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ORIGINAL

February 5, 2003



VIA HAND DELIVERY - RETURN COPY

Hon. Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, NW (7th fl.)
Washington, DC 20423-0001

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Office of Proceedings
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Public Record

Dear Secretary Williams:

This refers to STB Docket No. MC-F-20940, Laidlaw Inc. and Laidlaw Transit Acquisition Corporation--Merger--Greyhound Lines, Inc., and to the decision of the Board, served December 6, 2000.

Enclosed are eleven copies of the result of Laidlaw Inc. for the three months ending November 30, 2002..

An additional copy of this letter and its attachment are enclosed for you to stamp to acknowledge your receipt of them and to return to me via the messenger.

If you have any question concerning the foregoing which you believe I may be able to answer or if I otherwise can be of assistance, please let me know.

Sincerely yours,


Fritz R. Kahn

enc.

cc: Rosalind A. Knapp, Esq.
Stephen E. Barber, Esq.
Roger W. Fones, Esq.
Theodore C. Knappen, Esq.
Mark E. Southerst, Esq.

LIDLAW INC.
(Debtor-in-Possession as of June 28, 2001 – Note 1)
CONSOLIDATED BALANCE SHEETS
(U.S. \$ In millions)

	November 30, 2002 (unaudited)	August 31, 2002
ASSETS		
Current assets		
Cash and cash equivalents	\$258.2	\$343.5
Restricted cash and cash equivalents (Note 2)	86.9	75.8
Short-term deposits and marketable securities		
- at cost which approximates market value (Note 2)	13.2	16.1
Trade accounts receivable	640.8	490.4
Other receivables	52.0	54.9
Income taxes recoverable	31.4	29.2
Parts and supplies	50.7	50.4
Other current assets	72.0	64.0
Total current assets	1,205.2	1,124.3
 Long-term investments	 424.0	 413.3
 Property and equipment		
Land	162.2	162.2
Buildings	286.0	284.3
Vehicles	2,164.6	2,128.3
Other	412.3	417.2
	3,025.1	2,992.0
Less: Accumulated depreciation	1,357.1	1,314.3
	1,668.0	1,677.7
 Other assets		
Goodwill (net of accumulated amortization and impairments of \$2,955.1; August 31, 2002 - \$2,939.7) (Note 3)	797.0	813.1
Pension asset	44.4	43.1
Deferred charges	19.7	19.6
	861.1	875.8
 Total assets	 \$4,158.3	 \$4,091.1

The accompanying notes are an integral part of these statements.

LIDLAW INC.
(Debtor-in-Possession as of June 28, 2001 – Note 1)
CONSOLIDATED BALANCE SHEETS
(U.S. \$ In millions)

	November 30, 2002 (unaudited)	August 31, 2002
LIABILITIES		
Liabilities not subject to compromise		
Current liabilities		
Accounts payable	\$97.0	\$109.7
Accrued liabilities	517.1	504.1
Current portion of long-term debt	21.1	20.3
Total current liabilities	<u>635.2</u>	<u>634.1</u>
Long-term debt	206.1	204.4
Other long-term liabilities	426.6	382.5
Liabilities subject to compromise (Note 4)	3,977.1	3,977.1
Commitments and contingencies (Notes 1,5 and 13)		
Total liabilities	<u>5,245.0</u>	<u>5,198.1</u>
SHAREHOLDERS' DEFICIENCY		
Preference Shares (Note 6)	7.9	7.9
Common Shares; issued and outstanding 325,927,870 (August 31, 2002 – 325,927,870) (Note 6)	2,222.6	2,222.6
Cumulative foreign currency translation adjustments	(172.8)	(171.4)
Deficit	(3,144.4)	(3,166.1)
Total shareholders' deficiency	<u>(1,086.7)</u>	<u>(1,107.0)</u>
Total liabilities and shareholders' deficiency	<u>\$4,158.3</u>	<u>\$4,091.1</u>

The accompanying notes are an integral part of these statements.

LIDLAW INC.
(Debtor-in-Possession as of June 28, 2001 – Note 1)
CONSOLIDATED STATEMENTS OF OPERATIONS
(U.S. \$ in millions except per share amounts)
(unaudited)

	Three Months Ended November 30,	
	2002	2001
Revenue		
Contract Bus services	\$526.8	\$527.0
Greyhound	274.4	284.2
Healthcare services	361.0	350.6
Total revenue	1,162.2	1,161.8
 Operating expenses	 921.0	 903.4
Selling, general and administrative expenses	111.4	110.5
Depreciation expense	76.2	73.9
Amortization expense	1.2	9.8
Goodwill impairment loss (Note 7)	-	123.5
 Income (loss) from operating segments	 52.4	 (59.3)
Interest expense (Note 4)	(6.5)	(7.1)
Other financing related expenses (Note 8)	(8.2)	(14.5)
Other income	1.5	2.5
Income (loss) from operations before income taxes	39.2	(78.4)
Income tax expense	(1.5)	(1.5)
 Net income (loss) for the period	 \$37.7	 (\$79.9)
 Basic and diluted income (loss) per share	 \$0.12	 (\$0.25)

CONSOLIDATED STATEMENTS OF DEFICIT
(U.S. in \$millions)
(unaudited)

	Three Months Ended November 30,	
	2002	2001
Deficit – beginning of period	(\$3,166.1)	(\$3,041.7)
Net income (loss) for the period	37.7	(79.9)
Cumulative effect of change in accounting principle (Note 3)	(16.0)	-
 Deficit – end of period	 (\$3,144.4)	 (\$3,121.6)

The accompanying notes are an integral part of these statements.

LAIDLAW INC.
(Debtor-in-Possession as of June 28, 2001 – Note 1)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. \$ in millions)
(unaudited)

	Three Months Ended November 30,	
	2002	2001
Operating activities		
Net income (loss) for the period	\$37.7	(\$79.9)
Items not affecting cash:		
Depreciation and amortization	77.4	83.7
Other financing related expenses	8.2	14.5
Goodwill impairment loss	-	123.5
Other items	(1.7)	(3.0)
Increase (decrease) in claims liability and professional liability insurance accruals	28.7	(18.6)
Decrease in accrued interest	(4.3)	(4.7)
Cash used in financing other working capital items	(133.4)	(115.9)
Cash portion of other financing related expenses	(9.6)	(6.4)
Increase in restricted cash and cash equivalents	(11.1)	(9.8)
Net cash used in operating activities	(\$8.1)	(\$16.6)
Investing activities		
Purchase of property, equipment and other assets, net of proceeds from sale	(\$67.6)	(\$60.4)
Expended on acquisitions	(3.2)	-
Net increase in investments	(9.0)	(7.3)
Net cash used in investing activities	(\$79.8)	(\$67.7)
Financing activities		
Net increase in long-term debt and other long-term liabilities	\$2.6	\$5.3
Net cash provided by financing activities	\$2.6	\$5.3
Net decrease in cash and cash equivalents	(\$85.3)	(\$79.0)
Cash and cash equivalents – beginning of period*	343.5	281.2
Cash and cash equivalents – end of period*	\$258.2	\$202.2

*These amounts represent the unrestricted cash and cash equivalents of the Company – Refer to Note 2.

The accompanying notes are an integral part of these statements.

LIDLAW INC.
(Debtor-in-Possession as of June 28, 2001)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED NOVEMBER 30, 2002

Note 1 – Voluntary petition for reorganization, basis of presentation and ability to continue operations

Voluntary petition for reorganization

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

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

The Company is reorganizing its affairs under the protection of the Bankruptcy Code and the CCAA and has proposed a plan of reorganization for itself and the other Debtors. The plan of reorganization must be voted upon by the Company's stakeholders and approved by the Bankruptcy Court and the Canadian Court. A plan of reorganization sets forth the means for satisfying claims against and interests in the Company and the other Debtors, including the liabilities subject to compromise (See Note 4). Generally, prepetition liabilities are subject to settlement under such a plan of reorganization.

Basis of presentation and ability to continue operations

The accompanying interim consolidated financial statements of Laidlaw Inc. have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") for interim reporting, which conform, in all material respects (except as indicated in Note 11), with accounting principles generally accepted in the U.S. ("U.S. GAAP"). Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included. All such adjustments are of a normal, recurring nature. Operating results for the three months ended November 30, 2002 are not necessarily indicative of the results that may be expected for the full year ending August 31, 2003. For further information, see the Company's consolidated financial statements, including the accounting policies and notes thereto, for the fiscal year ended August 31, 2002.

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.

The Company uses significant estimates and assumptions of future events surrounding the settling of the claims liability reserves. While the reserves are actuarially determined, the process of determining the reserves involves predicting such factors as future medical costs, the ultimate settlement amounts and court awards. As a result, there is a reasonable possibility that the recorded claims liabilities could change materially.

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

If the Company successfully completes the proposed reorganization, the Company will be required to adopt "fresh start" accounting. This accounting would require that assets and liabilities be recorded at fair value, based on values determined in connection with the restructuring. Certain reported asset and liability balances do not yet give effect to the adjustments that would result from the adoption of "fresh-start" accounting and as a result, would change materially.

Note 2 – Restricted cash and cash equivalents and short-term investments

Cash and cash equivalents of \$86.9 million (August 31, 2002 - \$75.8 million) and short-term deposits and marketable securities of \$13.2 million (August 31, 2002 - \$16.1 million) are assets of the Company's wholly owned insurance subsidiaries and are used to support the current portion of claims liabilities under the Company's self-insurance program. If these amounts are withdrawn from the subsidiaries, they will have to be replaced by other suitable financial assurances. Given the recent financial position of the Company, management has concluded that such cash and cash equivalents and short-term deposits and marketable securities of the insurance subsidiaries are restricted.

Note 3 – Goodwill and other intangible assets

Effective September 1, 2002, the Company adopted the new recommendations under Canadian GAAP pertaining to goodwill and other intangibles and, as a result, the Company ceased to amortize goodwill. In lieu of amortization, the new policy requires that goodwill be reviewed for impairment upon adoption and at least annually thereafter. Under the new policy, goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value and the carrying amount of the goodwill exceeds its estimated fair value. To determine estimated fair value of the reporting units, the Company utilized independent valuations of the underlying businesses.

During the three months ended November 30, 2002, the Company completed the impairment assessment as required by the new policy and determined that the carrying value of one of its operations exceeded its fair value as at September 1, 2002. As a result, the Company recorded a non-cash charge of \$16.0 million recorded directly through the deficit account on the consolidated statement of deficit.

In connection with adopting the new policy, the Company reassessed the useful lives and classifications of its identifiable intangible assets other than goodwill and determined that the useful lives and classifications continue to be appropriate.

The changes in the carrying amount of goodwill by segment for the three months ended November 30, 2002 are as follows: (\$ millions)

	Contract Bus Services	Greyhound	Healthcare Services	Total
Balance as of September 1, 2002	\$518.9	\$ -	\$294.2	\$813.1
Impairment loss	(16.0)	-	-	(16.0)
Other	(0.5)	-	0.4	(0.1)
Balance as of November 30, 2002	\$502.4	\$ -	\$294.6	\$797.0

The impairment loss at the Contract bus services segment is comprised of a \$16.0 million impairment loss in the school bus transportation unit.

Actual results of operations for the three months ended November 30, 2002 and pro forma results of operations for the three months ended November 30, 2001, had the goodwill not been amortized in that period in accordance with the provisions of the new policy, are as follows: (\$ millions)

	Three months ended November 30	
	2002	2001
Reported net income (loss)	\$37.7	(\$79.9)
Add: goodwill amortization	-	8.4
Adjusted net income (loss)	\$37.7	(\$71.5)

Actual basic and diluted loss per share for the three months ended November 30, 2002 and pro forma basic and diluted earnings per share for the three months ended November 30, 2001, had the goodwill not been amortized in that period in accordance with the provisions of the policy, are as follows: (\$ per share)

	Three months ended November 30	
	2002	2001
Reported net income (loss)	\$0.12	(\$0.25)
Goodwill amortization	-	0.03
Adjusted net income (loss)	\$0.12	(\$0.22)

Note 4 – Liabilities subject to compromise

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

On a consolidated basis, recorded liabilities subject to compromise under the reorganization proceedings consisted of the following: (\$ in millions)

	November 30, 2002	August 31, 2002
Accrued liabilities	\$11.3	\$11.3
Safety-Kleen Corp. ("Safety-Kleen") Guarantees	77.3	77.3
Derivative liabilities	89.5	89.5
Safety-Kleen settlement (Note 13)	225.0	225.0
Accrued interest payable	370.7	370.7
Facility (as defined in Note 8)	1,163.3	1,163.3
Debentures (as defined in Note 8)	2,040.0	2,040.0
	\$3,977.1	\$3,977.1

As a result of the Debtor's chapter 11 filing, principal and interest payments may not be made on prepetition debt of the Debtors without Bankruptcy Court approval or until a reorganization plan or plans defining the repayment terms, has been confirmed. The total interest on prepetition debt that was not paid or accrued during the three months ended November 30, 2002 was \$71.4 million (\$395.9 million since June 29, 2001). The Bankruptcy Code generally disallows the payment of interest that accrues post-petition with respect to unsecured or under-secured claims.

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

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

Note 5 - Commitments and contingencies

Letters of credit

At November 30, 2002, the Company had \$150.0 million (August 31, 2002 - \$124.1 million) in outstanding letters of credit.

Environmental matters

The Company's operations are subject to numerous environmental laws, regulations and guidelines adopted by various governmental authorities in the jurisdictions in which the Company operates. Liabilities are recorded when environmental liabilities are either known or considered probable and can be reasonably estimated. On an ongoing basis, management assesses and evaluates environmental risk and, when necessary, conducts appropriate corrective measures. The Company provides for environmental liabilities using its best estimates. Actual environmental liabilities could differ significantly from these estimates.

Income tax matters

The respective tax authorities, in the normal course, audit the Company's tax filings of previous fiscal years. It is not possible at this time to predict the final outcome of these audits or to establish a reasonable estimate of possible additional taxes owing, if any.

Legal proceedings

The Company is a defendant in various lawsuits arising in the ordinary course of business, primarily cases involving personal injury and property damage claims and employment related claims. Based on the Company's assessment of known claims and its historical claims payout pattern and discussion with internal and outside legal counsel and risk management personnel, management believes that there is no proceeding either threatened or pending against the Company relating to such personal injury and/or property damage claims arising out of the ordinary course of business that, if resolved against the Company, would have a materially adverse effect upon the Company's consolidated financial position or results of operations.

As described in Note 1, the Debtors filed a voluntary petition for reorganization under the Bankruptcy Code on June 28, 2001. Management of the Company continues to operate the business of the Debtors as a debtor-in-possession. The Company has proposed a plan of reorganization for itself and the other Debtors. The plan of reorganization must be voted upon by the Company's stakeholders and approved by the Bankruptcy Court and the Canadian Court. As a result of the Company's voluntary petitions for relief under the protection of the Bankruptcy Code and the CCAA, the actions described below are stayed with respect to the Company.

The Company is a party to securities litigation commenced by shareholders of the Company and of Safety-Kleen and by bondholders of the Company and Safety-Kleen. As a result of the Company's voluntary petitions for relief under the protection of the Bankruptcy Code and the CCAA, these actions are stayed with respect to the Company. A settlement of securities litigation commenced by bondholders of the Company has been approved by the Bankruptcy Court, the Canadian Court and the federal court in South Carolina. If the settlement is

implemented on the current terms, the plaintiff bondholder classes would receive \$42.875 million and the estate of the Company would receive \$12.5 million. Pursuant to an order of the Bankruptcy Court, the other securities claims are subordinated and will receive no distributions under the plan of reorganization. See Note 13 for additional details with respect to the various securities litigation cases.

A complaint was filed in the United States District Court for the Southern District of Mississippi against the Company and others. The complaint alleges causes of action for breach of contract, tortious breach of contract, breach of fiduciary duty, breach of duty of good faith and fair dealing, breach of duty of confidential relations, usurpation of corporate opportunity, negligent misrepresentation, fraudulent misrepresentation, violation of federal antitrust statutes, tortious interference with contractual relations, tortious interference with prospective contractual relations, tortious interference with prospective business relationships, fraud and abuse of superior bargaining power. This case alleges that plaintiff and Laidlaw Osco Holdings, Inc. (now Safety-Kleen Osco Holdings, Inc.) agreed to form a corporation to own and develop a hazardous waste treatment facility in Mississippi.

On November 6, 2000, a complaint was filed in the United States District Court for the Southern District of Mississippi against the Company and others. The complaint alleges causes of action for breach of contract, tortious breach of contract, breach of fiduciary duty, breach of duty of good faith and fair dealing, breach of duty of confidential relations, negligent misrepresentation, fraudulent misrepresentation, violation of federal and state antitrust statutes, tortious interference with prospective business relationships, fraud, and abuse of superior bargaining power. This case alleges that plaintiff was injured as a result of the Company's 1994 acquisition of United States Pollution Control, Inc., a company that was developing a hazardous waste project in Mississippi in a joint venture with the plaintiff. On June 14, 2001, the court entered an order consolidating this action with the action detailed above. Although the claims against the Company have been stayed, plaintiffs have filed proofs of claims in the Company's bankruptcy case and have moved the Bankruptcy Court to modify the automatic stay to allow them to pursue their claims against the Company.

On December 13, 2002 the Bankruptcy Court issued an order disallowing in their entirety and expunged in all respects these two complaints filed in the United States District Court for the Southern District of Mississippi.

Healthcare Services issues

A substantial majority of the Company's healthcare services revenue is attributable to payments received from third-party payors including Medicare, Medicaid and private insurers. The Company is subject to various regulatory requirements in connection with its participation in the Medicare and Medicaid programs. The Center for Medicare and Medicaid Services has enacted rules that will revise the policy on Medicare coverage of ambulance services focusing on the medical necessity for the particular ambulance services. Rule changes in this area will impact the business of the Company. The Company has implemented a plan, which it believes will mitigate potential adverse effects of rule changes on its business.

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

penalties and exclusion from participation in the Medicare and Medicaid programs. The Company has implemented policies and procedures that it believes will assure that it is in substantial compliance with these laws and has accrued provisions, as appropriate, for settlement of prior claims.

The Company is currently undergoing investigations by certain government agencies regarding compliance with Medicare fraud and abuse statutes. The Company is cooperating with the government agencies conducting these investigations and is providing requested information to the governmental agencies. These reviews are covering periods prior to the Company's acquisition of the operations of certain businesses, as well as for periods after acquisition. Management believes that the remedies existing under specific purchase agreements and accruals established in the consolidated financial statements are sufficient.

Fuel purchase commitments

Historically, fuel costs represent approximately 3% to 5% of revenue. Due to the significance of fuel expenses, particularly diesel fuel, to the operations of the Company and the historical volatility of fuel prices, the Company has initiated a program to minimize the fluctuations in the price of its diesel fuel purchases. The intent of the program is to mitigate the impact of fuel price changes on the Company's operating margins and overall profitability by entering into forward supply contracts ("FSCs") with certain vendors. The Company enters into FSCs for roughly one third of the Company's total annual fuel purchases. The FSCs generally stipulate set bulk delivery volumes at prearranged prices for a set period. The volumes agreed to be purchased by the Company are well below the forecasted total bulk fuel needs for the given location. Therefore, the risk of being forced to purchase fuel through the FSCs that is not required by the Company is minimal. Also, to the extent that the Company enters FSCs for portions of its total fuel needs, it may not realize the benefit of decreases in fuel prices. Conversely, to the extent that the Company does not enter into FSCs for portions of its total fuel needs, it may be adversely affected by increases in fuel prices.

Potential Pension Plan funding requirements

Subsidiaries of the Company sponsor 13 (August 31, 2002 - 13) defined benefit pension plans. Four plans relate to Greyhound Canada Transportation Corp. and cover employees represented by The Canadian Auto Workers and the Amalgamated Transit Union ("ATU") and all non-unionized employees meeting certain eligibility requirements. A fifth plan is a multi-employer pension plan, instituted in 1992, to cover certain union mechanics of Greyhound Lines, Inc. ("Greyhound") represented by the International Association of Machinists and Aerospace Workers. The remaining eight plans are the following single employer pension plans maintained in the United States by Greyhound (the "Greyhound U.S. Plans"):

- ~~###~~ Greyhound Lines, Inc. Salaried Employees Defined Benefit Plan ("Greyhound Salaried Plan");
- ~~###~~ Greyhound Lines, Inc. Amalgamated Transit Union Local 1700 Council Retirement & Disability Plan ("ATU Plan");
- ~~###~~ Texas, New Mexico and Oklahoma Coaches, Inc. Employees Retirement Plan;
- ~~###~~ Vermont Transit Co. Inc. Employees Defined Benefit Pension Plan ("Vermont Transit Plan");
- ~~###~~ Carolina Coach Company Pension Plan;
- ~~###~~ Carolina Coach Company International Association of Machinist Pension Plan;
- ~~###~~ Carolina Coach Company Amalgamated Transit Union Pension Plan; and
- ~~###~~ Carolina Coach Company Supplemental Executive Retirement Plan.

The ATU Plan covers approximately 14,000 current and former employees hired before November 1, 1983 by Greyhound, fewer than 1,000 of whom are active employees. The ATU Plan provides retirement benefits to the covered employees based upon a percentage of average final earnings, reduced pro rata for service of less than 15 years. Under the terms of the collective bargaining agreement, participants in this plan accrue benefits as long as no contributions are due from the Company. During fiscal 2002, the ATU Plan actuary advised the Company and the union that the decline in the financial markets had made it likely that contributions to the ATU Plan would be required for the plan in calendar 2003. The Company and union met and agreed to freeze service and wage accruals effective March 15, 2002. The ATU Plan actuary continues to advise that contributions will be required. The Company and the union will meet to discuss the continuation of the freeze. In the event the Company and the union are unable to negotiate a method for avoiding contributions in 2003, or for years after 2003, or the Company is otherwise required to make a contribution, any such contributions could have a material adverse effect on the financial condition of Greyhound and, as a result, the Company. The Greyhound Salaried Plan covered salaried employees of Greyhound through May 7, 1990, when the plan was curtailed. The Vermont Transit Plan covered substantially all employees at Vermont Transit Company through June 30, 2000, when the plan was curtailed. The other five Greyhound U.S. Plans cover salaried and hourly personnel of other Greyhound subsidiaries. Except as described below, it is the Company's policy to fund the minimum required contribution under existing laws.

For financial reporting and investment planning purposes, the Company currently uses an actuarial mortality table that closely matches the actual experience related to the existing participant population. For funding purposes, United States pension law mandates the use of a prescribed actuarial mortality table and discount rates that differ from those used by the Company for financial reporting and investment planning purposes. The ATU Plan represents approximately 75% of the total plan assets and benefit obligation as at November 30, 2002. Based upon the application of the actuarial mortality table, discount rates and funding calculations prescribed by current regulations, and further assuming a continuation of the freeze of wage and service accruals and that the ATU Plan assets can obtain annual investment returns of 7.5%, estimated Company contributions to the ATU Plan, based on the Company's policy of funding the minimum contributions required by law, will total \$187 million through 2007. Lowering the assumed investment return on ATU plan assets to 5% results in estimated contributions through 2007 of \$205 million, while a 10% return results in estimated contributions through 2007 of \$169 million. Nevertheless, there is no assurance that the ATU Plan will be able to earn the assumed rate of return, new regulations may result in changes in the prescribed actuarial mortality table or discount rates and there may be market driven changes in the discount rates, which would result in the Company being required to make contributions in the future that differ significantly from the estimates above.

Further, in connection with its bankruptcy reorganization, the Company and the Pension Benefit Guaranty Corporation ("PBGC"), a United States government agency that administers the mandatory termination insurance program for defined benefit pension plans under the Employee Retirement Income Security Act ("ERISA"), have agreed to the principal economic terms relating to claims asserted by the PBGC against the Debtors regarding the funding levels of the Greyhound U.S. Plans (the "PBGC Agreement"). Under the PBGC Agreement, upon the consummation of the proposed plan of reorganization, the Company and its subsidiaries will contribute \$50 million in cash to the Greyhound U.S. Plans and the Company will transfer shares of its post-reorganization common stock equal in value to \$50 million to a trust formed for the benefit of such plans (the "Pension Plan Trust").

The PBGC Agreement provides that the PBGC will be granted a first priority lien on the common stock held in the Pension Plan Trust. All proceeds of stock sales will be contributed directly to the Greyhound U.S. Plans. The PBGC will have non-voting participation in these sale decisions.

If the proceeds from the sales of common stock exceed \$50 million, the excess amount may be credited against the next-due minimum funding obligations of the Company and its subsidiaries, but will not reduce the June 2004 required contribution under the PBGC Agreement. If the proceeds from the sales of common stock do not aggregate \$50 million, the Company and its subsidiaries will be required to contribute the amount of the shortfall in cash to the Greyhound U.S. Plans at the end of 2004. Further, the Company and its subsidiaries will contribute an additional \$50 million in cash to the Greyhound U.S. Plans in June 2004. These contributions and transfers will be in addition to the contributions to the Greyhound U.S. Plans, if any, required under the minimum funding requirements of ERISA. The PBGC also will receive a second priority lien on the assets of the Company's operating subsidiaries (other than Greyhound).

Note 6- Capital Stock

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

(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

	November 30, 2002	August 31, 2002
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 528,770 (August 31, 2002 – 528,770)	\$7.9	\$7.9

(c) Material changes in all classes of Capital Stock since December 1, 1999

During the second quarter of fiscal 2000, the Company purchased 4,580,900 Common Shares for cancellation at a total cost of \$25.3 million.

(d) Employee stock option plans

The Company has two existing employee stock option plans, a directors' stock option plan and employee stock purchase plans. Due to the Company's voluntary petition for reorganization, no options have been granted or exercised during the three months ended November 30, 2002. For more information on these plans, See Note 12.

Note 7 – Goodwill impairment loss

During the three months ended November 30, 2001, the Company incurred a goodwill impairment charge of \$123.5 million in the Greyhound business. The Company reviewed the value assigned to goodwill, because the following factors indicated that a permanent impairment in value existed at the Greyhound operations: a significant decrease in the market value of the business primarily due to the effect of the September 11, 2001 terrorist attacks, the October 3, 2001 incident involving a Greyhound passenger and also general negative economic conditions. The goodwill impairment was calculated based on independent valuations of the underlying business.

See Note 3 for disclosure on the goodwill impairment loss for the three months ended November 30, 2002.

Note 8 – Other financing related expenses

During the three months ended November 30, 2002, the Company incurred \$8.2 million (November 30, 2001 - \$14.5 million) in professional fees and other costs as a result of (i) events of default under the Company's \$1.425 billion syndicated bank facility (the "Facility"), (ii) events of default on certain Company debentures totalling \$2.04 billion (the "Debentures") and (iii) the voluntary petition for reorganization as described in Note 1. Professional fees and other costs include financing, accounting, legal and consulting services incurred by the Company during the ongoing negotiations with the Facility members and Debenture holders and related to the voluntary petition for reorganization.

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

Note 9 – Segmented information

The Company has three reportable segments: contract bus services, Greyhound and healthcare services. The contract bus services segment consists of two operating units. One unit provides school bus transportation throughout Canada and the United States. The other unit provides municipal and paratransit bus transportation within the United States. The Greyhound segment provides inter-city and tourism bus transportation throughout North America. The Healthcare services segment consists of two operating units. One unit provides healthcare transportation services in the United States and the other provides emergency management services in the United States.

The Company evaluates performance and allocates resources based on income from operations before depreciation and amortization. The accounting policies of the reportable segments are the same as those described in Note 2 of the Notes to the Consolidated Financial Statements as at August 31, 2002. The Company's reportable segments are business units that offer different services and are each managed separately.

Services

Three months ended November 30, (\$ in millions)	2002	2001
Contract Bus Services		
Revenue	\$526.8	\$527.0
Income from operations before depreciation and amortization	104.2	117.7
Income from operations	54.1	63.1
Greyhound		
Revenue	\$274.4	\$284.2
Loss from operations before depreciation and amortization*	(1.5)	(118.3)
Loss from operations*	(16.7)	(133.0)
Healthcare Services		
Revenue	\$361.0	\$350.6
Income from operations before depreciation and amortization	27.1	25.0
Income from operations	15.0	10.6

Consolidated

Three months ended November 30, (\$ in millions)	2002	2001
Revenue	\$1,162.2	\$1,161.8
Income from operations before depreciation and amortization*	129.8	24.4
Depreciation expense	76.2	73.9
Amortization expense	1.2	9.8
Income (loss) from operations*	52.4	(59.3)
Interest expense	(6.5)	(7.1)
Other financing related expenses	(8.2)	(14.5)
Other income	1.5	2.5
Income tax expense	(1.5)	(1.5)
Net income (loss) for the period	\$37.7	(\$79.9)

* Includes a goodwill impairment charge of \$123.5 million in the three months ended November 30, 2001 (See Note 7).

Note 10 – Condensed combined financial statements of entities in reorganization proceedings

**Condensed Combined Consolidated Statement of Operations
Three months ended November 30, 2002**

(\$ in millions)	Entities in Reorganization Proceedings	Entities not in Reorganization Proceedings	Eliminations	Consolidated Totals
Revenue	\$ -	\$1,162.2	\$ -	\$1,162.2
Operating expenses	3.1	1,106.7	-	1,109.8
Intercompany charges (income)	(17.9)	17.9	-	-
Income from operating segments	14.8	37.6	-	52.4
Interest expense, net of other income	(0.6)	(4.4)	-	(5.0)
Intercompany interest income (expense)	63.7	(63.7)	-	-
Other financing related expenses	(5.1)	(3.1)	-	(8.2)
Equity loss of intercompany investments	(34.7)	-	34.7	-
Income (loss) before income taxes	38.1	(33.6)	34.7	39.2
Income tax expense	(0.4)	(1.1)	-	(1.5)
Net income (loss)	\$37.7	(\$34.7)	\$34.7	\$37.7

**Condensed Combined Consolidated Balance Sheet
As of November 30, 2002**

(\$ in millions)	Entities in Reorganization Proceedings	Entities not in Reorganization Proceedings	Eliminations	Consolidated Totals
ASSETS:				
Current assets	\$85.3	\$1,119.9	\$ -	\$1,205.2
Intercompany receivables and investments	3,369.6	-	(3,369.6)	-
Long-term investments	11.4	412.6	-	424.0
Property and equipment	3.7	1,664.3	-	1,668.0
Goodwill	-	797.0	-	797.0
Other assets	-	64.1	-	64.1
	\$3,470.0	\$4,057.9	(\$3,369.6)	\$4,158.3
LIABILITIES:				
Current liabilities	\$9.2	\$626.0	\$ -	\$635.2
Intercompany payables	-	960.2	(960.2)	-
Non-current liabilities	11.7	621.0	-	632.7
Liabilities subject to compromise	3,977.1	-	-	3,977.1
SHAREHOLDERS' (DEFICIENCY) EQUITY	(528.0)	1,850.7	(2,409.4)	(1,086.7)
	\$3,470.0	\$4,057.9	(\$3,369.6)	\$4,158.3

**Condensed Combined Consolidating Statement of Cash Flows
Three months ended November 30, 2002**

(\$ in millions)	Entities in Reorganization Proceedings	Entities not in Reorganization Proceedings	Consolidated Totals
Net cash provided by (used in) operating activities	\$5.6	(\$13.7)	(\$8.1)
Cash flows from investing activities:			
Purchase of property and equipment and other assets, net of proceeds from sale	\$ -	(67.6)	(\$67.6)
Expended on acquisitions	-	(3.2)	(3.2)
Net (increase) decrease in long-term investments	0.4	(9.4)	(9.0)
Net cash provided by (used in) investing activities	\$0.4	(\$80.2)	(\$79.8)
Cash flows from financing activities:			
Net proceeds from issue of long-term debt	\$ -	\$2.6	\$2.6
Net cash provided by financing activities	\$ -	\$2.6	\$2.6
Net increase (decrease) in cash and cash equivalents	\$6.0	(\$91.3)	(\$85.3)
Cash and cash equivalents at:			
Beginning of period	\$52.5	\$291.0	\$343.5
End of period	\$58.5	\$199.7	\$258.2

Condensed Combined Consolidated Statement of Operations
Three months ended November 30, 2001

(\$ in millions)	Entities in Reorganization Proceedings	Entities not in Reorganization Proceedings	Eliminations	Consolidated Totals
Revenue	\$ -	\$1,161.8	\$ -	\$1,161.8
Operating expenses	2.8	1,218.3	-	1,221.1
Intercompany charges (income)	(17.7)	17.7	-	-
Income (loss) from operating segments	14.9	(74.2)	-	(59.3)
Interest expense, net of other income	(0.6)	(4.0)	-	(4.6)
Intercompany interest income (expense)	86.7	(86.7)	-	-
Other financing related expenses	(10.6)	(3.9)	-	(14.5)
Equity loss of intercompany investments	(170.0)	-	170.0	-
Loss before income taxes	(79.6)	(168.8)	170.0	(78.4)
Income tax expense	(0.3)	(1.2)	-	(1.5)
Net loss	(\$79.9)	(\$170.0)	\$170.0	(\$79.9)

Condensed Combined Consolidating Statement of Cash Flows
Three months ended November 30, 2001

(\$ in millions)	Entities in Reorganization Proceedings	Entities not in Reorganization Proceedings	Consolidated Totals
Net cash provided by (used in) operating activities	\$17.6	(\$34.2)	(\$16.6)
Cash flows from investing activities:			
Purchase of property and equipment and other assets, net of proceeds from sale	\$ -	(\$60.4)	(\$60.4)
Net increase in long-term investments	-	(7.3)	(7.3)
Net cash used in investing activities	\$ -	(\$67.7)	(\$67.7)
Cash flows from financing activities:			
Net proceeds from issue of long-term debt	\$ -	\$5.3	\$5.3
Net cash provided by financing activities	\$ -	\$5.3	\$5.3
Net increase (decrease) in cash and cash equivalents	\$17.6	(\$96.6)	(\$79.0)
Cash and cash equivalents at:			
Beginning of period	41.9	239.3	281.2
End of period	\$59.5	\$142.7	\$202.2

Note 11 – Canadian and United States Accounting Principles

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

(1) Consolidated Financial Statements

Three months ended November 30, (\$ in millions)	2002	2001
Net income (loss) in accordance with Canadian GAAP	\$37.7	(\$79.9)
Effects of differences in accounting for:		
Costs of start-up activities (a)	3.3	3.5
Reversal of impairment charge under Canadian GAAP (b)	-	123.5
Additional goodwill amortization (b)	-	(14.1)
Net income (loss) before a cumulative effect of a change in accounting principle	41.0	33.0
Cumulative effect of a change in accounting principle (b)	(2,205.4)	-
Net income (loss) in accordance with U.S. GAAP	(2,164.4)	33.0
Other Comprehensive income (loss), net of tax (c):		
Unrealized gains (losses) on securities net of reclassification adjustments for losses included in net income (net of \$NIL in taxes in 2002; 2001 – NIL)	1.5	7.1
Foreign currency translation adjustments arising during the period (taxes – NIL; 2001 – NIL)	(1.4)	(5.4)
Unfunded accumulated pension obligation adjustment (net of \$NIL taxes in 2001)	-	(72.8)
Other comprehensive income (loss)	0.1	(71.1)
Comprehensive loss	(\$2,164.3)	(\$38.1)
Basic and diluted net income (loss) per share	(\$6.64)	\$0.10

The amounts in the consolidated balance sheets that materially differ from those reported under Canadian GAAP are as follows: (\$ in millions)

	November 30, 2002		August 31, 2002*	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Assets:				
Other current assets (a)	\$72.0	\$66.6	\$64.0	\$56.3
Long-term investments (c)	424.0	430.1	413.3	417.9
Goodwill (b)	797.0	771.3	813.1	2,976.8
Pension asset (c)	44.4	12.1	43.1	10.8
Deferred charges (a)	19.7	13.1	19.6	12.0
Liabilities and Shareholders'				
Deficiency:				
Other long-term liabilities (c)	426.6	486.2	382.5	442.1
Cumulative foreign currency translation adjustments (c)	(172.8)	-	(171.4)	-
Deficit (a and b)	(3,144.4)	(3,182.1)	(3,166.1)	(1,017.7)
Accumulated other comprehensive loss (c)	-	(258.6)	-	(258.7)

*Refer to Note 23 of the Notes to the Consolidated Financial Statements as at August 31, 2002.

(a) Reporting on the costs of start-up activities

In April 1998, the AICPA issued Statement of Position 98-5, "Accounting for the Costs of Start-Up Activities", ("SOP 98-5"), effective for periods beginning after December 15, 1998. SOP 98-5 requires that costs of start-up activities be expensed as incurred. Start-up activities are defined as those one-time activities related to opening a new facility, introducing a new product or service, conducting business with a new class of customer or beneficiary, initiating a new process in an existing facility, or commencing a new operation. Activities related to mergers or acquisitions are not considered start-up activities and, therefore, SOP 98-5 does not change the accounting for such items for U.S. GAAP reporting purposes. The \$3.3 million (November 30, 2001 - \$3.5 million) represents the amortization of deferred start-up activities, which would not be required under U.S. GAAP.

(b) Goodwill impairment

Prior to fiscal 2003, the Company had different accounting policies for determining goodwill impairment for Canadian and U.S. GAAP reporting. This difference in accounting policy resulted in additional goodwill impairment losses under Canadian GAAP totaling \$2,273.8 million for the years ended August 31, 1999 through and including August 31, 2002 (during the three months ended November 30, 2001, the Company recorded a goodwill impairment loss totaling \$123.5 million (see Note 7) under Canadian GAAP). As a result of the reduced goodwill impairment charges under U.S. GAAP, additional goodwill amortization totaling \$14.1 million was recorded for the three months ended November 30, 2001.

As of September 1, 2002, the Company followed the guidelines of SFAS No. 142, "Goodwill and Other Intangible Assets" and CICA 3062. The guidance in both countries discontinue the amortization of intangible assets with indefinite useful lives. In addition, the Company was required to test goodwill and intangible assets with an indefinite life for impairment in accordance

with the provisions of SFAS 142 and CICA 3062. Any impairment loss is to be recorded directly through the deficit account on the consolidated statement of deficit for Canadian GAAP and recorded as a cumulative effect of a change in accounting principle on the consolidated statement of operations for U.S. GAAP. During the three months ended November 30, 2002, under Canadian GAAP, this resulted in an impairment charge totaling \$16.0 million. Under U.S. GAAP, this resulted in an impairment loss totaling \$2,205.4 million, recorded as a cumulative effect of a change in accounting principle.

(c) Comprehensive income

U.S. GAAP requires that a comprehensive income statement be prepared. Comprehensive income is defined as: "the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period, except those resulting from investments by owners and distributions to owners." The comprehensive income statement reconciles the reported net income (loss) to the comprehensive income (loss) amount.

Under U.S. GAAP, SFAS No. 87, "Employers Accounting for Pensions", required the Company to record an increase in the additional minimum pension liability. Also, under U.S. GAAP, available-for-sale securities are to be reported at their fair values, with unrealized gains or losses reported in a separate component of shareholders' equity along with the cumulative foreign currency translation adjustments and the SFAS No. 87, pension adjustment. This separate component would be reported under the caption "Accumulated other comprehensive loss".

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

Accumulated other comprehensive loss is comprised of the following: (\$ in millions)

	Unrealized Gain (Loss) on Securities		Foreign Currency Items		Pension Adjustment		Accumulated Other Comprehensive Loss	
	2002	2001	2002	2001	2002	2001	2002	2001
Three months ended November 30,								
Beginning balance	\$4.6	\$0.9	(\$171.4)	(\$169.3)	(\$91.9)	\$ -	(\$258.7)	(\$168.4)
Current period change	1.5	7.1	(1.4)	(5.4)	-	(72.8)	0.1	(71.1)
Ending balance	\$6.1	\$8.0	(\$172.8)	(\$174.7)	(\$91.9)	(\$72.8)	(\$258.6)	(\$239.5)

(2) Recent accounting developments

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

Note 12 – Further information on stock option and stock purchase plans

(a) Employee stock options plans

At November 30, 2002, a total of 13,483,241 aggregate options to purchase Common Shares were outstanding under the 1991 and 1998 Employee Stock Option Plans. Of these options; 1,146,393 vested and became exercisable on October 1, 2000 and terminate, subject to conditions of services, on September 30, 2005. Another 5,051,198 options vest in 25% installments on each of November 1, 2000; May 1, 2001; May 1, 2002; and May 1, 2003. These options vest immediately upon a change of control of the Company and are for a term of ten years. All other options granted under these two plans 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 twelve month period thereafter on a cumulative basis during the succeeding four years. The 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.

At November 30, 2002, August 31, 2002 and November 30, 2001, the aggregate options outstanding entitled holders to purchase 13,483,241; 13,483,241 and 14,408,118 Common Shares, respectively, at prices ranging from Cdn. \$7.625 - \$20.30 and U.S. \$0.875 - \$15.25.

During the three months ended November 30, 2002, no Common Shares (November 30, 2001 – no Common Shares) were issued under the plans.

If the plan of reorganization (as described in Note 1) is approved, all outstanding options will be cancelled.

(b) Directors' stock option plan

At November 30, 2002; 297,000 Common Shares were reserved for issuance on the exercise of options granted under the directors' stock option plan. All options under this plan are for a term of ten years from the date of the grant and become exercisable with respect to 20% of the total number of shares subject to the option on each of the five successive anniversaries of the date of the grant. Options are subject to certain conditions of service.

During the three months ended November 30, 2002, no options to purchase Common Shares were granted (November 30, 2001 – no Common Shares) and no options were terminated (2001 – none).

At November 30, 2002, the aggregate options outstanding entitled non-executive directors to purchase 180,000 (August 31, 2002 – 180,000; November 30, 2001 – 180,000) Common Shares at prices ranging from Cdn. \$14.30 to \$19.90 per share and U.S. \$8.00 per share.

During the three months ended November 30, 2002, no Common Shares were issued under the plan (November 30, 2001 – none).

If the plan of reorganization (as described in Note 1) is approved, all outstanding options will be cancelled.

(c) Employee stock purchase plans

During fiscal 1999, the Company established the Employee Stock Purchase Plans (the "Plans"). The Plans are available to all non-unionized hourly and salaried employees of the Company, and its subsidiaries meeting certain eligibility requirements. Each eligible employee, who enrolled in the Plans, could elect to withhold from 1% to 10% of his or her salary or hourly earnings to a maximum \$10,000 (\$10,000 CDN for Canadian employees) in any six month stock purchase period. The accumulated payroll deductions are used to purchase Common Shares of the Company at a price equal to 85% of the lower of the fair market value of the Common Shares on the first and last days of the stock purchase period. Contributions have been suspended with effect from January 1, 2000.

During the three months ended November 30, 2002 no Common Shares were issued under the Plans (November 30, 2001 – no Common Shares).

Note 13 – Further information on litigation

Safety-Kleen settlement

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

Following Safety-Kleen's filing for petition for chapter 11 relief, the Debtors asserted various claims against Safety-Kleen, and Safety-Kleen and various Safety-Kleen constituencies, including certain current directors of Safety-Kleen (the "Safety-Kleen Directors") and Toronto Dominion (Texas), Inc. ("TD-Texas"), as administrative agent for the secured lenders of Safety-Kleen, asserted various claims against the Debtors. In November 2001, the bankruptcy court hearing Safety-Kleen's chapter 11 proceedings and the Bankruptcy Court held a joint conference and determined that mediation would occur for the claims between the Debtors and the various Safety-Kleen constituencies. Certain claims asserted by the former corporate secretary and general counsel (Mr. Taylor) of Safety-Kleen and certain of its predecessors and by the former chief financial officer (Mr. Humphreys) of Safety-Kleen were not included in the mediation.

The mediation proceedings were held in April 2002 and, on July 18, 2002, the parties to the mediation announced that they had reached a resolution. Upon approval of the Bankruptcy Court, the Canadian Court and the bankruptcy court hearing Safety-Kleen's chapter 11 cases and upon fulfillment of certain contingencies, the Company has agreed to withdraw with prejudice its claim of up to \$6.5 billion in Safety-Kleen's bankruptcy proceedings, the Company will allow a claim of \$225.0 million as a general unsecured claim in Class 6 under its plan of reorganization in favor of Safety-Kleen and the other claims asserted against the Company by Safety-Kleen, the Safety-Kleen Directors and the Safety-Kleen secured lender group will be deemed withdrawn with prejudice. In addition, as part of this compromise and settlement, claims against Safety-Kleen by certain current and former Company officers and directors for indemnity and contribution will be deemed withdrawn with prejudice.

On August 16, 2002, the bankruptcy court hearing Safety-Kleen's chapter 11 proceeding approved the settlement. On August 30, 2002, the Bankruptcy Court approved the settlement. On September 11, 2002, the Canadian Court approved the settlement. As part of the compromise and settlement, the Company will be released from its indemnification obligations relating to the Marine Shale Processors and Mercier, Quebec facilities. As a condition to the allowance of the general unsecured claim in favor of Safety-Kleen, Safety-Kleen will cause the claim of the South Carolina Department of Health and Environmental Control ("DHEC") against the Company be withdrawn with prejudice. Safety-Kleen announced a settlement with DHEC in mid October 2002. Releases satisfactory to the parties will be exchanged, and there will be no admission of liability by any party to the agreement or any person providing releases under the agreement. As a result, the Company provided \$225.0 million in fiscal 2001 to reflect this settlement and the claim allowed to Safety-Kleen and for the termination of the Company's claims for indemnification, contribution or subrogation from Safety-Kleen and the Safety-Kleen Directors, as well as the termination of claims against the Company by Safety-Kleen, the Safety-Kleen Directors and the Safety-Kleen secured lender group, including the claims brought by TD-Texas.

Securities Litigation – Shareholder actions

As a result of the Company's voluntary petitions for relief under the protection of the Bankruptcy Code and the CCAA, the actions described below are stayed with respect to the Company.

Three actions, filed against the Company and others, are pending in the United States District Court for the District of South Carolina. These cases have been consolidated. Plaintiffs seek to represent a class of purchasers of common stock of the Company for the period of October 15, 1997 through March 13, 2000. Claims are asserted against the Company under Section 10(b) of the United States Securities Exchange Act of 1934 (the "Exchange Act") and SEC rule 10b-5 based on the Company's incorporation and/or consolidation of the financial results of Safety-Kleen in the reported consolidated financial results of the Company. Plaintiffs have withdrawn their initial consolidated complaint in this matter. On May 21, 2001, plaintiffs filed a second amended consolidated complaint. The amended complaint repeats the allegations of the withdrawn complaint and adds allegations that the Company's financial statements had accounting irregularities including financial statement information relating to American Medical Response, Inc., a subsidiary of the Company. The court denied motions to dismiss filed by other defendants after the Company filed its voluntary petition for reorganization.

On September 18, 2000, the Company was added as a defendant in a consolidated amended securities fraud class action complaint that had previously been pending in the United States District Court for the District of South Carolina against Safety-Kleen and others. Safety-Kleen, which is in a chapter 11 reorganization proceeding, was dismissed as a defendant. In the currently active complaint, plaintiffs allege that, during the class period, the defendants disseminated to the investing public false and misleading financial statements and press releases concerning the financial statements and results of operations of LESI and Safety-Kleen. Plaintiffs further allege that the proxy statement, prospectus and registration statement pursuant to which LESI and Old Safety-Kleen were merged contained false and misleading financial information. Plaintiffs assert claims under Section 10(b) and 20(a) of the Exchange Act and SEC rule 10b-5 on behalf of all classes and under Section 14(a) of the Exchange Act and Sections 11, 12(a)(2) and 15 of the United States Securities Act of 1933 (the "Securities Act") on behalf of the so-called "merger class". The only claims asserted against the Company prior to its voluntary bankruptcy filings were under Section 20(a) of the Exchange Act and Section 15 of the Securities Act. The Company and other defendants moved to dismiss this action. On May

15, 2001, the court entered an order denying the motions to dismiss all defendants except one. The Company answered the consolidated amended complaint on June 22, 2001, denying any liability. A further amended complaint was filed after the Company filed its voluntary petition for reorganization. On June 18, 2002, the court certified the plaintiffs in this case as representatives of two classes: (1) a class consisting of persons who purchased either (a) common stock of LESI between July 9, 1997 through July 1, 1998; or (b) Safety-Kleen common stock between July 1, 1998 through March 6, 2000 and suffered damages; and (2) a "merger class" of persons who exchanged Old Safety-Kleen common stock for LESI common stock in the merger of LESI and Old Safety-Kleen completed on May 18, 1998. On July 5, 2002, some defendants filed an appeal seeking review of that certification decision. On August 9, 2002, the appellate court denied leave to appeal the certification decision.

A consolidated amended class action complaint for violations of federal securities laws was filed in the United States District Court for the District of South Carolina against parties other than the Company. Plaintiffs in this case sought to amend the complaint to add the Company and additional parties as defendants. Plaintiffs sought to represent a class of all persons who were former shareholders of Rollins Environmental Services, Inc. and who received or should have received the proxy statement with respect to the May 13, 1997 Special Meeting of Stockholders convened to vote on the acquisition of LESI. In this complaint, the plaintiffs alleged that the defendants caused to be disseminated a proxy statement that contained misrepresentations and omissions of a materially false and misleading nature. Claims were asserted against the Company under Sections 14(a) and 20(a) of the Exchange Act. The Company moved to dismiss the claims asserted against it. The court granted the Company's motion to dismiss on June 7, 2001. Motions to dismiss certain of the other defendants were denied. On June 11, 2001, plaintiffs filed a motion seeking leave to file an amended complaint that asserts a common law claim for negligent misrepresentation against the Company. The court granted the motion after the Company's voluntary petition for reorganization, then subsequently vacated its order granting the motion with respect to the Company. An amended complaint was filed after the Company filed its voluntary petition for reorganization. On June 14, 2002, the court granted a motion to dismiss the state law claims asserted against PricewaterhouseCoopers LLP (US) and PricewaterhouseCoopers LLP (Canada). In July 2002, plaintiffs filed a motion for reconsideration of the court's dismissal; the court denied the motion for reconsideration.

Certain of the defendants in the above referenced actions asserted claims for indemnification against the Company. As a result of the Safety-Kleen settlement described above, claims of the seven Safety-Kleen Directors will be withdrawn with prejudice. The Safety-Kleen settlement would not affect the claims of Messrs. Humphreys and Taylor.

Securities Litigation – Bondholder actions

As a result of the Company's voluntary petitions for relief under the protection of the Bankruptcy Code and the CCAA, the actions described below are stayed with respect to the Company.

On September 24, 2000, a complaint was filed in the United States District Court for the Southern District of New York against the Company and others. In response to a motion to dismiss filed by certain defendants, plaintiffs filed an amended complaint on March 15, 2001 adding a defendant, and seeking to represent a class of all persons and entities that purchased certain of the Debentures of the Company (issued September 24, 1997; April 23, 1998 and August 6, 1999) during the period September 24, 1997 through and including May 12, 2000 and suffered damages. Plaintiffs assert claims under Sections 11, 12 and 15 of the Securities Act and the common law of South Carolina, alleging that the registration statement and prospectus

for the Debentures contained misleading statements with respect to the Company's financial condition and the relative priority of the Debentures. In addition, plaintiffs contend that the Company's financial statements were materially false due to the inclusion of financial information from Safety-Kleen. The Company filed a motion with the Judiciary Panel on Multi-district Litigation (the "JPML") to transfer the above action currently pending in the Southern District of New York to the District of South Carolina. On April 19, 2001, the JPML granted this motion and the action was transferred to the District of South Carolina.

A securities fraud class action complaint has been filed in the United States District Court for the District of South Carolina on August 14, 2000 against the Company and others. Plaintiffs in this case seek to represent a class of all persons who purchased certain of the Debentures during the period from October 15, 1997 through and including March 13, 2000. On May 11, 2001, plaintiffs filed an amended complaint, including an additional defendant. Plaintiffs allege that, during the class period, defendants disseminated to the investing public false and misleading financial statements and press releases concerning the relative priority of the Debentures and the Company's publicly reported financial condition and future prospects based on the Company's incorporation and/or consolidation of the financial results of Safety-Kleen in the reported consolidated financial results of the Company and its failure to disclose that the billing practices of certain of its healthcare businesses did not comply with applicable governmental regulations. Claims are asserted against the Company and others under Section 10(b) of the Exchange Act and SEC rule 10b-5 promulgated thereunder.

The above two actions were consolidated by order of the South Carolina federal court dated June 20, 2001. In addition to the Company, the defendants include certain current and former officers and directors of the Company, the underwriters for the Company's bonds, PricewaterhouseCoopers LLP (Canada), the Company's auditors, and PricewaterhouseCoopers LLP (US), Safety-Kleen's former auditors. The federal court in South Carolina ordered mediation of the claims brought in the consolidated action. The Bankruptcy Court approved the Company's continued participation in the mediation. On January 9, 2002, the Company announced that it had reached an agreement in principle with all parties to settle the above two actions. The proposed settlement of the class action litigation provides for a release of all claims that the plaintiffs have and may have against the Company and the other defendants. The other defendants, including the Company, will also release certain claims. On July 29, 2002, the Company announced the execution of the definitive settlement agreement. On August 30, 2002, the Bankruptcy Court approved the Company's participation in the settlement. On September 11, 2002, the Canadian Court approved the Company's participation in the settlement. On December 17, 2002, the settlement was approved by the federal court in South Carolina. Certain aspects of the settlement are subject to the following conditions: (i) the entry of an order by the Canadian Court relating to insurance payments; and (ii) confirmation of a satisfactory plan of reorganization for the Company.

On December 12, 2000, a securities fraud class action complaint was filed in the United States District Court for the Southern District of New York against the Company and others. On January 17, 2001, plaintiff filed an amended complaint to add others as defendants. The complaint alleged that defendants disseminated to the investing public false and misleading financial statements and press releases concerning the Company's obligations with respect to the 1992 Indenture, the Facility and the 1997 Indenture. On April 18, 2001, plaintiff filed a motion to dismiss this case as to the Company and others without prejudice and as to certain of the current directors of the Company with prejudice. The Company filed a response, seeking to have the claims against them dismissed with prejudice. On June 19, 2001, the court dismissed the case with prejudice as to all remaining defendants. On July 2, 2001, plaintiff filed a motion for reconsideration or clarification of that decision. On August 13, 2001, the court denied the motion.

to reconsider and confirmed the dismissal with prejudice. Plaintiff has filed an appeal. An agreement in principle to settle this action has been reached, and the settlement is expected to be finalized in the context of the settlement of the bondholder actions discussed above. Concurrently with the proposed settlement, an agreement in principle was reached to settle a class action by the Company's bondholders against Citibank, N.A., the indenture trustee for the Debentures, subject to court approval.

If the settlement of the bondholder actions described above is implemented on the current terms, the plaintiff bondholder classes would receive \$42.875 million, and the estate of the Company would receive \$12.5 million.

A consolidated class action complaint was filed in federal court in South Carolina on January 23, 2001. This amended complaint consolidates allegations originally brought by plaintiffs in the South Carolina District Court action and in the Delaware District Court, both against the Company and others. Plaintiffs in this case seek to represent a class of all persons who purchased certain bonds issued by Safety-Kleen or its predecessor, LESI, from April 17, 1998 through March 6, 2000. Plaintiffs allege that the defendants controlled the functions of Safety-Kleen, including the content and dissemination of its financial statements and public filings, which plaintiffs contend to be false and misleading. Claims asserted against the Company under Sections 10 and 20 of the Exchange Act, SEC rule 10b-5 and Section 15 of the Securities Act. On March 12, 2001, the Company filed a motion to dismiss the consolidated class action complaint. After the Company filed for bankruptcy protection, the court entered an order dismissing all claims against all defendants based on the Securities Act. On June 14, 2002, the court granted plaintiffs' motion for reconsideration in part and allowed the assertion of claims under Section 11(a) of the Securities Act on behalf of "after-market purchasers" of the bonds.

A complaint for violation of California Corporate Securities Law of 1968 and for common law fraud and negligent misrepresentation was filed on March 5, 2001 in the Superior Court of the State of California, County of Sacramento against the Company and others. Plaintiffs in this case seek to represent a class of purchasers or acquirers of certain bonds issued by the California Pollution Control Financing Authority on July 1, 1997 secured by an indenture agreement with LESI and its successor Safety-Kleen in their initial offering on July 1, 1997 and retained through March 6, 2000. The action alleges that defendants made written or oral communications containing false statements or omissions about LESI's and Safety-Kleen's business, finances and future prospects in connection with the offer for sale of those bonds and that plaintiffs bought and retained the bonds in reliance on said statements and were injured thereby. The Company was not served with this complaint until the day after it filed its voluntary petition for reorganization. Subsequent to the Company's filing, certain of the other defendants filed motions to dismiss the action on the grounds that the California court lacked personal jurisdiction over them, and the California court granted the motion and dismissed the action as to those defendants on October 26, 2001. Plaintiffs have filed an appeal from that dismissal.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**
(all dollar amounts are stated in United States dollars)

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and accompanying footnotes. The Company's management is responsible for presentation and preparation of the consolidated financial statements and accompanying footnotes and this management discussion and analysis ("MD&A"). The Board of Directors is responsible for reviewing and approving the financial information contained in any filing, including the MD&A, and overseeing management's responsibilities for the presentation and preparation of financial information, maintenance of internal controls, management and control of major risk areas and assessment of significant and related party transactions.

General

Voluntary petitions for reorganization

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

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

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

Ability to continue operations

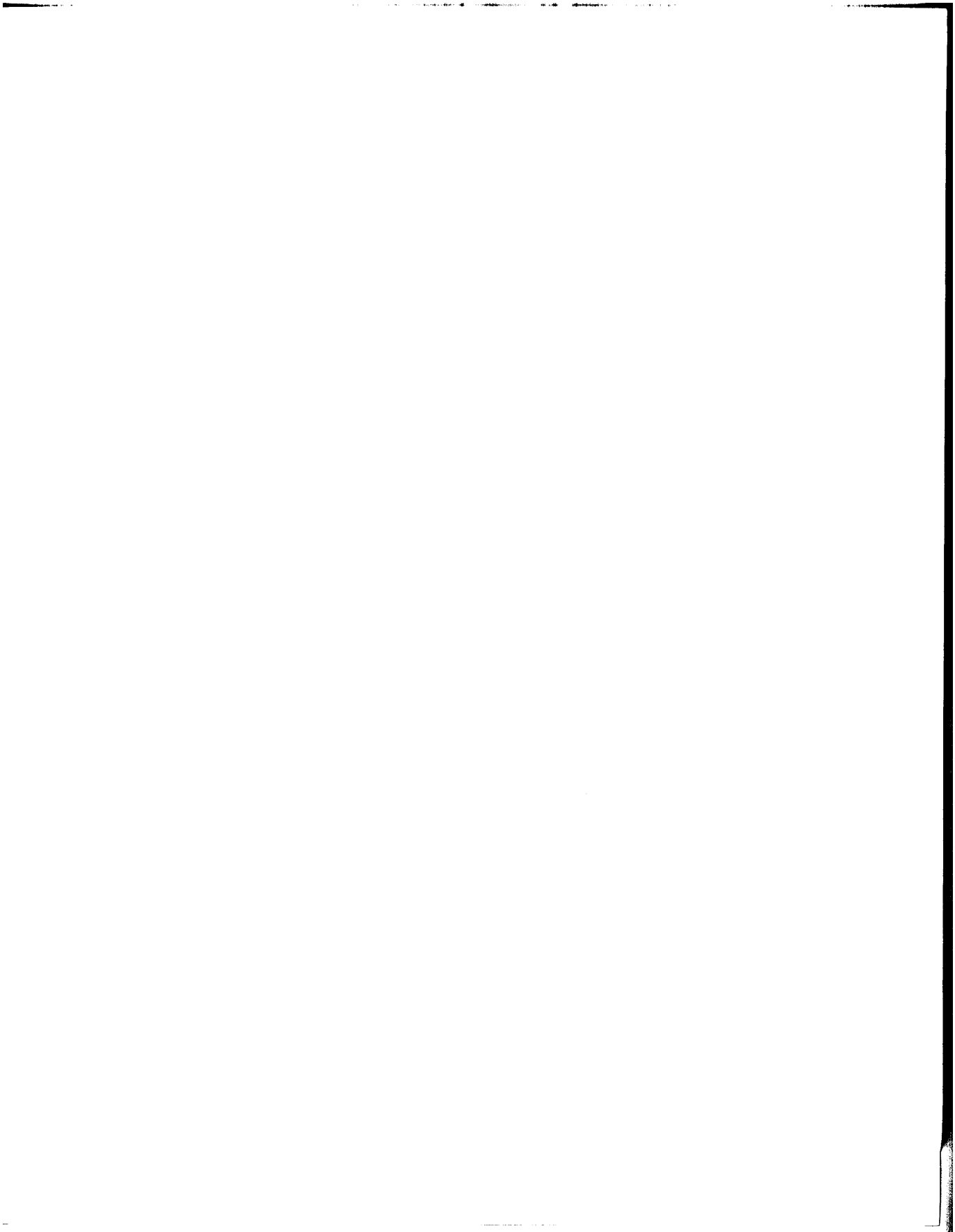
The consolidated financial statements have been prepared on a "going concern" basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of operations. The appropriateness of the "going concern" assumption is dependent upon, among other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

In addition, if the Company successfully completes the proposed reorganization, the Company will be required to adopt "fresh start" accounting. This accounting would require that assets and liabilities be recorded at fair value, based on values determined in connection with the restructuring. As a result, the reported amounts in the consolidated financial statements would materially change, because they do not give effect to the adjustments to the carrying values of assets and liabilities that would ultimately result from the adoption of "fresh start" accounting.

Results of Operations

Three Months Ended November 30, 2002 compared with
Three Months Ended November 30, 2001

Three months ended November 30,	Percentage of Revenue		Percentage Increase (Decrease)
	2002	2001	2002 Over 2001
Revenue	100.0%	100.0%	- %
Operating expenses	79.2	77.8	1.9
Selling, general and administrative expenses	9.6	9.5	0.8
Depreciation expense	6.6	6.3	3.1
Amortization expense	0.1	0.9	(87.8)
Goodwill impairment loss	-	10.6	-
Income (loss) from operating segments	4.5	(5.1)	NM
Interest expense	(0.5)	(0.6)	(8.5)
Other financing related expenses	(0.7)	(1.2)	(43.4)
Other income	0.1	0.2	(40.0)
Income (loss) from operations before income taxes	3.4	(6.7)	NM
Income tax expense	(0.2)	(0.2)	-
Net income (loss)	3.2	(6.9)	NM



Revenue

The sources of revenue and changes by business segment are as follows: (\$ in millions)

	Revenue For the Three Months Ended November 30,				Percentage Increase(Decrease) For the Three Months Ended November 30,	
	2002		2001		2002 Over 2001	2001 Over 2000
Contract Bus services	\$526.8	45.3%	\$527.0	45.4%	- %	0.6%
Greyhound	274.4	23.6	284.2	24.4	(3.4)	(3.4)
Healthcare services	361.0	31.1	350.6	30.2	3.0	(0.1)
	\$1,162.2	100.0%	\$1,161.8	100.0%	-	(0.6)

For each of the periods described below, management's estimates of the components of changes in the Company's consolidated revenue are as follows:

	Percentage Increase (Decrease) Three Months Ended November 30,	
	2002 Over 2001	2001 Over 2000
Increase in revenue as a result of acquisitions		
Contract Bus services	0.1%	-%
Greyhound	-	0.1
Healthcare services	-	-
Subtotal	0.1	0.1
Foreign exchange rate changes		
Contract Bus services	-	(0.1)
Greyhound	-	(0.2)
Healthcare services	-	-
Subtotal	-	(0.3)
Other, primarily through price and volume changes		
Contract Bus services	(0.2)	0.4
Greyhound	(0.8)	(0.8)
Healthcare services	0.9	-
Subtotal	(0.1)	(0.4)
Total	- %	(0.6%)

For each of the periods described below, management's estimates of the components of changes in the revenue of the respective segments are as follows:

	Percentage Increase (Decrease) Three Months Ended November 30,	
	2002 Over 2001	2001 Over 2000
Contract Bus services		
Increase in revenue as a result of acquisitions	0.3%	-%
Foreign exchange rate changes	0.1	(0.3)
Other, primarily through price and volume changes	(0.4)	0.9
Total	- %	0.6%
Greyhound		
Increase in revenue as a result of acquisitions	- %	0.2%
Foreign exchange rate changes	0.1	(0.7)
Other, primarily through price and volume changes	(3.5)	(2.9)
Total	(3.4%)	(3.4%)
Healthcare services		
Increase in revenue as a result of acquisitions	- %	-%
Foreign exchange rate changes	-	-
Other, primarily through price and volume changes	3.0	(0.1)
Total	3.0%	(0.1%)

Revenue in the Contract Bus services segment remained relatively unchanged from the prior period. Contracts lost were offset by price increases, additional routes and new business, acquisitions and a slight strengthening of the Canadian dollar against the U.S. dollar.

The decrease in revenue in the Greyhound segment is primarily attributable to the discontinuation of the Golden State Transportation ("Golden State") operations, the slower than expected recovery of the travel services market and the late placement of the U.S. Thanksgiving holiday this year. Golden State, a 51.4% owned subsidiary, ceased operations effective August 30, 2002 and filed a voluntary petition for bankruptcy on September 30, 2002. Because of the U.S. Thanksgiving holiday being celebrated later in November 2002, a portion of the Thanksgiving travel occurred during the month of December 2002.

The increase in revenue in the Healthcare services segment is primarily due to an increase in the revenue per transport in the ambulance services business and an increase in the revenue per visit in the emergency management services business.

For each of the periods described below, revenue and changes in revenue from geographic components are as follows: (\$ in millions)

	Revenue For the Three Months Ended November 30,				Percentage Increase(Decrease) For the Three Months Ended November 30,	
	2002		2001		2002 Over 2001	2001 Over 2000
United States	\$1,072.1	92.2%	\$1,072.8	92.3%	(0.1%)	(0.4%)
Canada	90.1	7.8	89.0	7.7	1.2	(2.4)
	\$1,162.2	100.0%	\$1,161.8	100.0%	-	(0.6)

Income (loss) from operations before depreciation and amortization expenses and a goodwill impairment charge, and the cost of operations and operating profit margins before depreciation and amortization expenses and a goodwill impairment charge

Income (loss) from operations before depreciation and amortization expenses and a goodwill impairment charge and changes by segment are as follows: (\$ in millions)

	Income (loss) From Operations Before Depreciation and Amortization Expenses and a Goodwill Impairment Charge For the Three Months Ended November 30,				Percentage Increase (Decrease) For the Three Months Ended November 30,	
	2002		2001		2002 Over 2001	2001 Over 2000
Contract Bus services	\$104.2	80.3%	\$117.7	79.6%	(11.5%)	(1.7%)
Greyhound	(1.5)	(1.2)	5.2	3.5	(128.8)	(75.6)
Healthcare services	27.1	20.9	25.0	16.9	8.4	(27.5)
	\$129.8	100.0%	\$147.9	100.0%	(12.2)	(15.7)

Wages for operating personnel, equipment operating costs (including fuel and maintenance), ticket selling costs, insurance for personnel and property damage and third party liability represent the major components of the cost of operations. Operating costs as a percentage of revenue for the three months ended November 30, 2002 were 88.8%, compared with 87.3% in 2001.

The increase in operating costs as a percentage of revenue in the three months ended November 30, 2002 was primarily due to an increase in the provision for accident claims costs. The majority of the increase is due to increased provisions for prior years' claims. Actuarial projections of future medical costs, the ultimate settlement amounts and court awards continue to increase. The Company has continued with its policy of providing for such costs at the higher end of the actuarial range.

For each of the periods described below, the operating profit margins before depreciation and amortization expenses and a goodwill impairment charge of the individual segments and consolidated margins are as follows:

Three Months Ended November 30,	2002	2001
Contract Bus services	19.8%	22.3%
Greyhound	(0.5)	1.8
Healthcare services	7.5	7.1
Consolidated	11.2	12.7

For the three months ended November 30, 2002, the operating profit margin before depreciation and amortization expenses in the Contract Bus services segment was 19.8% down from the 22.3% experienced in the three months ended November 30, 2001. Increased accident claims costs, particularly in the education services operations, and increases in wages and health and welfare benefits throughout the segment more than offset a decrease in fuel prices experienced. The increase in health and welfare benefits was primarily driven by increased medical costs.

In the three months ended November 30, 2002, the operating profit margin before depreciation and amortization expenses and a goodwill impairment charge in the Greyhound segment was negative 0.5% compared to 1.8% for the three months ended November 30, 2001. The decrease in the operating margin is primarily from increased accident claims costs, increased health and welfare benefits, increased pension expense and increased security costs. Partially offsetting these cost increases was a reduction in the amount spent on advertising. As with the Contract Bus services segment, the increase in health and welfare benefits was primarily driven by increased medical costs. The increase in pension expense is due to lower investment returns on the pension assets and a lower discount rate used to determine the pension liability. Security costs have increased in response to September 11th.

In the three months ended November 30, 2002, the operating profit margin before depreciation and amortization expenses in the Healthcare services segment was 7.5% compared to 7.1% for the three months ended November 30, 2001. The increase in the operating margin is primarily due to an increase in the revenue per transport in the ambulance services business and an increase in the revenue per visit in the emergency management services business. This revenue increase was partially offset by increased accident claims costs and an increase in health and welfare benefits.

Depreciation expense

Depreciation expense for the three months ended November 30, 2002 increased slightly to \$76.2 million from \$73.9 million in the prior period.

Amortization expense

Amortization expense for the three months ended November 30, 2002 decreased to \$1.2 million from \$9.8 million in the prior period. The decrease is a result of goodwill no longer being amortized. Instead, it is tested for impairment at least on an annual basis. This change in policy is due to new accounting rules implemented by the Company during the quarter. See "Goodwill impairment losses" below for discussion on the goodwill impairment loss recorded during the three months ended November 30, 2002. The amount of amortization expense relating to goodwill recorded during the three months ended November 30, 2001 totaled \$8.4 million.

Goodwill impairment losses

Effective September 1, 2002, the Company adopted the new recommendations of the CICA Handbook pertaining to goodwill and other intangibles and, as a result, the Company ceased to amortize goodwill. In lieu of amortization, the new policy requires that goodwill be reviewed for impairment upon adoption and at least annually thereafter. Under the new policy, goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. To determine estimated fair value of the reporting units, the Company utilized independent valuations of the underlying businesses. During the three months ended November 30, 2002, the Company completed the impairment assessment as required by the new policy and determined that the carrying value of one of its operations exceeded its fair value. Under the requirement, the Company recorded a non-cash charge of \$16.0 million recorded directly through the deficit account on the consolidated statement of deficit.

During the three months ended November 30, 2001, the Company incurred a goodwill impairment charge of \$123.5 million in the Greyhound business. The Company reviewed the value assigned to goodwill, because the following factors indicated that a permanent impairment in value existed at the Greyhound operations: a significant decrease in the market value of the business primarily due to the effect of the September 11, 2001 terrorist attacks and the October 3, 2001 incident involving a Greyhound passenger and also general negative economic conditions. The goodwill impairment was calculated based on independent valuations of the underlying business.

Interest expense

In the three months ended November 30, 2002, interest expense decreased by 8% to \$6.5 million from \$7.1 million in 2001. The majority of this decrease was due to a reduction in the average borrowings level. No interest expense was accrued on prepetition debt of the Debtors for the three months ended November 30, 2002 and for the three months ended November 30, 2001. The total interest on prepetition debt that was not accrued during the quarter was approximately \$71.4 million (November 30, 2001 - \$70.0 million).

Other financing related expenses

During the three months ended November 30, 2002, the Company incurred \$8.2 million (November 30, 2001 - \$14.5 million) in professional fees and other costs as a result of (i) events of default under the Company's \$1.425 billion syndicated bank facility (the "Facility"), (ii) events of default on certain Company debentures totalling \$2.04 billion (the "Debentures") and (iii) the voluntary petition for reorganization as described in Note 1 of Notes to the Consolidated Financial Statements for the three months ended November 30, 2002. Professional fees and other costs include financing, accounting, legal and consulting services incurred by the Company during the ongoing negotiations with the Facility members and Debenture holders and related to the voluntary petition for reorganization.

Other income

Other income decreased by \$1.0 million to \$1.5 million in the quarter ended November 30, 2002. The primary reason for the decrease is because of lower returns experienced on the Company's investment portfolio.

Income tax expense

During the three months ended November 30, 2002, the Company incurred an income tax expense totaling \$1.5 million (November 30, 2001 - \$1.5 million). The amounts represent the Company's estimate of the cash taxes owing for the respective periods.

Net income (loss) and income (loss) per share

Income (loss) from operations before a goodwill impairment loss and other financing related expenses, for the quarter ended November 30, 2002 decreased to income of \$45.9 million or \$0.14 per share compared with income of \$58.1 million or \$0.18 per share for the quarter ended November 30, 2001. This decrease is due primarily to the factors discussed previously.

During the three months ended November 30, 2001, a goodwill impairment charge totalling \$123.5 (\$0.38 per share) was recorded.

Other financing related expenses during the three months ended November 30, 2002 totalling \$8.2 million (\$0.02 per share)(November 30, 2001 - \$14.5 million, or \$0.05 per share) were incurred during the quarter as a result of (i) events of default under the Facility, (ii) events of default on the Debentures and (iii) the voluntary petition for reorganization.

In total, the net income (loss) was \$37.7 million or \$0.12 per share in the quarter compared with a loss of \$79.9 million or \$0.25 per share for the quarter ended November 30, 2001.

The weighted average number of Common Shares outstanding during the quarter remained unchanged at 325.9 million.

Financial Condition

As of November 30, 2002 and August 31, 2002, the Company's capital consisted of: (\$ in millions)

	November 30, 2002		August 31, 2002		Change
Long-term debt (including the current portion)	\$227.2	6.4%	\$224.7	6.5%	\$2.5
Other long-term liabilities	426.6	12.0	382.5	11.0	44.1
Liabilities subject to compromise	3,977.1	112.2	3,977.1	114.4	-
Shareholders' deficiency	(1,086.7)	(30.6)	(1,107.0)	(31.9)	20.3
	<u>\$3,544.2</u>	<u>100.0%</u>	<u>\$3,477.3</u>	<u>100.0%</u>	<u>\$66.9</u>

Voluntary petitions for reorganization

On June 28, 2001, the Debtors filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The Debtors include the Company and five of its direct and indirect subsidiaries: Laidlaw USA, LIL, LIFC, Laidlaw One, and LTI. In addition, the Company and LIL have commenced Canadian insolvency proceedings under the CCAA in the Canadian Court. None of the Company's operating subsidiaries was included in the filings.

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

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

The \$2.5 million increase in long-term debt is primarily a result of borrowings under the Greyhound Lines, Inc. ("Greyhound") facility to satisfy cash funding requirements.

The \$44.1 million increase in other long-term liabilities is primarily due to the increase in claims liabilities as a result of increased accident claims costs being experienced.

Shareholders' deficiency decreased by \$20.3 million primarily as a result of the net income of \$37.7 million offset by the goodwill impairment loss of \$16.0 million.

Liquidity

Cash used in operating activities decreased by \$8.5 million to \$8.1 million, in the three months ended November 30, 2002. In the three months ended November 30, 2001, cash used in continuing operating activities totalled \$16.6 million.

Since August 31, 2002, working capital, before the current portion of long-term debt, has increased \$80.6 million to \$591.1 million at November 30, 2002. This increase is primarily a result of working capital associated with the start-up of the new school year.

Approximately \$100.1 million of the cash and equivalents and short-term deposits and marketable securities are assets of the Company's wholly owned insurance subsidiaries and are used to support the Company's self-insurance program. If these amounts are withdrawn from the subsidiaries, they would have to be replaced by other suitable financial assurances.

Potential Pension Plan Funding Requirements

For financial reporting and investment planning purposes, the Company currently uses an actuarial mortality table that closely matches the actual experience related to the existing participant population. For funding purposes, United States pension law mandates the use of a

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

Further, in connection with its bankruptcy reorganization, the Company and the Pension Benefit Guaranty Corporation ("PBGC"), a United States government agency that administers the mandatory termination insurance program for defined benefit pension plans under the Employee Retirement Income Security Act ("ERISA"), have agreed to the principal economic terms relating to claims asserted by the PBGC against the Debtors regarding the funding levels of the Greyhound U.S. Plans (the "PBGC Agreement"). Under the PBGC Agreement, upon the consummation of the proposed plan of reorganization, the Company and its subsidiaries will contribute \$50 million in cash to the Greyhound U.S. Plans and the Company will transfer shares of its post-reorganization common stock equal in value to \$50 million to a trust formed for the benefit of such plans (the "Pension Plan Trust").

The PBGC Agreement provides that the PBGC will be granted a first priority lien on the common stock held in the Pension Plan Trust. All proceeds of stock sales will be contributed directly to the Greyhound U.S. Plans. The PBGC will have non-voting participation in these sale decisions. If the proceeds from the sales of common stock exceed \$50 million, the excess amount may be credited against the next-due minimum funding obligations of the Company and its subsidiaries, but will not reduce the June 2004 required contribution under the PBGC Agreement. If the proceeds from the sales of common stock do not aggregate \$50 million, the Company and its subsidiaries will be required to contribute the amount of the shortfall in cash to the Greyhound U.S. Plans at the end of 2004. Further, the Company and its subsidiaries will contribute an additional \$50 million in cash to the Greyhound U.S. Plans in June 2004. These contributions and transfers will be in addition to the contributions to the Greyhound U.S. Plans, if any, required under the minimum funding requirements of ERISA. The PBGC also will receive a second priority lien on the assets of the Company's operating subsidiaries (other than Greyhound).

Debtor-in-possession facility

To ensure sufficient liquidity to meet ongoing operating needs, the Company obtained debtor-in-possession ("DIP") financing from General Electric Capital (the "DIP Facility"). The DIP Facility is guaranteed by certain of the Company's direct and indirect subsidiaries located in the United States and Canada (other than Greyhound and its subsidiaries and joint ventures)(collectively, the "Guarantors"). The term of the DIP Facility will expire on the earliest of (a) August 8, 2003, (b) the prepayment in full of all amounts outstanding under the DIP Facility and the termination of the lenders' commitments thereunder and (c) the effective date of the approved plan of reorganization.

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

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

Borrowings under each facility bear interest at the Borrowers' option, at rates per annum equal to either (1) a one, two or three month reserve adjusted LIBOR plus 2.0% or (2) a floating rate equal to the index rate plus 0.5%. The Borrowers pay letter of credit fees to each administrative agent under each facility equal to 2.0% per annum of the face amount of the letters of credit. Other fees consist of (1) an unused facility fee equal to 0.5% per annum on the average unused daily balance of each facility and (2) a prepayment premium in the amount of 1.0% of the aggregate commitments under each facility if prepayment is the result of any Borrower defaults, voluntary termination (with the exception of emergence from the Reorganization Cases) or refinancing of any part of such facility with another financing prior to August 8, 2003. Finally, the Borrowers and the Guarantors also paid a \$2.0 million fee to the agents during fiscal 2001.

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

As of November 30, 2002 the Company had no borrowings under the DIP Facility, but issued letters of credit of \$37.1 million and had \$162.9 million of availability.

The Company was in default as of November 30, 2002 of several financial covenants contained in the DIP facility. The defaults relate to the failure by several of the Company's operating entities to meet minimum EBITDA thresholds for the period ended November 30, 2002. In addition, several operating entities did not meet the capital expenditure requirements specified under the DIP Facility for the fiscal quarter ended November 30, 2002. The Company is in the process obtaining a waiver under the DIP facility with respect to these defaults and expects to obtain future waivers. There is no assurance such waivers will be obtained.

The Greyhound Facility

In October 2000, Greyhound entered into a revolving credit facility, expiring October 24, 2004, with Foothill Capital Corporation to fund working capital needs and for general corporate purposes (the "Greyhound Facility"). Greyhound was extended a revolving line of credit in an amount of \$125.0 million including a sub-facility of \$50.0 million for letters of credit. Borrowings initially bore interest at a rate equal to Wells Fargo Bank's prime rate plus 0.5% per annum or

LIBOR plus 2.0% as selected by Greyhound. After December 31, 2000, the interest rates were subject to quarterly adjustment based upon Greyhound Parties' ratio of debt to EBITDA, as defined in the agreement, for the four previous quarters. Letters of credit fees are based on the applicable LIBOR margin. The Greyhound Facility is secured by liens on substantially all of the assets of Greyhound and the stock and assets of certain of its subsidiaries and is subject to certain affirmative and negative operating and financial covenants. As of November 30, 2002, Greyhound was in compliance with all such covenants, including restrictions on the redemption or retirement of certain subordinated indebtedness or equity interest, payment of dividends and transactions with affiliates, including the Company.

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

As of November 30, 2002, the Company had outstanding borrowings under the Greyhound Facility of \$7.3 million, issued letters of credit of \$41.8 million and had availability of \$75.9 million.

Capital expenditures and capital resources

Net expenditures for the purchase of capital assets for normal replacement requirements and increases in services, decreased to \$67.6 million for the three months ended November 30, 2002 (including \$NIL million of purchases of capital assets financed by notes payable, operating leases and/or capital leases) from \$90.5 million for the three months ended November 30, 2001 (including \$30.1 million of purchases of capital assets financed by notes payable, operating leases and/or capital leases). This increase is primarily a result of the Company curtailing capital spending in the prior period due to the Company's financial position at that time.

Expenditures on the acquisitions of businesses (including long-term debt assumed) were \$3.2 million for the three months ended November 30, 2002. No acquisitions of businesses were completed during the three months ended November 30, 2001.

Critical Accounting Policies

The preparation of financial statements requires management to make estimates and assumptions relating to the reporting of results of operations, financial condition and related disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from those estimates under different assumptions or conditions. The following are the Company's most critical accounting policies, which are those that require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

Claims liability and professional liability reserves

The Company establishes reserves for automobile liability, general liability, professional liability and worker's compensation claims that have been reported but not paid and claims that have been incurred but not reported. These reserves are developed using actuarial principles and

assumptions which consider a number of factors, including historical claim payment patterns and changes in case reserves, the assumed rate of increase in healthcare costs and property damage repairs, ultimate court awards and the discount rate. The amount of these reserves could differ from the Company's ultimate liability related to these claims due to changes in the Company's accident reporting, claims payment and settlement practices or claims reserve practices, as well as differences between assumed and future cost increases and discount rates.

Revenue recognition in the Healthcare services segment

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

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

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

Pension

The determination of the Company's obligation and expense for pension benefits is dependent on the selection of certain assumptions and factors. These include assumptions about the discount rate, the expected return on plan assets and the rate of future compensation increase as determined by management. In addition, the Company's actuarial consultants also use factors to estimate such items as retirement age and mortality tables. The assumptions and factors used by the Company may differ materially from actual results due to changing market conditions, earlier or later retirement ages or longer or shorter life spans of participants. These differences may result in a significant impact to the amount of pension obligation or expense recorded by the Company. During fiscal 2002, the Company has experienced a reduction in interest rates and a deterioration in plan returns. If this trend continues, the Company may have to fund the pension plans in future years through actual cash contributions.

In addition, as discussed above under "Liquidity – Potential Pension Plan Funding Requirements", the Company has agreed with the PBGC to the principal economic terms relating to claims asserted by the PBCG against the Debtors regarding the funding levels of the Greyhound U.S. Plans. Under the PBGC Agreement, the Company has committed to make substantial cash contributions to the Greyhound U.S. Plans, in addition to contributions required under applicable law.

Contingencies

As discussed in Notes 4 and 12 of the Notes to the Consolidated Financial Statements, management is unable to make a reasonable estimate of the liabilities that may result from the final resolution of certain litigation matters disclosed. Further assessments of the potential liability will be made as additional information becomes available. Management currently does not believe that these proceedings will have a material adverse effect on the Company's consolidated financial position. It is possible, however, that results of operations could be materially affected by changes in management's assumptions relating to these proceedings or the actual final resolution of these proceedings.

Risk Factors in the Company

The Company is exposed to a variety of financial, operating and market risks. Some of these risks are within the Company's control; others are not. For controllable risks, the Company applies specific risk management strategies to reduce the likelihood of loss. The following are the risk factors in the Company not already disclosed elsewhere in this report.

Accident claims costs

As discussed above under the "Critical accounting policies", the Company experiences significant costs surrounding accident and professional liability claims and uses estimates and assumptions when providing for the ultimate costs of these incidents. The ultimate costs could materially affect the Company's financial condition and results of operations.

The Company has in place procedures to manage the risk. The first is a comprehensive safety program throughout the Company, which has as its goal to reduce the number of accidents as far as practically possible. Although recent accident claims cost increases experienced because of increased medical costs, ultimate settlement amounts and court awards, and increased severity of accidents experienced, the accident frequency as a percentage of revenue has actually declined over the last number of years. Once an accident has incurred, the Company has procedures and settlement practices in place to minimize the ultimate cost to the Company.

Healthcare revenue

In August 1997, the U.S. Federal Government passed the Balanced Budget Act of 1997 (the "Act"), which provides for certain changes to the Medicare reimbursement system. These changes include, among other things, the requirement for the development and implementation of a prospective fee schedule for reimbursement of ambulance services. Prior to these changes, ambulance services were reimbursed from Medicare on a reasonable charge basis.

The Act mandates that this fee schedule be developed through a negotiated rulemaking process and must consider (i) data from the industry and other organizations involved in the delivery of ambulance services, (ii) mechanisms to control increases in expenditures for ambulance services, (iii) appropriate regional and operational differences, (iv) adjustments to payment rates to account for inflation and other relevant factors, and (v) the phase-in of payment rates under the fee schedule in an efficient and fair manner.

The Act also required that beginning January 1, 2001, ambulance service providers accept assignment whereby the Company receives payment directly from Medicare and accepts such amount along with the co-pay and deductible paid by the patient as payment in full. Further, the Act stipulates that third-parties may elect to no longer provide payments for cost sharing for co-insurance, or co-payments, for dual qualified (Medicare and Medicaid) beneficiaries.

In January 1999, the Center for Medicare and Medicaid Services, formerly named the Health Care Financing Administration, announced its intention to form a negotiated rulemaking committee to create the new fee schedule for Medicare reimbursement of ambulance services. That committee convened in February 1999. The fee schedule and the mandatory acceptance of assignment was implemented on April 1, 2002. In addition, revisions to the physician certification requirements for coverage of non-emergency ambulance services were also implemented.

The Company has implemented a plan that it believes will mitigate the potential adverse impact from these changes. The plan includes renegotiation of "9-1-1" contracts, adjusting rates and seeking alternative relief from the federal and local governments.

As a result, estimating the revenue from healthcare services is subject to significant uncertainties and subsequent adjustments to the recorded revenue could be material.

Potential loss of customers

The Debtors' commencement of the chapter 11 case could adversely affect the Company's relationships with its customers and has already with certain customers. Because of the concern regarding the Company's ability to perform its obligations under its contracts, the Company's existing customers may terminate such contracts. Further, several of the Company's subsidiaries are parties to agreements that permit the customer to cancel its agreement with the subsidiary upon the filing for bankruptcy by the subsidiary's parent company. Consequently, certain contracts of the Company's subsidiaries may be terminated because the Company is a party to the chapter 11 case. Moreover, in the local county ambulatory services business, the local county may terminate the contract upon such bankruptcy filing of any affiliates and fulfill the Company's obligations itself through the use of the Company's equipment. In addition, initiation of new customer relationships may be hampered by the chapter 11 case.

Performance bonds

The Company's school busing business is highly dependent on the Company's ability to obtain performance bond coverages sufficient to meet bid requirements imposed by potential customers. The Company's ability to obtain adequate bonding coverages has been adversely affected by the Company's poor financial position and lack of liquidity. Furthermore, many school boards are requiring higher dollar-value performance bonds from their service providers. There can be no assurance that, going forward, the Company will obtain access to adequate bonding capacity. If adequate bonding capacity is not available or if the terms of such bonding are too onerous, there would be a material adverse effect on the Company.

Increasing competitive and external pressures

Contract Bus services - The segment competes with several large companies and a substantial number of smaller locally owned operations in the contract bus services business segment. Moreover, most school districts operate their own school bus systems. In acquiring new school bus contracts and maintaining existing business, competition primarily exists in the areas of pricing and service.

Greyhound - The inter-city transportation industry is highly competitive. Greyhound's primary sources of competition for passengers are automobile travel, low cost air travel from both regional and national airlines, and, in certain markets, regional bus companies and trains. Airlines have increased their penetration in intermediate-haul markets (450 to 1,000 miles), which has resulted in the bus industry, in general, reducing prices in these markets in order to compete. Additionally, airline discount programs have attracted certain long-haul passengers away from Greyhound. However, these lower airline fares usually contain restrictions and require advance purchase. Typically, Greyhound's customers decide to travel only a short time before their trip and purchase their tickets on the day of travel. Greyhound's everyday low pricing strategy results in "walk-up" fares substantially below comparable airline fares. In instances where Greyhound's fares exceed an airline discount fare, Greyhound believes the airline fares typically are more restrictive and less readily available than travel provided by Greyhound. However, Greyhound has also instituted numerous advance purchase programs, in order to attract the price sensitive customer. Price, destination choices and convenient schedules are the ways in which Greyhound meets this competitive challenge.

The automobile is the most significant form of competition to Greyhound. The out-of-pocket costs of operating an automobile are generally less expensive than bus travel, particularly for multiple persons traveling in a single car.

Although the Greyhound travel services business benefited for a brief period after September 11, 2001 as a result of airline passengers seeking alternative forms of transportation, the unrelated October 2001 incident involving a Greyhound passenger adversely affected these operations. The impact to date of these events has been numerous cancellations and a significant decrease in new bookings. Security expenses have also increased significantly in response to these events. Continued declines in Greyhound's bookings and other Greyhound operations, combined with increased security expenses related to these events, could have a material adverse effect on the Company's financial condition or results of operations.

Healthcare services - Through its ambulance business unit, the Company competes with several large companies and a substantial number of smaller locally owned operators in the healthcare transportation services industry. Moreover, many municipal, fire and paramedic departments and hospitals operate their own ambulance systems. In acquiring new healthcare transportation contracts and maintaining its business, the Company experiences competition primarily in the areas of pricing and service.

Emergency management services is also subject to vigorous competition. Competition for these services is generally based upon cost, the ability to make available physicians capable of providing high quality care and the reputation of the Company's emergency department business unit among hospitals and physicians. Competition is also based upon the proper utilization of the emergency department, as well as the ability to integrate the emergency department with other hospital departments and to provide value added services.

There can be no assurance that the Company will be able to compete successfully against these sources of competition or other competitive or external factors.

Retention of key personnel

The Company's success depends upon its ability to recruit and retain key personnel. The Company could experience difficulty in retaining its current key personnel or in attracting and retaining necessary additional key personnel. Low unemployment in certain market areas can make the recruiting, training, and retention of full-time and part-time personnel more difficult and costly, including the cost of overtime wages. The Company's internal growth will further increase the demand on its resources and require the addition of new personnel. The Company has entered into employment agreements with certain of its executive officers and certain other key personnel. However, failure to retain or replace key personnel may have an adverse effect on the Company's business.

Fuel price fluctuations

Historically, fuel costs represent approximately 3% to 5% of revenue. Due to the significance of fuel expenses, particularly diesel fuel, to the operations of the Company and the historical volatility of fuel prices, the Company has initiated a program to minimize the fluctuations in the price of its diesel fuel purchases. The intent of the program is to mitigate the impact of fuel price changes on the Company's operating margins and overall profitability by entering into forward supply contracts ("FSCs") with certain vendors. The FSCs generally stipulate set bulk delivery volumes at prearranged prices for a set period. The volumes agreed to be purchased by the Company are well below the forecasted total bulk fuel needs for the given location. Therefore, the risk of being forced to purchase fuel through the FSCs that is not required by the Company is minimal. Also, to the extent that the Company enters FSCs for portions of its total fuel needs, it may not realize the benefit of decreases in fuel prices. Conversely, to the extent that the Company does not enter into FSCs for portions of its total fuel needs, it may be adversely affected by increases in fuel prices.

Given the ticket based revenue stream of the Greyhound segment, fuel price increases at the U.S. operations of the Greyhound segment, limited by what the market can bear, can be passed on to the passenger through increased fares. The majority of the Canadian operations of the Greyhound segment operates in a regulated market and ticket price increases must be first approved by government agencies. The other operations, that have fuel requirements, operate with a contractual based revenue stream. Fuel price increases take a longer time to be passed on to the customer, in most cases upon renewal of the contract.

Factors that may affect future results

Certain statements contained in this report, including statements regarding the status of financing arrangements, the status and outcomes of restructuring discussions and proceedings, future operating results and market opportunities, possible asset dispositions and other statements, that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve certain risks, uncertainties and assumptions that include, but are not limited to; the negotiating positions of various constituencies and the results of negotiations regarding restructuring plans; the Company's ability to continue as a going concern; market factors, including competitive

pressures and changes in pricing policies; changes in interpretations of existing legislation or the adoption of new legislation; loss of major customers; the ability to continue to satisfy bonding requirements for existing or new customers; volatility in energy costs; the costs and risks associated with litigation; costs related to accident and other claims; potential pension plan funding requirements; and general economic conditions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated.

Legal proceedings

See Notes 5 and 13 of Notes to the Consolidated Financial Statements for the three months ended November 30, 2002.