landfill. The effect of the adoption of this policy was immaterial in the current and prior year.

The Company periodically reviews the carrying values of its fixed 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 forty 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.

Environmental liabilities

Environmental liabilities include accruals for costs associated with closure and post-closure monitoring and maintenance of the Company's landfills, remediation at certain of the Company's facilities and corrective actions at Superfund sites. The Company accrues for closure and post-closure costs as the landfill site airspace as capacity is consumed.

Deferred items – other

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

Minority interest

Minority interest primarily represents the non-controlling interest of approximately 33.5% that exists in Laidlaw Environmental Services, Inc. ("LESI").

Foreign currency translation

The Company's operations are all 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 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, 1997 and 1996. Concentration of credit risks in accounts receivable are limited, due to the large number of customers comprising the Company's customer base throughout North America. The Company performs ongoing credit evaluations of its 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 7 and Note 8 for fair value information pertaining to long-term debt and derivative financial instruments.

2. 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.

The cash proceeds were used to retire long-term debt of approximately $500 million while the balance of approximately $700 million was invested in short-term deposits. In February 1997, these funds were used to finance the purchase of American Medical Response, Inc. ("AMR") for approximately $1.2 billion.

On May 15, 1997 the Company disposed of the Allied shares, notes and warrants for $376 million in cash. The proceeds were used to retire long-term debt.

The results of operations of the Company's solid waste services segment have been shown as discontinued operations. Interest was 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 income tax rate. Summarized financial information for the solid waste services segment is as follows:

Year Ended August 31 ($ millions)	1997	1996	1995
Revenue	**$266.0**	$763.5	$795.0
Operating expenses	**173.5**	526.9	525.8
Selling, general and administrative expenses	**29.5**	50.2	60.3
Depreciation and amortization	**31.2**	95.9	103.0
Income from operations	**31.8**	90.5	105.9
Interest expense net of other income	**(12.0)**	(35.7)	(33.7)
Income before income taxes	**19.8**	54.8	72.2
Income taxes	**4.2**	10.2	14.3
Income from discontinued operations prior to sale	**15.6**	44.6	57.9
Gain on sale of discontinued operations, net of income taxes of $132.0 million	**549.7**	—	—
Income from discontinued operations	**$565.3**	$ 44.6	$ 57.9

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

August 31 ($ millions)	1997	1996
Current assets	$ —	$ 166.8
Property and equipment – net	—	566.5
Goodwill	—	204.9
Deferred income taxes	—	76.8
Other non-current assets	—	22.9
	—	1,037.9
Current liabilities	—	126.0
Non-current liabilities	—	83.9
Net assets of discontinued operations	$ —	$ 828.0

3. LONG-TERM INVESTMENTS

Long-term investments are carried at cost. Included in long-term investments is the Company's investment in United States Filter Corporation ("U.S. Filter"). The Company owns 3,646,783 shares (1996 – 4,054,093 shares) of U.S. Filter at a book value of $50.4 million (1996 – $51.4 million). These shares (market value of $131.1 million as at August 31, 1997) have been designated as a hedge against the 5.75% exchangeable notes due December 31, 2000. (see Note 7.)

4. PROPERTY AND EQUIPMENT

August 31 ($ millions)	1997			1996		
	Cost	Accumulated Depreciation and Amortization	Net	Cost	Accumulated Depreciation and Amortization	Net
Land, landfill sites and improvements	$ 512.0	$ 66.1	$ 445.9	$ 554.5	$104.4	$ 450.1
Buildings	541.0	103.9	437.1	497.9	96.4	401.5
Vehicles and other	2,062.0	694.0	1,368.0	1,690.2	592.0	1,098.2
	$3,115.0	$864.0	$2,251.0	$2,742.6	$792.8	$1,949.8

5. DEFERRED ITEMS – OTHER

August 31 ($ millions)	1997	1996
Environmental liabilities (Note 6)	$155.7	$ 58.5
Self-insurance liabilities	69.1	57.3
Other	119.8	63.9
	$344.6	$179.7

The Company's $138.7 million (1996 – $131.6 million) of self-insurance liabilities as at August 31, 1997 (current liabilities of $69.5 million and non-current liabilities of $69.1 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.

6. ENVIRONMENTAL LIABILITIES

The Company, primarily through its 66.5% owned subsidiary LESI, has recorded liabilities for closure and post-closure monitoring and environmental remediation costs as follows:

August 31 ($ millions)	1997	1996
Current portion, included in accrued liabilities	$ 32.1	$23.0
Non-current portion, included in deferred items – other	155.7	58.5
	$187.8	$81.5

The Company, in the normal course of its business, expends funds for environmental protection and remediation, but does not expect these expenditures to have a materially adverse effect on its financial condition or results of operations, since its business is based upon compliance with environmental laws and regulations and its services are priced accordingly.

Closure and post-closure monitoring and maintenance costs for U.S. landfills are estimated based on the technical requirements of the Subtitle C and D Regulations of the U.S. Environmental Protection Agency or the applicable state requirements, whichever are stricter, and the air emissions standards under the Clean Air Act, and include such items as final capping of the site, methane gas and leachate management,

groundwater monitoring, and operation and maintenance costs to be incurred during the period after the facility closes and ceases to accept waste. Closure and post-closure costs for the Company's landfills in Canada are based upon the local landfill regulations governing the facility.

The Company has also established procedures to routinely evaluate potential remedial liabilities at sites which it owns or operated, or to which it transported waste, including 22 sites listed on the Superfund National Priority List ("NPL"). In the majority of situations, the Company's connection with NPL sites relates to allegations that its subsidiaries (or their predecessors) transported waste to the facilities in question, often prior to the acquisition of such subsidiaries by the Company. The Company routinely reviews and evaluates sites requiring remediation, including NPL sites, giving consideration to the nature (i.e., owner, operator, transporter or generator), and the extent (i.e., amount and nature of waste hauled to the location, number of years of site operation by the Company, or other relevant factors) of the Company's alleged connection with the site, the accuracy and strength of evidence connecting the Company to the location, the number, connection and financial ability of other named and unnamed potentially responsible parties and the nature and estimated cost of the likely remedy. Where the Company concludes that it is probable that a liability has been incurred, provision is made in the financial statements, based upon management's judgement and prior experience, for the Company's best estimate of the liability. Such estimates are subsequently revised as deemed necessary as additional information becomes available.

Estimates of the extent of the Company's degree of responsibility for remediation of a particular site and the method and ultimate cost of remediation require a number of assumptions and are inherently difficult. The ultimate outcome of these items may differ from current estimates. The Company believes that its extensive experience in the environmental services business provides a reasonable basis for making its estimates. However, these estimates may include a range of possible outcomes. In such cases, management provides for the amount within the range that constitutes its best estimate. It is less than likely but more than remotely possible that the Company's potential liability could be at the high end of such ranges, which would be approximately $32 million in the aggregate higher than the estimates that have been recorded in these financial statements. While the Company does not currently anticipate that any adjustment to its estimates would be material to its financial statements, it is reasonably possible that technological, regulatory or enforcement developments, the results of environmental studies or other factors could necessitate the recording of additional liabilities that could be material. The impact of such future events cannot be estimated at the current time.

Where the Company believes that both the amount of a particular environmental liability and the timing of the payments are reliably determinable, the cost in current dollars is discounted to present value assuming inflation of 3.6% and a risk free discount rate of 8.5%. Had the Company not discounted any portion of its liability, the amount recorded would have been increased by approximately $9 million at August 31, 1997 (1996 – $9 million).

The majority of the Company's active landfill sites has estimated remaining lives ranging from two to more than 100 years based upon current site plans and anticipated annual volumes of waste. As at August 31, 1997, the Company estimates that during this remaining site life, it will provide for an additional $97 million (1996 – $72 million) of closure and post-closure costs, including accretion for the discount recognized to date.

Anticipated payments for environmental liabilities for each of the next five years and thereafter are as follows: ($ millions)

Year ending August 31,	1998	$ 32.1
	1999	32.4
	2000	22.7
	2001	16.0
	2002	10.9
	thereafter	170.7
		$284.8

7. LONG-TERM DEBT

August 31 ($ millions)	1997	1996
Laidlaw Inc.		
Revolving bank debt with interest rates, as a result of swap agreements, averaging 4.15% at August 31, 1997 (1996 – 6.22%)	$ 110.8	$ 377.0
8.75% debentures due January 1, 2000	200.0	200.0
7.70% debentures due August 15, 2002, with an interest rate, as a result of swap agreements, of 7.06% (1996 – 6.60%)	200.0	200.0
7.875% debentures due April 15, 2005, with an interest rate, as a result of swap agreements, of 7.31% (1996 – 6.86%)	150.0	150.0
8.75% debentures due April 15, 2025, with an interest rate, as a result of swap agreements, of 7.28% (1996 – 7.10%)	150.0	150.0
7.05% debentures due May 15, 2003, with an interest rate, as a result of swap agreements, of 6.53% (1996 – 6.22%)	100.0	100.0
8.25% debentures due May 15, 2023, with an interest rate, as a result of swap agreements, of 7.88% (1996 – 7.62%)	100.0	100.0
10.95% debentures due April 16, 2001 (Canadian dollar denominated debentures of $100.5)	72.4	91.3
8.50% debentures due December 16, 2002 (Canadian dollar denominated debentures of $92.1)	66.3	73.1
5.75% exchangeable notes due December 31, 2000	63.0	63.0
8.00% convertible notes due May 1, 2001, converted in May 1997	—	64.2
Notes due at various dates to 2008, with interest rates from 6.00% to 10.0%	68.4	38.9
	1,280.9	1,607.5
Laidlaw Environmental Services, Inc.		
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	56.7
	1,840.2	1,664.2
Less: current portion	39.8	14.9
	$1,800.4	$1,649.3

On August 31, 1997, the Company had available a $1.4 billion syndicated bank facility (1996 – $1.4 billion) of which approximately $1.1 billion (1996 – $780 million) 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, 1997.

The Company's subsidiary, LESI has a separate Bank Credit Facility consisting of five parts: (i) a six-year senior revolving credit facility with a $200 million letter of credit sublimit and $100 million available for loans subject to the aggregate limit of $275 million, (ii) a $165 million six-year senior amortizing term loan, (iii) a $60 million six-year senior amortizing Canadian term loan, (iv) a $75 million minimally amortizing seven-year senior term loan, and (v) a $75 million minimally amortizing eight-year senior term loan. Clauses (ii), (iii), (iv) and (v) are collectively referred to herein as the "Term Loans". The Term Loans were drawn in full on May 15, 1997, the closing date of the Rollins acquisition. As at August 31, 1997, approximately $252 million of LESI's $275 million revolving credit facility was unused. Under the terms of this Bank Credit Facility, LESI is required to maintain certain negative, affirmative and financial covenants, all of which have been met at August 31, 1997. The Bank Credit Facility is collateralized by certain tangible assets of LESI.

In November 1995, 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. As at August 31, 1997, the Company could satisfy the notes by delivery of 1.2296 (1996 – 1.2296) shares of common stock of U.S. Filter per note (total of 3,646,783 shares), plus cash equal to the accrued but unpaid interest thereon (see Note 3).

On April 21, 1997 the Company gave notice of redemption to redeem on May 30, 1997, the remaining $64.2 million 8% convertible notes due May 1, 2001. These notes were convertible into Common Shares at the option of the holder at a conversion price of $10.91 per share. During the year ended August 31, 1997, $64.2 million in principal value of these notes were converted into 5,882,184 Common Shares (1996 – $10.1 million in principal value of these notes were converted into 925,756 Common Shares) (see Note 10).

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,	1998	$ 39.8
	1999	40.9
	2000	249.7
	2001	191.7
	2002	268.0
	thereafter	1,050.1
		$1,840.2

The fair value of all long-term debt, exclusive of interest rate swaps, based primarily on quoted market prices, at August 31, 1997 amounted to approximately $1,984 million (1996 – $1,686 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, 1997 and 1996, are as follows: ($ millions)

	1997			1996		
	Notional Amount	**Weighted Average Maturities**	**Range of Maturities**	Notional Amount	Weighted Average Maturities	Range of Maturities
Interest Rate Swaps	**$1,403.0**	**6.6 years**	**0.5–27.6 years**	$1,252.5	8.4 years	1.5–28.6 years
Interest Rate Options	**$ 300.0**	**1.9 years**	**1.9 years**	$ 300.0	2.9 years	2.9 years

Credit risk arises from the possible inability of counterparties to meet the terms of their contracts on a net basis, which was $ nil on August 31, 1997 (1996 – $ nil).

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, 1997, was approximately $12 million (1996 – $35 million). At August 31, 1997, the Company had no plans to unwind these positions prior to maturity.

9. ADT-LINKED DEBENTURES

August 31 ($ millions)	1997	1996
6.00% ADT-Linked Convertible Debentures due January 15, 1999 (including Canadian dollar denominated tranche of $59.9 at 6.75%) with an interest rate, as a result of swap agreements of 6.40% (1996 – 6.20%)	**$280.0**	$280.0
Premium due on redemption of ADT-Linked Convertible Debentures	**112.0**	112.0
	$392.0	$392.0

In January 1994, the Company issued $280 million 6.00% ADT-Linked Convertible Debentures due January 15, 1999, which at maturity, would effectively participate in an increase in the market price of ADT common shares above $9.00 per share to a maximum of $12.60 per share. Prior to August 5, 1997, the Company effectively had the option to satisfy the debentures at maturity, by tendering any combination of ADT common shares and Laidlaw Common Shares at 95% of their then current market value and cash. On August 5, 1997 the Company gave notice to redeem for cash, on September 30, 1997, the $280 million issue of ADT-Linked Convertible Debentures for a total cost of $392.0 million (see Note 19).

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)	1997	1996
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 593,070 (1996 – 613,070)	**$8.7**	$9.0

(c) Material changes in all classes of Capital Stock since September 1, 1994:

(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 purchase 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.

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 the current year, the remaining balance of $64.2 million in principal value of these notes were converted into 5,882,184 Common Shares.

(iii) In conjunction with the acquisition of Scott's Hospitality Inc., 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 350,750 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, 1998 provided that, if the closing price per share on The Toronto Stock Exchange on any of the ten trading days immediately preceding May 1, 1998 is less than the exercise price, the date of exercise is postponed until the following May 1. This process may be repeated until May 1, 2000, when these options will expire if unexercised. At August 31, 1997, a total of 8,660,750 Common Shares were reserved for issuance on the exercise of options 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	1997	1996	1995
Options outstanding at beginning of year	**7,109,825**	5,884,675	4,931,975
Options granted during the year	**1,883,000**	1,694,250	1,442,500
Options terminated during the year	**(853,000)**	(242,500)	(378,000)
Options exercised during the year	**(1,708,600)**	(226,600)	(111,800)
Options outstanding at end of year	**6,431,225**	7,109,825	5,884,675
Options exercisable at end of year	**2,093,125**	2,025,725	1,286,840
Options available for future grants at end of year	**2,580,275**	3,779,025	5,230,775
Total exercise price of options outstanding at end of year (Cdn. $ millions)	**$92.8**	$91.8	$72.6
Option price ranges: (Cdn. $)			
Options granted	**US$11.75–Cdn.$19.05**	$14.30	$12.25
Options terminated	**$8.50 –$18.417**	$8.50 –$14.30	$8.50 –$14.00
Options exercised	**$7.625–$18.417**	$8.50 –$14.00	$8.50 –$11.375
Options outstanding at end of year	**$7.625–$22.75**	$7.625–$22.75	$7.625–$22.75

During 1997, a total of 1,708,600 (1996 – 226,600) Common Shares were issued under the plans for proceeds of $15.8 million (1996 – $1.7 million).

(e) Directors' stock option plan

At August 31, 1997, 300,000 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 1997, options to purchase 26,000 Common Shares were granted and options to purchase 18,000 Common Shares were terminated.

At August 31, 1997 the aggregate options outstanding entitled non-executive directors to purchase 83,000 (August 31, 1996 – 75,000) Common Shares at prices ranging from Cdn.$14.30 to $19.05 per share.

11. RESTRUCTURING CHARGES

The acquisition of AMR during the quarter ended February 28, 1997 more than doubled the size of the Company's emergency healthcare services segment. As a result, a strategic restructuring initiative was undertaken to create operating efficiencies, cost savings and revenue enhancement opportunities. This initiative, which was substantially completed during 1997, involves consolidation of the Company's existing healthcare transportation operations, MedTrans, 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) during the quarter ended February 28, 1997 which consisted primarily of $10.0 million to re-identify the Company's existing vehicles and uniforms under the trade name "American Medical Response", $9.0 million in severance and other employee costs, $7.0 million of lease abandonment costs relating to consolidating the corporate and regional offices, $3.0 million of fixed asset disposals and $6.0 million of other restructuring related charges.

On May 15, 1997, the Company merged its hazardous waste services business, Laidlaw Environmental Services ("LES"), into Rollins Environmental Services, Inc. ("Rollins"). The combined entity was renamed LESI. 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 holds approximately 66.5% of the equity in LESI, it has recorded its share of the write down, $133.0 million after tax and minority interest, or $0.42 per share, as a restructuring charge during the quarter ended May 31, 1997.

12. 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)	1997	1996	1995
INCOME (LOSS) BEFORE INCOME TAXES			
United States and foreign			
Before restructuring charges	$ 298.5	$ 249.5	$177.0
Restructuring charges	(362.1)	—	—
	(63.6)	249.5	177.0
Canada			
Before restructuring charges	(41.4)	(102.1)	(81.1)
Restructuring charges	(4.6)	—	—
	(46.0)	(102.1)	(81.1)
Total			
Before restructuring charges	257.1	147.4	95.9
Restructuring charges	(366.7)	—	—
	$(109.6)	$ 147.4	$ 95.9

Year Ended August 31 ($ millions)	1997	1996	1995
PROVISION FOR (RECOVERY OF) CURRENT INCOME TAXES			
United States and foreign			
Before restructuring charges	$ 34.5	$ 40.4	$ 16.4
Restructuring charges	—	—	—
	34.5	40.4	16.4
Canada			
Before restructuring charges	0.7	(19.2)	(6.8)
Restructuring charges	—	—	—
	0.7	(19.2)	(6.8)
Total			
Before restructuring charges	35.2	21.2	9.6
Restructuring charges	—	—	—
	$ 35.2	$ 21.2	$ 9.6
PROVISION FOR (RECOVERY OF) DEFERRED INCOME TAXES			
United States and foreign			
Before restructuring charges	$ 22.5	$ 8.8	$ 14.0
Restructuring charges	(143.0)	—	—
	(120.5)	8.8	14.0
Canada			
Before restructuring charges	(3.7)	0.2	(2.6)
Restructuring charges	(2.0)	—	—
	(5.7)	0.2	(2.6)
Total			
Before restructuring charges	18.8	9.0	11.4
Restructuring charges	(145.0)	—	—
	$(126.2)	$ 9.0	$ 11.4
TOTAL PROVISION FOR (RECOVERY OF) INCOME TAXES			
Before restructuring charges	$ 54.0	$ 30.2	$ 21.0
Restructuring charges	(145.0)	—	—
	$ (91.0)	$ 30.2	$ 21.0

The Company's effective income tax rates on income from continuing operations before restructuring charges are as follows:

Year Ended August 31	1997	1996	1995
Combined basic Canadian Federal and Provincial income tax rates	43.5 %	43.5 %	43.5 %
Effect of lower tax rates applicable to U.S. and foreign income	(22.8)	(22.1)	(25.0)
Other	0.3	(0.9)	3.4
Effective income tax rates	21.0 %	20.5 %	21.9 %

13. 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)	1997	1996	1995
Income from continuing operations	$ 45.2	$117.2	$ 74.9
Restructuring charges (net of tax and minority interest)	154.7	—	—
Income from continuing operations before restructuring charges	199.9	117.2	74.9
Preference share dividends	(0.4)	(0.5)	(0.5)
Income from continuing operations before restructuring charges available to common shareholders	199.5	116.7	74.4
Restructuring charges (net of tax and minority interest) (Note 11)	(154.7)	—	—
Income from continuing operations available to common shareholders	44.8	116.7	74.4
Income from discontinued operations (Note 2)	565.3	44.6	57.9
Net income available to common shareholders	$ 610.1	$161.3	$132.3
Weighted average number of shares outstanding (millions)	317.1	293.2	277.2
Earnings (loss) per share			
– Continuing operations before restructuring charges	$ 0.63	$ 0.40	$ 0.27
– Restructuring charges (net of tax and minority interest)	(0.49)	—	—
– Continuing operations	0.14	0.40	0.27
– Discontinued operations	1.78	0.15	0.21
– Net income	$ 1.92	$ 0.55	$ 0.48

14. STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended August 31 ($ millions)	1997	1996	1995
INCOME FROM CONTINUING OPERATIONS BEFORE RESTRUCTURING CHARGES COMPRISES:			
Income from continuing operations	$ 45.2	$117.2	$ 74.9
Restructuring charges (net of tax and minority interest) (Note 11)	154.7	—	—
	$ 199.9	$117.2	$ 74.9
CASH PROVIDED BY (USED IN) FINANCING WORKING CAPITAL COMPRISES:			
Trade and other accounts receivable	$(205.3)	$(99.8)	$(115.7)
Income taxes recoverable	(32.6)	37.9	(18.2)
Inventories	(10.4)	(1.9)	(16.8)
Other current assets	1.3	(5.6)	(7.4)
Accounts payable, accrued liabilities and current portion of self-insurance liabilities	136.7	47.2	119.0
	$(110.3)	$(22.2)	$ (39.1)

15. ACQUISITIONS

During the year ended August 31, 1997, the Company purchased ten passenger services businesses, 26 emergency healthcare services businesses and two hazardous waste services businesses, including Rollins.

On May 15, 1997 the Company merged its hazardous waste services business LES, into Rollins, a widely-held public company, receiving aggregate consideration of $1.1 billion. The combined entity was renamed LESI and since it evolved from the merger as a 66.5% owned subsidiary of the Company, the transaction was classified as a reverse take-over and was accounted for as an acquisition. The merger consideration to the Company comprised (i) $400 million in cash and assumption of debt, (ii) a $350 million, 12-year 5% convertible debenture and (iii) an exchange of 120 million common shares representing approximately 66.5% of the equity in LESI.

During 1996, the Company purchased five passenger services businesses, nine emergency healthcare services businesses and one hazardous waste services business. During 1995, the Company purchased eight passenger services businesses and 17 emergency healthcare services businesses and two hazardous waste services businesses.

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)	1997	1996	1995
Asset acquired, at fair value			
Property and equipment	**$ 612.8**	$203.6	$369.3
Goodwill	**1,424.5**	664.6	239.0
Long-term investments and other assets	**28.9**	4.7	11.1
	2,066.2	872.9	619.4
Liabilities assumed			
Deferred items	**(255.8)**	(76.0)	(73.3)
Working capital	**85.8**	(30.5)	5.7
Expended on acquisitions	**$1,896.2**	$766.4	$551.8
Financed by			
Debt incurred	**$1,529.5**	$ 90.0	$498.0
Debt assumed	**193.0**	357.8	53.8
Minority interest introduced	**173.7**	—	—
Shares issued	**—**	318.6	—
	$1,896.2	$766.4	$551.8

Details of the businesses acquired during the year ended August 31, 1997 are as follows: ($ millions)

	Passenger Services	Emergency Healthcare Services		Hazardous Waste Services		**Total**
		AMR	Other	Rollins	Other	
Assets acquired, at fair value						
Property and equipment	$ 68.6	$ 87.4	$ 15.1	$ 441.4	$0.3	**$ 612.8**
Goodwill	150.9	1,123.3	150.3	—	—	**1,424.5**
Long-term investments and other assets	0.2	5.7	3.0	20.0	—	**28.9**
	219.7	1,216.4	168.4	461.4	0.3	**2,066.2**
Liabilities assumed						
Deferred items	(36.4)	(43.7)	(8.6)	(167.1)	—	**(255.8)**
Working capital	19.1	75.0	1.4	(9.7)	—	**85.8**
Expended on acquisitions	$202.4	$1,247.7	$161.2	$ 284.6	$0.3	**$1,896.2**
Financed by						
Debt incurred	$196.7	$1,209.8	$122.7	$ —	$0.3	**$1,529.5**
Debt assumed	5.7	37.9	38.5	110.9	—	**193.0**
Minority interest introduced	—	—	—	173.7	—	**173.7**
	$202.4	$1,247.7	$161.2	$ 284.6	$0.3	**$1,896.2**

AMR, an emergency healthcare services business, was acquired on February 18, 1997. Rollins, a hazardous waste services business, was acquired on May 15, 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, are as follows:

Year Ended August 31 ($ millions except per share amounts)	1997	1996
Income statement data		
Revenue	**$3,656.0**	$3,710.3
Income from continuing operations before restructuring charges	**208.5**	144.7
Earnings per share from continuing operations before restructuring charges	**$0.66**	$0.49

16. COMMITMENTS AND CONTINGENCIES

Lease commitments ($ millions)

Rental expense incurred under operating leases was $87.1, $75.8 and $69.2 in 1997, 1996 and 1995 respectively.

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

Year ending August 31, 1998	$ 58.9
1999	45.3
2000	33.8
2001	24.2
2002	16.7
thereafter	21.7
	$200.6

Legal proceedings

The business of the Company's hazardous waste services segment is continuously regulated by federal, state, provincial and local provisions that have been enacted or adopted, regulating the discharge of materials into the environment or primarily for the purpose of protecting the environment. The nature of the Company's business results in it frequently becoming a party to judicial or administrative proceedings involving all levels of governmental authorities and other interested parties. The issues that are involved generally relate to applications for permits and licenses by the Company and their conformity with legal requirements and alleged technical violations of existing permits and licenses. The Company does not believe that these matters will be material to the Company's operations or financial condition.

In June 1992, the Ministry of the Environment of the Province of Quebec requested a subsidiary of the Company to advise the Ministry of its intentions concerning the carrying out of certain characterization studies of soil and water and restoration work with respect to certain areas of the subsidiary's property in Ville Mercier. In 1968, the Quebec government issued two permits to an unrelated company to dump organic liquids into lagoons on this property. By 1971, groundwater contamination had been identified. In July 1992, the subsidiary responded by first denying any responsibility for the decontamination and restoration of its site and secondly, by proposing that the Ministry and the subsidiary form a working group to find the most appropriate technical solution to the contamination problem. In November 1992, the Ministry served the subsidiary with two Notices alleging the subsidiary was responsible for the presence of contaminants on its property and that of its neighbor and ordering the subsidiary to take all the necessary measures to excavate, eliminate or treat all the contaminated soils and residues located within the areas defined in the Notices and to recover and treat all of the contaminated waters resulting from the aforementioned measures or the Ministry would proceed to do the work and would claim from the subsidiary the direct and indirect costs relating to such work. The subsidiary responded by reiterating its position that it had no responsibility for the contamination and proposing to submit the question of responsibility to the Courts for determination. The subsidiary has filed legal proceedings to obtain a Court determination of its liability, if any, associated with the contamination of the former Mercier lagoons. The Company does not believe that these matters will be material to the Company's operations or financial condition.

In the United States, The Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("Superfund") as amended, imposes financial liability on persons who are responsible for the release of hazardous substances into the environment. Present and past owners and operators of sites, which release hazardous substances, as well as generators and transporters of the waste material, are jointly and severally liable for remediation costs and environmental damage. At August 31, 1997, subsidiaries of the Company had been notified that they were potentially responsible parties in connection with 22 locations under Superfund. The Company continually reviews its status with respect to each location, taking into account the alleged connection to the location and the extent of the contribution to the volume of waste at the location, the available evidence connecting the subsidiary to that location and the numbers and financial soundness of other potentially responsible parties at the location. Based upon presently available information, the Company does not believe that potential liabilities arising from its involvement with these locations will be material to the Company's operations or financial condition.

The consolidated federal income tax returns of the Company's United States subsidiaries for the fiscal years ended August 31, 1986, 1987, and 1988 have been under audit by the

Internal Revenue Service. In March 1994, the subsidiaries received a Statutory Notice of Deficiency proposing that the subsidiaries pay additional taxes relating to disallowed deductions in those income tax returns. The principal issue involved relates to the timing and the deductibility for tax purposes of interest attributable to loans owing to related foreign persons. The subsidiaries have petitioned the United States Tax Court (captioned as Laidlaw Transportation, Inc. & Subsidiaries et al v. Commissioner of Internal Revenue, Docket Nos. 9361-94 and 9362-94) for a redetermination of claimed deficiencies of approximately $49.6 million (plus interest of approximately $80.3 million as of August 31, 1997). In October 1997, the subsidiaries received a Statutory Notice of Deficiency proposing that the subsidiaries pay additional taxes of approximately $143.5 million (plus interest of approximately $121.0 million as of August 31, 1997) relating to disallowed deductions in federal income tax returns for the fiscal years ended August 31, 1989, 1990 and 1991 based on the same issue. The subsidiaries are vigorously contesting these claimed deficiencies. The Company anticipates that the Internal Revenue Service will propose adjustments for the same issue in subsequent taxation years. Although the final outcome cannot be predicted with certainty, the Company, based upon a thorough review of the facts and advice of counsel, believes that the ultimate disposition of these issues will not have a materially adverse effect on the Company's consolidated financial position or results of operations.

17. SEGMENTED INFORMATION

Services

Year Ended August 31 ($ millions)	1997	1996	1995
	Passenger Services		
Revenue	**$1,363.5**	$1,115.9	$ 873.2
Income from operations	**149.5**	115.9	92.4
Total identifiable assets	**1,727.6**	1,482.0	1,004.3
Capital expenditures			
– sustenance and expansion (net)	**139.1**	136.5	111.8
– acquisitions	**202.4**	353.8	189.7
Depreciation and amortization	**154.1**	113.3	93.4
	Emergency Healthcare Services		
Revenue	**$ 957.2**	$ 464.3	$ 206.3
Income from operations*	**78.7**	55.5	19.7
Total identifiable assets	**2,332.8**	786.2	272.1
Capital expenditures			
– sustenance and expansion (net)	**53.8**	28.4	17.3
– acquisitions	**1,408.9**	404.6	92.3
Depreciation and amortization	**76.3**	31.9	12.8
	Hazardous Waste Services		
Revenue	**$ 710.0**	$ 715.8	$ 642.9
Income (loss) from operations**	**(264.0)**	61.6	62.8
Total identifiable assets	**1,547.3**	1,418.2	1,389.1
Capital expenditures			
– sustenance and expansion (net)	**44.8**	106.0	71.9
– acquisitions	**284.9**	8.0	269.8
Depreciation and amortization	**54.7**	50.5	50.0

* *Including a restructuring charge of $35.0 million in 1997 (Note 11).*
** *Including a restructuring charge of $331.7 million in 1997 (Note 11).*

Geographic

Year Ended August 31 ($ millions)	1997	1996	1995
	United States		
Revenue	**$2,736.7**	$2,067.8	$1,514.9
Income (loss) from operations*	**(76.3)**	205.8	151.0
Total identifiable assets	**5,091.7**	3,221.8	2,306.2
	Canada		
Revenue	**$ 294.0**	$ 228.2	$ 207.5
Income from operations**	**40.5**	27.2	23.9
Total identifiable assets	**516.0**	464.6	359.3

* *Including a restructuring charge of $362.1 million in 1997 (Note 11).*
** *Including a restructuring charge of $4.6 million in 1997 (Note 11).*

Consolidated

Year Ended August 31 ($ millions)	1997	1996	1995
Revenue	**$3,030.7**	$2,296.0	$1,722.4
Income from operations*	**330.9**	233.0	174.9
Restructuring charges (Note 11)	**(366.7)**	—	—
Interest expense net of interest, dividend and other income	**(77.3)**	(85.6)	(81.0)
Equity earnings	**3.5**	—	2.0
Income tax recovery (expense) (Note 12)	**91.0**	(30.2)	(21.0)
Minority interest	**63.8**	—	—
Income from continuing operations	**$ 45.2**	$ 117.2	$ 74.9
Total identifiable assets of segments	**$5,607.7**	$3,686.4	$2,665.5
Assets of discontinued operations	**—**	828.0	744.8
Corporate assets	**509.4**	417.9	724.5
Total assets	**$6,117.1**	$4,932.3	$4,134.8
Capital expenditures			
– sustenance and expansion (net)	**$ 239.4**	$ 280.5	$ 215.6
– acquisitions	**1,896.2**	766.4	551.8
Depreciation and amortization	**286.2**	196.7	157.2

* *Excluding restructuring charges of $366.7 million in 1997 (Note 11).*

18. 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) U.S. GAAP requires an asset and liability approach for financial accounting and reporting for income taxes. The effect of applying U.S. GAAP to reporting for income taxes would be to increase both fixed assets and deferred income taxes by approximately $71 million at August 31, 1997 (1996 – $79 million).

(2) Under U.S. GAAP, non-cash consideration related to business acquisitions is excluded from the statement of changes in financial position. Accordingly, cash used in investing activities and cash provided by financing activities under U.S. GAAP would each be reduced by $366.7 million, $676.4 million and $53.8 million in 1997, 1996 and 1995 respectively.

(3) 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)	1997	1996	1995
Net cash provided by continuing operating activities	**$330.2**	$188.9	$314.4
Cash, short-term deposits and marketable securities – end of year	**13.4**	21.8	60.8

(4) **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 costs described in SFAS 123.

The Company's stock option plan is described in Note 10. Stock options granted by the Company in 1997, (i) were granted at prices equal to the value of stock on the grant date, (ii) vest 20% per year from the date of grant to 2002; and (iii) expire ten years subsequent to the grant date.

The fair value of the options granted during 1997 was estimated using the Black-Scholes option-pricing model with the assumptions of a dividend yield of 0%, an expected volatility of 30%, a risk-free interest rate of 5.90% to 7.71%, and an expected life of five years.

The total value of 1,697,000 stock options that were granted, net of terminated options, by the Company during 1997 was $6.0 million (during 1996, 1,689,250 stock options were granted, net of terminated options, with a total value of $3.9 million). Of this total amount, under SFAS 123, the cost of stock compensation expense for the year ended August 31, 1997 would be $1.3 million (1996 – $0.3 million). The unrecognized value of $8.3 million will 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, 1997 under U.S. GAAP are $609.2 million and $1.92, respectively (1996 – $161.5 million and $0.55 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 anticipted.

(5) **Recent accounting developments**

In October 1996, the American Institute of Certified Public Accountants issued Statement of Position 96-1 "Environmental Remediation Liabilities" ("SOP 96-1") for fiscal years beginning after December 15, 1996. SOP 96-1 provides that environmental remediation liabilities should be accrued when the criteria of SFAS No. 5, "Accounting for Contingencies" are met and it includes benchmarks to aid in the determination of when environmental remediation liabilities should be recognized. SOP 96-1 also provides guidance with respect to the measurement of the liability and the display and disclosure of environmental remediation liabilities in the financial statements. The Company believes that the adoption of this SOP will not have a material impact on the Company's financial condition or results of operations.

In February 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 128 "Earnings Per Share". This standard is effective for financial statements issued for periods ending after December 15, 1997, and will be adopted for the interim period ended February 28, 1998, 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. The Company does not expect that SFAS No. 128 will have a material impact on the earnings per share computation.

19. SUBSEQUENT EVENTS

On September 4, 1997, the Company acquired for cash pursuant to a public tender offer, the outstanding common shares of EmCare Holdings Inc. ("EmCare"). EmCare is a leading provider of physician services management in hospital emergency departments and other practice settings. The aggregate value of the transaction is approximately $400 million and funds were provided from the Company's revolving bank debt facility.

On September 9, 1997, the Company commenced a cash tender offer for all the outstanding shares of Greyhound Canada Transportation Corp. ("Greyhound"), Canada's leader in intercity passenger bus service. As of October 14, 1997, the Company owns more than 90% of the outstanding Greyhound shares and will, therefore, complete a compulsory acquisition of the balance. The aggregate value of the transaction is expected to be approximately Cdn.$100 million (U.S. $75 million).

On September 29, 1997, the Company sold $225 million of 6.65% debentures due October 1, 2004 and $200 million of 6.72% debentures due October 1, 2027. Net proceeds of approximately $421.8 million were used to repay revolving bank debt.

On September 30, 1997, the Company redeemed for cash, its $280.0 million issue of ADT-Linked Convertible Debentures, due January 15, 1999, at a total cost of approximately $392.0 million. Funds were provided from the Company's revolving bank debt facility (see Note 9).

20. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

($ millions except per share amounts)	1st	2nd	3rd	4th	Total
Revenue					
– 1997	**$702.9**	**$694.5**	**$897.8**	**$735.5**	**$3,030.7**
– 1996	618.8	575.8	622.9	478.5	2,296.0
Income from operations*					
– 1997	**89.0**	**67.6**	**118.7**	**55.6**	**330.9**
– 1996	76.4	55.1	76.2	25.3	233.0
Income from continuing operations before restructuring charges (Note 13)					
– 1997	**55.9**	**47.7**	**70.2**	**26.1**	**199.9**
– 1996	39.8	24.4	47.1	5.9	117.2
Restructuring charges (net of tax and minority interest)					
– 1997	**—**	**(21.7)**	**(133.0)**	**—**	**(154.7)**
– 1996	—	—	—	—	—
Income (loss) from continuing operations					
– 1997	**55.9**	**26.0**	**(62.8)**	**26.1**	**45.2**
– 1996	39.8	24.4	47.1	5.9	117.2
Income from discontinued operations (Note 2)					
– 1997	**13.0**	**552.3**	**—**	**—**	**565.3**
– 1996	10.4	5.8	11.8	16.6	44.6
Net income (loss)					
– 1997	**68.9**	**578.3**	**(62.8)**	**26.1**	**610.5**
– 1996	50.2	30.2	58.9	22.5	161.8
Earnings per share –					
Income from continuing operations before restructuring charges					
– 1997	**$ 0.18**	**$ 0.15**	**$ 0.22**	**$ 0.08**	**$ 0.63**
– 1996	0.14	0.08	0.16	0.02	0.40
Earnings (loss) per share –					
Income (loss) from continuing operations (Note 13)					
– 1997	**0.18**	**0.08**	**(0.20)**	**0.08**	**0.14**
– 1996	0.14	0.08	0.16	0.02	0.40
Earnings per share –					
Discontinued operations					
– 1997	**0.04**	**1.76**	**—**	**—**	**1.78**
– 1996	0.04	0.02	0.04	0.05	0.15
Earnings (loss) per share –					
Net income (loss)					
– 1997	**0.22**	**1.84**	**(0.20)**	**0.08**	**1.92**
– 1996	0.18	0.10	0.20	0.07	0.55

** 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 18 of Notes to Consolidated Financial Statements.

Year Ended August 31 ($ millions except per share amounts)	1997	1996	1995	1994	1993
Income statement data under Canadian GAAP					
Revenue	**$3,030.7**	$2,296.0	$1,722.4	$1,378.1	$1,237.3
Income from operations before restructuring and special and non-recurring charges	**330.9**	233.0	174.9	140.0	143.1
Income from continuing operations before restructuring charges, special and non-recurring charges and unusual items	**199.9**	117.2	74.9	65.5	98.3
Income (loss) from continuing operations	**45.2**	117.2	74.9	48.8	(186.9)
Income (loss) from discontinued operations	**565.3**	44.6	57.9	42.0	(104.7)
Income (loss) before extraordinary items	**610.5**	161.8	132.8	90.8	(291.6)
Net income (loss)	**610.5**	161.8	132.8	90.8	(291.6)
Earnings per share from continuing operations before special and non-recurring charges and unusual items	**0.63**	0.40	0.27	0.24	0.35
Earnings (loss) per share from continuing operations	**0.14**	0.40	0.27	0.18	(0.67)
Income (loss) per share from discontinued operations	**1.78**	0.15	0.21	0.15	(0.38)
Earnings (loss) per share before extraordinary items	**1.92**	0.55	0.48	0.33	(1.05)
Earnings (loss) per share	**1.92**	0.55	0.48	0.33	(1.05)
Dividends per Common Share	**0.146**	0.139	0.116	0.118	0.126
Average number of Common Shares (millions)	**317.1**	293.2	277.2	277.2	277.2
Approximate amounts under U.S. GAAP					
Income (loss) from continuing operations	**$ 45.2**	$ 117.2	$ 74.9	$ 48.8	$ (186.9)
Income (loss) from discontinued operations	**565.3**	44.6	57.9	42.0	(104.7)
Income (loss) before extraordinary items	**610.5**	161.8	132.8	90.8	(291.6)
Net income (loss)	**610.5**	161.8	132.8	90.8	(291.6)
Earnings (loss) per share from continuing operations	**0.14**	0.40	0.27	0.18	(0.67)
Income (loss) per share from discontinued operations	**1.78**	0.15	0.21	0.15	(0.38)
Earnings (loss) per share before extraordinary items	**1.92**	0.55	0.48	0.33	(1.05)
Earnings (loss) per share	**1.92**	0.55	0.48	0.33	(1.05)
Balance sheet data (at end of year) under Canadian GAAP					
Working capital	**$ 483.4**	$ 293.5	$ 170.1	$ 212.4	$ 237.1
Fixed assets, net	**2,251.0**	1,949.8	1,650.4	1,219.2	1,124.6
Total assets	**6,117.1**	4,932.3	4,134.8	3,504.0	3,394.6
Long-term debt (including ADT-Linked Debentures)	**2,192.4**	2,041.3	1,734.1	1,426.9	1,367.0
Shareholders' equity	**2,794.0**	2,136.8	1,697.4	1,585.9	1,553.3
Other data					
Operating margin	**10.9%**	10.1%	10.2%	10.2%	11.6%
Pre-tax margin*	**8.5**	6.3	5.6	6.1	9.9
After-tax margin*	**6.6**	5.1	4.3	4.8	7.9
Return on average common shareholders' equity*	**7.8**	8.5	8.1	6.8	6.4
Return on net assets employed in operations*	**7.6**	8.5	8.3	8.4	9.4
Long-term debt/capital	**39.9**	45.8	46.5	43.9	43.8
Long-term debt/equity	**78.5**	95.5	102.2	90.0	88.0

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

The following table sets forth, for the periods and dates indicated, certain information concerning the Canadian dollar exchange rate or 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	1997	1996	1995	1994	1993
High	**Cdn. $1.3971**	Cdn. $1.3747	Cdn. $1.3820	Cdn. $1.3845	Cdn. $1.3208
Low	**1.3409**	1.3401	1.3410	1.3226	1.2216
Average	**1.3699**	1.3623	1.3754	1.3552	1.2658
End of year	**1.3890**	1.3685	1.3432	1.3712	1.3208

On October 14, 1997, 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. $1.3826.

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	
1996 Fiscal Year	High	Low	High	Low
First Quarter	$13.13	$11.00	$13.13	$11.00
Second Quarter	14.50	12.50	14.63	12.50
Third Quarter	14.88	13.13	15.00	13.25
Fourth Quarter	14.10	12.10	14.10	11.90
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 Voting Shares	
	High	Low
Fourth Quarter from July 29, 1997	**$22.90**	**$20.05**

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	
1996 Fiscal Year	High	Low	High	Low
First Quarter	$ 9.63	$ 8.25	$ 9.63	$ 8.38
Second Quarter	10.50	9.13	10.50	9.25
Third Quarter	10.88	9.75	11.00	9.75
Fourth Quarter	10.25	8.88	10.38	9.00
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 Voting Shares	
	High	Low
Fourth Quarter from August 1, 1997	**$16.50**	**$14.38**

As of September 30, 1997, there were 5,596 holders of record of Common Shares.

The Company has paid cash dividends every year since 1969. Cash dividends of $0.04 Canadian per share were paid on November 15, 1995. Cash dividends of $0.05 Canadian per share were paid on each of February 15, 1996, May 15, 1996, August 15, 1996, November 15, 1996, February 15, 1997, May 15, 1997 and August 15, 1997. Cash dividends of $0.05 Canadian per share have been declared payable on November 15, 1997.

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

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

Wayne R. Bishop
Vice-President, Controller

Jeffrey Cassell
Vice-President, Risk Management

William R. Cottick
Secretary and Associate General Counsel

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

Laidlaw Transit
John R. Grainger
President and Chief Operating Officer

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

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