UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

February 18, 2003
(Date of earliest event reported)

LABORATORY CORPORATION OF AMERICA HOLDINGS
(Exact name of registrant as specified in its charter)

DELAWARE	1-11353	13-3757370
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

358 SOUTH MAIN STREET, BURLINGTON, NORTH CAROLINA 27215
(Address of principal executive offices)

336-229-1127
(Registrant's telephone number, including area code)

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

(a) Financial Statement of Business Acquired

The balance sheets of Dynacare Inc. as of June 30, 2002 and as of December 31, 2001 and December 31, 2000 and the related consolidated statements of operations, stockholders' equity, and cash flows for the six months ended June 30, 2002 and each of the years in the three year period ended December 31, 2001 are attached hereto as Exhibits 99.1 and 99.2 and are incorporated herein by reference.

(c) Exhibits

23 Consent of Ernst & Young LLP

99.1 Balance sheet of Dynacare Inc. as of June 30, 2002 and the related consolidated statements of operations, stockholders' equity, and cash flows for the six months ended June 30, 2002.

99.1 Balance sheet of Dynacare Inc. as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the years in the three year period ended December 31, 2001.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

LABORATORY CORPORATION OF AMERICA HOLDINGS
(Registrant)

By:/s/ BRADFORD T. SMITH
Bradford T. Smith
Executive Vice President
and Secretary

Date: February 18, 2003

Exhibit 23

Consent of Independent Auditors

We consent to the incorporation by reference in the following registration statements of Laboratory Corporation of America Holdings:

Form S-8	(No. 333-102602)	DIANON Systems, Inc. 1996 Stock Incentive Plan DIANON Systems, Inc. 1999 Stock Incentive Plan DIANON Systems, Inc. 2000 Stock Incentive Plan DIANON Systems, Inc. 2001 Stock Incentive Plan UroCor, Inc. Second Amended and Restated 1992 Stock Option Plan
Form S-8	(No. 333-97745)	Dynacare Inc. Amended and Restated Employee Stock Option Plan
Form S-8	(No. 333-90764)	Laboratory Corporation of America Holdings Amended and Restated 2000 Employee Stock Option Plan
Form S-3	(No. 333-71896)	$744,000,000 of Liquid Yield Option - Trademark- Option Notes due 2021 ("LYONs") (Zero Coupon Subordinated)
Form S-8	(No. 33-43006-99)	National Health Laboratories Incorporated 1988 Stock Option Plan
Form S-8	(No. 33-55065)	National Health Laboratories Incorporated 1994 Stock Option Plan
Form S-8	(No. 333-39735)	Laboratory Corporation of America Holdings 1995 Stock Plan for Non-Employee Directors
Form S-8	(No. 333-94329)	Laboratory Corporation of America Holdings Amended and Restated 1999 Stock Incentive Plan
Form S-8	(No. 333-94331)	Laboratory Corporation of America Holdings 1997 Employee Stock Purchase Plan

of our report dated March 20, 2002, with respect to the consolidated financial statements of Dynacare Inc. included in Exhibit 99.2 of the Current Report on Form 8-K of Laboratory Corporation of America Holdings, dated February 18, 2003.

/s/ Ernst & Young LLP
Dallas, Texas
February 18, 2003

EXHIBIT 99.1

Dynacare Inc.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at

(in thousands of U.S dollars)	June 30, 2002 (Unaudited)	December 31, 2001 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 21,893	$ 30,002
Accounts receivable	81,321	72,895
Prepaid expenses	5,018	3,074
Inventory	10,750	11,314
Deferred income taxes	5,059	5,059
Total current assets	124,041	122,344
Capital assets	51,913	51,722
Goodwill	102,080	100,194
Intangible assets	83,537	81,037
Other assets	24,197	29,028
	$ 385,768	$ 384,325
LIABILITIES		
Current liabilities:		
Bank indebtedness	$ 7,642	$ 3,890
Accounts payable and accrued liabilities	40,229	48,701
Current portion of deferred income taxes	12,799	12,799
Current portion of long term debt	1,959	2,265
Total current liabilities	62,629	67,655
Long term debt	202,943	201,811
Deferred income taxes	26,975	22,574
Shareholders' equity:		
Capital stock	123,505	122,855
Deficit	(29,053)	(32,368)
	94,452	90,487
Foreign currency translation adjustment	(1,231)	1,798
	93,221	92,285
	$ 385,768	$ 384,325

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Dynacare Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS
For the six months ended June 30, (Unaudited)

(in thousands of U.S. dollars, except per share data)

	2002	2001
Revenues	$ 217,898	$ 197,681
General and operating expenses	188,882	170,146
Depreciation	7,004	5,775
Amortization customer lists and contracts	494	--
Amortization of licenses and goodwill	--	2,788
	196,380	178,709
Operating earnings	21,518	18,972
Interest expense	8,505	10,645
Disposition of partnership interests	7,120	--
Earnings before income taxes	5,893	8,327
Income tax expense		
Current	1,670	1,380
Deferred	908	(1,005)
	2,578	373
Net earnings	$ 3,315	$ 7,954

Earnings per share - Basic	$ 0.17	$ 0.47
Earnings per share - Fully-diluted	$ 0.16	$ 0.46

CONSOLIDATED STATEMENTS OF DEFICIT

(in thousands of U.S. dollars)	For the six months ended June 30, 2002 (Unaudited)	Year ended December 31, 2001 (Audited)
Deficit, beginning of period	$ (32,368)	$ (44,085)
Net earnings	3,315	11,717
Deficit, end of period	$ (29,053)	$ (32,368)

Dynacare Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended June 30, (Unaudited)

(in thousands of U.S. dollars)	2002	2001
CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Earnings	$ 3,315	$ 7,954
Items not affecting cash and cash equivalents		
Depreciation	7,004	5,775
Amortization of customer lists and contracts	494	--
Amortization of licenses and goodwill	--	2,788
Deferred income taxes	908	(1,006)
Loss on disposition of partnership interests	6,091	--
Net change in non-cash working capital items	(18,658)	(9,242)
	(846)	6,269
CASH FLOW USED IN INVESTING ACTIVITIES:		
Acquisition of businesses	(1,886)	(10,429)
Purchase of capital assets	(5,249)	(4,204)
Decrease (increase) in other assets - net	280	(3,471)
Payments on disposition of partnership interests - net	(3,716)	--
	(10,571)	(18,104)
CASH FLOW PROVIDED BY FINANCING ACTIVITIES:		
Increase in bank indebtedness	3,752	3,917
Decrease in long term debt	(566)	(396)
Issuance of capital stock	650	330
	3,836	3,851
Foreign exchange translation adjustments	(528)	55
Decrease in cash and cash equivalents during the period	(8,109)	(7,929)
Cash and cash equivalents, beginning of period	30,002	18,099
Cash and cash equivalents, end of period	$ 21,893	$ 10,170

DYNACARE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(in thousands of U.S. dollars, except for share and per share amounts)

1. Basis of Presentation

The Company's unaudited interim consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and the instructions of Form 10-Q and Article 10 of Regulation S-X.

In the opinion of management, the unaudited interim consolidated financial statements of the Company reflect all adjustments, which consist only of normal and recurring adjustments, necessary to present fairly the financial position as at June 30, 2002 and results of operations and cash flows for the six months ended June 30, 2002 and 2001. These unaudited interim consolidated financial statements follow the same accounting policies and methods of their application as the most recent annual consolidated financial statements of the Company, except for the adoption of the Canadian Institute of Chartered Accountants handbook sections 1581 - Business Combinations and 3062 - Goodwill and Other Intangible Assets Effective January 1, 2002. Operating results for the six months ended June 30, 2002, are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2002.

2. Earnings Per Share

The Company's earnings per share data was computed as follows:

Six months ended June 30,	2002	2001
Basic earnings per share		
Net earnings	$ 3,315	$ 7,954
Weighted average number of common shares outstanding during the period	19,331,613	16,891,418
Basic earnings per share	$ 0.17	$ 0.47
Diluted earnings per share		
Net earnings	$ 3,315	$ 7,954
Weighted average number of common shares outstanding during the period	19,331,613	16,891,418
Stock options	1,273,674	255,193
	20,605,287	17,146,611
Diluted earnings per share	$ 0.16	$ 0.46

3. Goodwill and Other Intangible Assets - Adoption of CICA 3062

As a result of the Company's adoption of CICA 3062, adjusted net earnings and earnings per share for the six months ended June 30, 2002 and 2001 related to the Company's goodwill and intangible assets that are no longer being amortized (including any related income tax effects) are as follows:

For the Six Months Ended June 30,	2002	2001
Reported net earnings	$ 3,315	$ 7,954
Addback: Goodwill amortization	--	842
Addback: Licenses amortization	--	910
Adjusted net earnings	$ 3,315	$ 9,706
Basic earnings per share		
Reported net earnings	$ 0.17	$ 0.47
Goodwill amortization	--	.05
Licenses amortization	--	.05
Adjusted net earnings	$ 0.17	$ 0.57
Diluted earnings per share		
Reported net earnings	$ 0.16	$ 0.46
Goodwill amortization	--	.05
Licenses amortization	--	.05
Adjusted net earnings	$ 0.16	$ 0.56

The Company's licenses and goodwill based on the requirements of CICA 3062 are deemed to have an indefinite useful life and accordingly effective January 1, 2002, the Company no longer amortizes its licenses and goodwill. The Company's remaining intangible assets continue to be amortized over their estimated useful life.

4. Segment Information

Management of the Company has determined that the Company operates one business segment, the provision of clinical laboratory services. The Company provides clinical laboratory services in two geographic areas, the United States and Canada.

As at and for the six months ended June 30,	2002			2001		
	U.S.	Canada	Total	U.S.	Canada	Total
Revenues	$163,991	$ 53,907	$217,898	$144,914	$ 52,767	$197,681

5. Commitments and Contingencies

In January 2002, one of the Company's partnerships entered into a new lease, which has resulted in the early termination of its existing lease. The Company expects to remain it its existing leased premises until October 31, 2002. The lease termination cost has been estimated at $0.4 million, and will be recorded by the Company in its consolidated financial statements in the fourth quarter of 2002.

In 1995 the Company sold its retirement homes division. On the sale of one of the retirement homes, the purchaser assumed two mortgages with a total balance of $10.9 million at June 30, 2002 and $11.7 million at December 31, 2001. The Company has not been formally discharged from the mortgages, however, the Company has been indemnified by the purchaser and does not expect non-performance. Then mortgages bear interest at 10.0% per annum and are repayable in 2003 and 2004.

The Company is contingently liable with respect to litigation and claims which arise from time to time. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable. It is reasonably possible that the final resolution of some of these matters may require the Company to make expenditures in excess of estimates, over an extended period of time and in a range of amounts that cannot be reasonably estimated at this time. However, in the opinion of management, any liabilities that may arise from these contingencies would not have a material adverse affect on the financial position and results of operations of the Company.

6. Disposition of Partnership Interests

During the six month period ended June 30, 2002, the Company reached an agreement with its partners to terminate its partnerships in Pittsburgh, PA and Schenectady, NY. The Company recorded a charge of $7.1 million or $4.7 million after tax, in connection with the termination of these partnerships.

7. Subsequent Event - Acquisition of the Company

On July 25, 2002, Laboratory Corporation of America Holdings ("LabCorp") completed the acquisition of all of the outstanding stock of the Company in a combination cash and stock transaction with a combined value of approximately $495.3 million, including transaction costs. LabCorp also converted approximately 553,958 unvested stock options of the Company into 297,049 unvested LabCorp options to acquire LabCorp shares at terms comparable to those under the Company's stock option plan. In conjunction with this acquisition, LabCorp repaid the Company's existing $204.4 senior subordinated unsecured notes, including a call premium of approximately $7.0 million.

EXHIBIT 99.2

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of Dynacare Inc.

We have audited the consolidated statements of financial position of Dynacare Inc. as at December 31, 2001 and 2000, and the consolidated statements of operations, deficit and cash flows for each of the years in the three-year period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2001, in accordance with Canadian generally accepted accounting principles.

/s/ Ernst & Young LLP

Dallas, Texas
March 20, 2002

DYNACARE INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

(in thousands of U.S. dollars)	2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents (Note 17)	$ 30,002	$ 18,099
Accounts receivable (Note 19)	72,895	62,065
Prepaid expenses	3,074	2,654
Inventory	11,314	7,692
Deferred income taxes (Note 11)	5,059	5,956
Total current assets	122,344	96,466
Capital assets (Note 3)	51,722	45,907
Licenses and goodwill (Note 4)	181,231	166,691
Other assets (Note 5)	29,028	39,912
	261,981	252,510
	$ 384,325	$ 348,976
LIABILITIES		
Current liabilities:		
Bank indebtedness (Note 6)	$ 3,890	$ --
Accounts payable and accrued liabilities	48,701	44,995
Current portion of deferred income taxes (Note 11)	12,799	10,961
Current portion of long-term debt (Note 7)	2,265	5,913
Total current liabilities	67,655	61,869
Long-term debt (Notes 7 and 8)	201,811	202,287
Deferred income taxes (Note 11)	22,574	29,569
	292,040	293,725
SHAREHOLDERS' EQUITY		
Capital stock (Note 9)	122,855	98,357
Deficit	(32,368)	(44,085)
	90,487	54,272
Foreign currency translation adjustment	1,798	979
	92,285	55,251

	$ 384,325	$ 348,976

Commitments and contingencies (Notes 14 and 15)

See accompanying notes to consolidated financial statements

Approved on behalf of the Board

(signed) Harvey A. Shapiro
Director

(signed) William T. Brock
Director

DYNACARE INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, (in thousands of U.S. dollars, except for share and per share amounts)	2001	2000	1999
Revenues (Note 19)	$ 402,359	$ 352,919	$ 272,677
General and operating expenses	349,474	304,809	229,633
Depreciation	12,072	11,368	8,351
Amortization of licenses and goodwill	5,788	5,279	4,707
Severance, relocation and other charges	--	6,750	--
	367,334	328,206	242,691
Operating earnings	35,025	24,713	29,986
Interest expense (Notes 6 and 7)	20,431	22,477	19,457
Earnings before income taxes	14,594	2,236	10,529
Income tax expense (benefit) (Note 11)			
Current	3,138	3,044	2,706
Deferred	(261)	(6,833)	2,182
	2,877	(3,789)	4,888
Net earnings	$ 11,717	$ 6,025	$ 5,641
Earnings Per Share (Note 18)			
Basic	$ 0.68	$ 0.48	$ 0.47
Diluted	$ 0.66	$ 0.46	$ 0.45
Weighted average number of common shares outstanding-Basic	17,211,138	12,482,368	11,880,914
Weighted average number of common shares outstanding-Diluted	17,885,180	13,143,971	12,464,105

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF DEFICIT

Years Ended December 31, (in thousands of U.S. dollars)	2001	2000	1999
Deficit, beginning of year	$ (44,085)	$ (49,343)	$ (54,984)
Net earnings	11,717	6,025	5,641
Increase in stated capital (Note 9)	--	(767)	--
Deficit, end of year	$ (32,368)	$ (44,085)	$ (49,343)

See accompanying notes to consolidated financial statements

DYNACARE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, (in thousands of U.S. dollars)	2001	2000	1999
CASH FLOW FROM OPERATING ACTIVITIES			
Net earnings	$ 11,717	$ 6,025	$ 5,641
Adjustments to reconcile net earnings to net cash provided by operations:			
Depreciation	12,072	11,368	8,351
Amortization of licenses and goodwill	5,788	5,279	4,707
Deferred income taxes	(261)	(6,833)	2,182
Gain on sale of capital assets	--	(110)	(11)
Severance, relocation and other charges	--	3,021	--
Change in non-cash working capital, net of effect of acquisitions (Note 17)	(6,512)	5,168	(16,106)
	22,804	23,918	4,764
CASH FLOW USED IN INVESTING ACTIVITIES			
Acquisition of businesses (Notes 2 and 17)	(17,670)	(39,551)	(21,086)
Purchase of capital assets (Note 17)	(11,804)	(13,852)	(10,990)
Proceeds from sale of capital assets	--	132	68
Increase in other assets	(4,037)	(8,436)	(5,528)
	(33,511)	(61,707)	(37,536)
CASH FLOW PROVIDED BY FINANCING ACTIVITIES			
Increase (decrease) in bank indebtedness	3,890	(5,812)	(6,855)
Proceeds from long-term debt	1,577	4,525	71,078
Repayment of long-term debt	(6,054)	(6,354)	(18,090)
Issue of capital stock-net proceeds (Note 9)	24,498	46,433	--
	23,911	38,792	46,133
Foreign exchange translation adjustments	(1,301)	769	(1,735)
Increase in cash and cash equivalents during the year	11,903	1,772	11,626
Cash and cash equivalents, beginning of year	18,099	16,327	4,701
Cash and cash equivalents, end of year	$ 30,002	$ 18,099	$ 16,327

See accompanying notes to consolidated financial statements

1. Summary of significant policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP), which are in all material respects in accordance with United States generally accepted accounting principles and practices prescribed by the United States and Securities Exchange Commission (U.S. GAAP), except as outlined in Note 21.

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual amounts could differ from those estimates.

The significant accounting policies are as follows:

Nature of business

Dynacare Inc. and its subsidiary companies (the Company) provide clinical laboratory services in the United States and Canada.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its wholly-owned subsidiaries. The consolidated financial statements also include the Company's proportionate share of the assets, liabilities, revenues and expenses in the following clinical laboratory partnerships in which it is a participant:

HH/DL, L.P. (Texas Partnership)

DL/ELLIS, L.L.C. (Ellis Partnership)

United/Dynacare L.L.C. (United Partnership)

DL/UHS Inc. (Tennessee Partnership)

Dynacare/WPAHS L.L.C. (Allegheny Partnership)

Dynacare-Gamma Laboratory Partnership (Ontario Partnership)

Dynacare Kasper Medical Laboratories (Alberta Partnership)

The proportionate consolidation method of accounting is used when contractual arrangements exist which allow for joint control over the strategic operating, investing and financing activities of the entity.

On October 31, 2001, the Company purchased the remaining 50% partnership interest in the Texas Partnership from its partner Memorial Health Ventures. Accordingly, subsequent to October 31, 2001, the Company consolidated 100% of the assets, liabilities, revenues and expenses of the Texas Partnership.

Cash equivalents

Cash equivalents consist of short-term investments, which have remaining maturities of three months or less from the date of purchase, and are carried at cost which approximates market.

Revenue recognition

Revenues are recognized on the accrual basis at the time services are provided, which for clinical laboratories approximate the time test results are reported. Revenues are stated net of all contractual allowances and discounts.

Depreciation

Capital assets are stated at cost. Depreciation is provided on the declining-balance basis at the annual rates set out below:

Buildings	5%
Medical equipment	20%
Furniture and fixtures	20%
Computer equipment	30%
Motor vehicles	30%

Leasehold improvements are amortized on the straight-line basis over the term of the lease, plus one renewal option.

Inventory

Inventory is stated at the lower of cost determined on a first-in, first-out basis, and replacement cost.

Licenses and goodwill

Licenses and goodwill, which arise on acquisitions, are recorded at cost and are amortized on the straight-line basis primarily over 40 years. The amortization policy has been adopted after consideration of various factors including the essential nature and continuing demand for laboratory services, barriers to entry, the perpetual nature of licenses, and a significant market share created in a number of the markets in which the Company operates. Laboratory licenses are required to operate clinical laboratories and to receive reimbursement in Ontario. Although new licenses are rarely issued, existing licenses of the Company and its competitors have been routinely renewed on an annual basis, provided the laboratory adheres to certain regulations. The Company complies with the applicable regulations, has never had a license renewal denied and as such believes it is unlikely that these licenses will be revoked. The Company reviews the valuation and amortization of licenses and goodwill on a regular basis, taking into consideration any events or circumstances that might have impaired the carrying value. The amount of impairment, if any, is measured based on undiscounted projected cash flow compared to the carrying value.

Foreign currency translation

a) Reporting Currency

Effective July 1, 2000, the Company adopted the U.S. dollar as its reporting currency as more than 50% of the Company's revenues are generated in the United States, coupled with the Company's continued growth in the United States. Prior to July 1, 2000, the Company's consolidated financial statements were presented in Canadian dollars. The consolidated financial statements and notes for all periods prior to June 30, 2000, have been restated in U.S. dollars in accordance with Canadian generally accepted accounting principles using the July 1, 2000, exchange rate of Cdn$1.48 per U.S.$1.00. The functional currencies of each of the Company's operations in the United States and Canada are unchanged.

The assets and liabilities of the Company's operations having a functional currency other than the U.S. dollar are translated into U.S. dollars using the exchange rate in effect at the year-end, and revenues and expenses are translated at the average rate during the year. The average and year-end U.S. to Canadian dollar exchange rate was $1.55 and $1.59 (2000 - $1.50 and $1.50), respectively. Exchange gains or losses on translation of the Company's net investment in these operations are included in the foreign currency translation adjustment component of shareholders' equity.

The exchange gains or losses accumulated in the foreign currency translation adjustment component of shareholders' equity are not included in operations until realized through a reduction in the Company's net investment in such operations.

b) Foreign Exchange Transactions

Foreign exchange translation adjustments arising from long-term debt repayable in a currency different than an operation's functional currency are deferred over the remaining term of the debt or, if the long-term debt is designated as a hedge of the net investment in self-sustaining foreign operations, exchange translation adjustments are included in the foreign currency translation adjustment component of shareholders' equity.

Income taxes

The Company follows the liability method of tax allocation. Under this method, deferred tax assets and liabilities are recognized based on the temporary differences between the accounting and tax bases of assets and liabilities. The calculation of deferred tax assets and liabilities is based on substantially enacted tax rates and laws that will be in effect when the temporary differences are expected to reverse (Note 11).

Financial instruments

The Company does not hold or issue financial instruments for trading purposes. Amounts receivable or payable under currency swaps, utilized as hedges, are included in the statement of financial position as either long-term assets or long-term liabilities. Foreign exchange gains or losses on the related hedged assets or liabilities are included in the carrying amount of such assets and liabilities, and are matched against the related gains and losses on the currency swaps.

Costs for purchased interest rate swap agreements are amortized to interest expense over the term of the swaps. Unamortized costs are included in other assets in the statement of financial position. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense.

Earnings per share

Earnings per share are calculated on net earnings using the weighted average number of shares outstanding. Fully diluted earnings per share are calculated on the weighted average number of shares outstanding during the year assuming all the dilutive stock options had been exercised into common shares of the Company at the beginning of the year, or date of issuance, if later.

The treasury stock method is used in recognizing the use of proceeds that could be obtained upon exercise of stock options in computing fully diluted earnings per share. The treasury stock method assumes that the proceeds received by the Company upon the exercise of stock options would be used to purchase common shares outstanding at the average market price during the year.

Stock-based compensation plans

The Company has two stock-based compensation plans, which are described in Note 9. No compensation expense is recognized for these plans when stock options are issued to employees or directors. Any consideration paid by employees on exercise of stock options is credited to share capital.

2. Acquisitions

The Company has acquired clinical laboratories and has accounted for these acquisitions using the purchase method.

The purchase price has been allocated as follows:

December 31, (in thousands of U.S. dollars)	2001	2000
Capital and other assets	$ 300	$ 4,705
Goodwill	17,870	36,172
Net assets	$ 18,170	$ 40,877
Purchase consideration:		
Cash	$ 11,580	$ 38,497
Promissory notes payable	2,077	1,326
Short-term liabilities	4,513	1,054
	$ 18,170	$ 40,877

On October 31, 2001, the Company purchased the remaining 50% partnership interest in the Texas Partnership from its partner Memorial Health Ventures for a purchase price of $7.2 million. The purchase price consideration included cash of $2.0 million, promissory notes payable of $1.0 million and an assumption of net short-term liabilities of $4.2 million. The goodwill arising on the acquisition of $7.2 million is not subject to amortization. This accounting treatment is in accordance with the Canadian Institute of Chartered Accountants Handbook Section, Goodwill and other Intangible Assets - 3062 (CICA - - 3062), which states that acquisitions of goodwill and intangible assets made after June 30, 2001 and deemed to have an indefinite life, will no longer be amortized but will be subject to annual impairment tests. All other goodwill and other intangible assets acquired prior to or as of June 30, 2001, continued to be amortized during the year ended December 31, 2001. Beginning on January 1, 2002, all goodwill and other intangible assets deemed to have an indefinite life will no longer be amortized but will be subject to annual impairment tests.

In June 2001, the Company through two of its partnerships in the United States, purchased the laboratory assets and operations of two laboratories located in Texas and Illinois for a purchase price of $2.3 million. The purchase price consideration included cash of $1.2 million, short-term liabilities of $0.1 million and a promissory note payable of $1.0 million. The goodwill arising on these acquisitions of $2.3 million is being amortized over terms ranging from 3 to 30 years. Additionally, in July 2001, the Company through a joint venture in the United States purchased the laboratory assets and operations of another laboratory in Illinois. The purchase price consideration was cash of $0.4 million. The goodwill arising on the acquisition of $0.4 million is being amortized over 15 years.

On March 1, 2001, the Company purchased the laboratory assets and operations of Medical Arts Laboratory located in Oklahoma for a purchase price of $7.7 million. The purchase price consideration included cash of $7.5 million and short-term liabilities of $0.2 million. The goodwill arising on the acquisition of $7.5 million is being amortized over 40 years.

In March 2000, the Company acquired the outstanding common shares of a clinical laboratory located in Alabama for a purchase price of $23.8 million. The purchase price consideration included cash of $22.0 million, long-term debt of $1.2 million and short-term liabilities of $0.6 million. The goodwill arising on the acquisition of $20.9 million is being amortized over 40 years.

In addition, during 2000 the Company purchased the assets and operations of five clinical laboratory operations located in the United States for a purchase price of $14.7 million. The purchase price consideration included cash of $14.1 million, promissory notes payable of $0.1 million and short-term liabilities of $0.5 million. The goodwill arising on these acquisitions of $14.3 million is being amortized over periods ranging from 15 to 40 years. Also during 2000, the Company entered into a partnership with a hospital located in Pennsylvania. The Company's capital contribution to the partnership was cash of $2.4 million. The goodwill arising on the partnership formation of $1.0 million is being amortized over 30 years.

Results of operations of the above acquisitions have been included in the statement of operations from the respective dates of acquisition.

On October 1, 2000, the Company sold its direct ownership interests of certain of its operations located in Texas to the Texas Partnership for proceeds of $17.6 million which represented the value of the Company's investment in these operations. The purchase price for these acquisitions was financed by the Company and in return the Company received preferred partnership units on which it was entitled to earn a 20% return. The preferential partnership units had proposed terms of repayment of three years or more subject to certain provisions in the capital contribution agreement. Immediately following the Company's purchase of the remaining 50% partnership interest in the Texas Partnership, the Company's preferred partnership units, including the accrued investment income on these units, were converted into capital units of the partnership.

3. CAPITAL ASSETS

December 31,

(in thousands of U.S. dollars)	2001	2000
Land	$ 3,493	$ 3,665
Buildings	8,783	9,123
Medical equipment	19,867	15,491
Leasehold improvements	14,206	10,964
Furniture and fixtures	5,038	4,046
Computer equipment	38,053	30,102
Vehicles	1,098	692
	90,538	74,083
Accumulated depreciation	(38,816)	(28,176)
	$ 51,722	$ 45,907

4. LICENSES AND GOODWILL

December 31,

(in thousands of U.S. dollars)	2001	2000
Licenses	$ 149,038	$ 157,820
Goodwill	156,915	133,794
	305,953	291,614
Accumulated amortization and impairment (1)	(124,722)	(124,923)
	$ 181,231	$ 166,691

(1) During 1997, the Company completed a major review of its laboratory operations and as a result of certain adverse changes in the clinical laboratory industry and its businesses, an impairment charge of $79.4 million was recorded.

5. Other assets

December 31,

(in thousands of U.S. dollars)	2001	2000
Investments and property held for sale	$ 6,773	$ 19,305
Currency swap receivable	12,373	7,312
Amounts receivable	3,374	4,422
Deferred financing costs (1)	6,508	8,873
	$ 29,028	$ 39,912

(1) Net of accumulated amortization of $7.5 million at December 31, 2001 (2000 - $6.0 million).

6. BANK INDEBTEDNESS

The Company has a $35.0 million revolving credit facility for working capital purposes in the United States which can be drawn to a maximum amount of the lesser of i) $35.0 million or ii) 80% of all eligible receivables plus 50% of eligible inventory. The Company has pledged the accounts receivable and inventory of the Company's U.S. wholly owned subsidiaries as collateral for this facility. This facility matures on September 12, 2002, and bears interest at a fluctuating rate per annum as follows: i) prime rate loans, at U.S. prime plus the applicable margin in effect and ii) Euro loans, at adjusted Euro rate plus the applicable Euro margin.

In Canada, the Company has revolving credit facilities for working capital purposes totaling approximately Cdn$23.3 million ($14.6 million). Collateral for these operating facilities consists of an assignment of certain accounts receivable and inventory. Interest on these credit facilities varies between Canadian prime rate and prime plus 2%.

For the year ended December 31, 2001, interest on the Company's operating loans amounted to $0.3 million (2000 - $1.6 million, 1999 - $0.6 million).

7. LONG-TERM DEBT

December 31, (in thousands of U.S. dollars)	2001	2000
$195 million (2000--$195 million) senior unsecured notes payable, interest at 10.75% maturing in 2006 and other long-term debt with interest ranging from 0% to 10.1% maturing through 2006	$ 204,076	$ 208,200
Less: current portion	(2,265)	(5,913)
	$ 201,811	$ 202,287

The senior unsecured notes are redeemable in whole or in part at the option of the Company on or after January 15, 2001, at a premium redemption price of 105.375% decreasing to par on January 15, 2004 and thereafter. The indenture governing the senior unsecured notes contains certain restrictions including restrictions on the payment of dividends and the incurrence of additional indebtedness.

At December 31, 2001, long-term debt includes Canadian denominated debt Totaling Cdn$6.0 million ($3.7 million) (2000 - Cdn$6.8 million ($4.5 million)).

For the year ended December 31, 2001, interest on long-term debt amounted to $20.1 million (2000 - $21.2 million, 1999 - $20.2 million). For the year ended December 31, 2001, the average interest rate on bank indebtedness and long-term debt including the effect of the interest rate swaps was 9.8% (2000 - 10.3%, 1999 - 10.4%).

The long-term debt at December 31, 2001, is repayable as follows:

(in thousands of U.S. dollars)

2002	$ 2,265
2003	2,723
2004	1,819
2005	425
2006	195,160
Thereafter	1,684
	$204,076

8. FINANCIAL INSTRUMENTS

The Company does not hold or issue financial instruments for trading purposes. A limited number of financial instruments are used to manage well-defined risks associated with fluctuations in foreign currencies and to manage interest costs. The Company's currency swap agreement effectively converts a portion of its U.S. dollar denominated borrowings to Canadian dollars to match the Company's Canadian dollar denominated assets and cash flows.

Under interest rate swaps, the Company agrees with its counterparty to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed upon notional principal amount. The amounts exchanged are based on the notional amounts, however, the notional amounts do not represent the Company's exposure to credit or market loss. The net effect of the swaps is to convert certain fixed rate liabilities which mature in 2006 to fixed and variable rate liabilities.

The counterparty to the financial instruments is an international financial institution. The Company has not obtained collateral or other security to support the financial instruments. Although the Company is potentially exposed to credit loss, it does not anticipate nonperformance by the counterparty given its high credit rating.

On January 24, 1996, the Company entered into a currency and interest rate swap agreement, with a ten-year term to January 15, 2006, whereby $85.0 million of long-term debt was swapped into $116.5 million Canadian dollar denominated debt.

On February 29, 2000, Dynacare Inc. entered into cross currency and interest rate swap agreements due January 15, 2006, whereby Dynacare Inc. has swapped $85.5 million Canadian dollar denominated receivables due from certain of its subsidiaries for $58.9 million. These same subsidiaries have swapped in aggregate $85.5 million Canadian dollar denominated debt due to Dynacare Inc. into $58.9 million.

As at December 31, 2001, the Company has entered into a number of interest rate swaps. The net effect is to convert fixed rate debt, which mature in 2006 to fixed and variable rate debt with maturity terms ranging from three months to four years with a weighted average interest rate of 9.8% (2000 - 11.0%). At maturity, both fixed and variable rate swaps are automatically renewable at the option of the Company.

The only financial instrument that potentially subjects the Company to concentrations of credit risk is accounts receivable. However, this credit risk is reduced as a significant amount of accounts receivable are from hospitals under long-term contracts in the United States and government agencies in Canada. The Company does not foresee a credit risk associated with receivables from hospitals in the United States and government agencies in Canada. The Company believes that the allowance for doubtful accounts is adequate to provide for normal credit losses with respect to its remaining accounts receivable.

The carrying amount of cash and cash equivalents, accounts receivable, other amounts receivable, bank indebtedness, and accounts payable and accrued liabilities are considered to be representative of their respective fair values.

The fair value of the borrowed funds is determined by recent market quotations and by discounting the future contractual cash flows under current financing arrangements, at discount rates which represent borrowing rates presently available to the Company for loans with similar terms and remaining maturity, less costs of settlement.

The fair value of interest rate and currency swaps is based on quoted market prices from financial institutions for similar financial instruments.

At December 31, 2001, the estimated fair value for the long-term debt is $211.3 million (2000 - $197.1 million). The estimated fair value of favorable currency and interest rate swaps at December 31, 2001, is $27.5 million (2000 - $12.6 million) and the estimated fair value of unfavorable currency and interest rate swaps is $9.3 million (2000 - $5.3 million).

9. CAPITAL STOCK

The Company's share capital is comprised as follows:

December 31, (in thousands of U.S. dollars)	2001	2000
Authorized		
Unlimited number of common shares		
Issued and outstanding common shares:		
Common shares (2001- 19,278,977; 2000 - 16,883,914)	$122,855	$ 98,357
	$122,855	$ 98,357

On November 16, 2001, the Company completed a public offering of its common shares. The Company issued 2,300,000 common shares for total proceeds of $25.3 million (before after tax costs of $1.4 million). In addition, as part of the equity offering principal shareholders of the Company sold 2,300,000 common shares for gross proceeds of $25.3 million.

On November 22, 2000, the Company completed an initial public offering of its common shares. The Company issued 5,003,000 of common shares for total proceeds of $50.0 million (before after tax costs of $3.6 million).

Upon the closing of the Company's initial public offering of its common shares, the Company converted all of its outstanding classes of common shares (including common shares issuable upon exercise of the Company's stock options) into a single class of common shares on a one-for-one basis and completed a 0.6927-for-1 reverse stock split of all its outstanding common shares (including common shares issuable upon exercise of the Company's stock options). As a result of the conversion and reverse stock split, 8,636,790 Class B common shares and 8,514,811 Class C common shares were exchanged into 11,880,914 common shares of the Company. All prior years capital stock and stock option information presented has been adjusted for the Company's special and common share conversion and reverse stock split.

On September 28, 2000, all of the Company's outstanding special shares were converted into Class B common shares and Class C common shares at a rate of 1.5504 Class B or C common shares for each special share. Additionally, on September 28, 2000, the Company by the way of a Board of Directors resolution increased its stated capital by $0.8 million on 666,720 Class B common shares.

Under executive and employee stock option plans, the Company may grant stock options to its executives and employees for up to 2,909,340 common shares.

A summary of the status of the Company's stock option plans for common shares is presented below:

(i) Stock options for common shares - Executive Stock Option Plan
December 31,

	2001		2000		1999	
	Stock options	Weighted-average exercise price	Stock options	Weighted-average exercise price	Stock options	Weighted-average exercise price
Outstanding at beginning of year	1,454,669	Cdn $ 9.38	1,454,669	Cdn $ 9.38	1,420,034	Cdn $ 9.31
Granted	-	-	-	-	34,635	Cdn $ 12.27
Exercised	-	-	-	-	-	-
Cancelled	-	-	-	-	-	-
Outstanding at end of year	1,454,669	Cdn $ 9.38	1,454,669	Cdn $ 9.38	1,454,699	Cdn $ 9.38
Stock options exercisable at year-end	1,454,699	Cdn $ 9.38	1,454,669	Cdn $ 9.38	581,868	Cdn $ 9.38
Weighted-average fair value of stock options granted during the year		$ Nil		$ Nil		Cdn $ 2.01

The contractual remaining life of the stock options outstanding at December 31, 2001, is approximately five years.

(ii) Stock options for common shares - Employee Stock Option Plan

December 31,

	2001		2000		1999	
	Stock options	Weighted-average exercise price	Stock options	Weighted-average exercise price	Stock options	Weighted-average exercise price
Outstanding at beginning of year	306,507	Cdn $ 11.02	393,107	Cdn $ 10.91	304,788	Cdn $ 9.31
Granted	631,400	$ 9.89	-	-	102,173	Cdn $ 15.49
Exercised	(95,063)	Cdn $ 9.48	-	-	-	-
Cancelled	(90,325)	Cdn $ 13.92	(86,600)	Cdn $ 10.55	(13,854)	Cdn $ 9.31
Outstanding at end of year	752,519	(1)	306,507	Cdn $ 11.02	393,107	Cdn $ 10.91
Stock options exercisable at year-end	89,880	(1)	145,114	Cdn $ 10.18	81,739	Cdn $ 9.31
Weighted-average fair value of stock options granted during the year		$ 9.89		$ Nil		Cdn $ 2.53

(1) Employee stock options outstanding and stock options exercisable as of December 31, 2001 have a weighted average exercise price of $9.34 (Cdn$14.47) and $7.14 (Cdn$11.06), respectively.

The contractual remaining life of the stock options outstanding at December 31, 2001 is approximately four years for 118,973 stock options and approximately six years for the balance of 633,546 stock options. The stock options vest as to 20% each year on the anniversary date of the stock option grant.

10. SEVERANCE, RELOCATION AND OTHER CHARGES

Upon the completion of the Company's initial public offering of its common shares in November 2000, the Company recorded severance, relocation and other charges of $6.7 million. These charges are as follows:

Severance, lease termination and other costs of $1.9 million related to the relocation of the Company's corporate offices from Toronto, Canada to Dallas, Texas. As at December 31, 2001, and December 31, 2000, $1.4 million and $0.3 million, respectively, of these costs were paid;

Termination costs of $0.8 million to terminate an employment contract with a senior executive officer. As at December 31, 2000, $0.8 million of these costs were paid;

Amounts paid of approximately $2.1 million to certain of the Company's senior executives to enable them to repay in full outstanding loans made to them by the Company and associated taxes which became due as a result. As at December 31, 2000, $2.1 million of these costs were paid; and

Other non-cash restructuring charges of $1.9 million, which primarily includes termination of a services contract.

Severance, relocation and other charges of $0.2 million no longer considered payable have been reflected in the Company's statement of operations for the year ended December 31, 2001.

11. INCOME TAXES

a) Deferred income tax expense for the year ended December 31, 2001 was reduced by $3.0 million due to enacted tax rate reductions of 6% announced by the Ontario provincial government on May 9, 2001. The tax rate reduction will be phased in over the period of 2002 to 2005.

Deferred income tax expense for the year ended December 31, 2000 was reduced by $6.1 million due to enacted tax rate reductions announced by the Canadian federal and provincial governments in 2000. These tax rate reductions are being phased in over the period of 2001 to 2005.

The income tax expense (benefit) for the years ended December 31, 2001, 2000 and 1999 reflect a $1.2 million, $2.5 million and $0.9 million, respectively, reduction in the Company's valuation allowance thereby recognizing the benefit of certain deferred tax assets. It is the Company's expectation that under its current business strategy it will generate sufficient taxable income to fully realize these tax benefits.

b) The provision for income taxes differs from the amount computed by applying the Canadian corporate tax rates to income before income taxes. The reason for this difference is as follows:

Years Ended December 31,			
(in millions of U.S. dollars)	2001	2000	1999
Canadian corporate income tax rate	42.12%	43.95%	44.62%
Provision for income taxes based on corporate income tax rate	$ 6.2	$ 1.0	$ 4.7
Increase (decrease) in taxes resulting from:			
Non-deductible licenses and goodwill amortization	0.2	0.2	-
Non-deductible expenses	0.2	0.5	0.2
Loss (income) from U.S. sources taxed at lower tax rates	(1.6)	0.7	(0.2)
Minimum corporate tax (not calculated on the basis of income)	0.6	0.5	0.4
Reduction in valuation allowance	(1.2)	(2.5)	(0.9)
Substantively enacted tax rate reductions	(3.0)	(6.1)	-
U.S. state income taxes, net of U.S. federal benefit	1.3	1.5	0.7
Other income tax items	0.2	0.4	-
Provision for income tax expense (benefit) as recorded	$ 2.9	$ (3.8)	$ 4.9

c) The principal items giving rise to the deferred portion of income tax expense (benefit) are as follows:

Years Ended December 31,

(in thousands of U.S. dollars)		2001	2000	1999
Net operating loss carryforwards	$	1,057 $	(4,016 $	(5,472)
Deferred deductions		2,103	(3,146)	(2,179)
Deferred financing and restricted interest carryforwards		452	2,725	741
Deferred earnings		(1,835)	2,144	9,175
Licenses and goodwill		328	1,058	134
Capital and other assets		1,812	2,955	698
Substantively enacted tax rate reductions		(3,000)	(6,089)	-
		917	(4,369)	3,097
Reduction in valuation allowance		(1,178)	(2,464)	(915)
Income tax expense (benefit)	$	(261)$	(6,833) $	2,182

d) The geographical components of earnings (loss) before income taxes are summarized below:

Years Ended December 31,

(in thousands of U.S. dollars)		2001	2000	1999
United States	$	(1,052)$	(5,851)$	3,718
Canada		15,646	8,087	6,811
	$	14,594 $	2,236 $	10,529

e) The provision for income tax expense (benefit) is summarized as follows:

Years Ended December 31,

(in thousands of U.S. dollars)		2001	2000	1999
Current:				
United States	$	2,648 $	2,658 $	1,497
Canada		490	386	1,209
		3,138	3,044	2,706
Deferred:				
United States		(1,236)	(4,890)	(299)
Canada		975	(1,943)	2,481
		(261)	(6,833)	2,182
	$	2,877 $	(3,789) $	4,888

f) The Company's deferred tax assets and liabilities are as follows:

December 31, (in thousands of U.S. dollars)		2001	2000	1999
Current deferred tax assets:				
Net operating loss carryforwards	$	7,931 $	11,427 $	13,417
Deferred deductions		5,507	7,913	4,035
		13,438	19,340	17,452
Non-current deferred tax assets:				
Net operating loss carryforwards		9,481	7,678	1,852
Unrealized foreign exchange losses		1,053	496	-
Deferred financing and restricted interest carryforwards		1,358	1,555	1,989
		11,892	9,729	3,841
Total deferred tax assets		25,330	29,069	21,293
Valuation allowance for deferred tax assets		-	(1,178)	(3,642)
Net deferred tax assets	$	25,330 $	27,891 $	17,651
Current deferred tax liability:				
Deferred earnings	$	21,178 $	24,345 $	22,480
Non-current deferred tax liabilities:				
Licenses and goodwill		25,487	29,691	35,120
Capital and other assets		8,979	8,429	5,300
		34,466	38,120	40,420
Total deferred tax liabilities	$	55,644 $	62,465 $	62,900
Net current deferred tax liabilities	$	7,740 $	5,005 $	5,028
Net non-current deferred tax liabilities		22,574	29,569	40,221
Total net deferred tax liabilities	$	30,314 $	34,574 $	45,249

g) At December 31, 2001, the Company had net operating losses available for carryforward in the amount of $20.8 million and $27.0 million in the United States and Canada, respectively (2000 - $9.1 million and $35.6 million) to offset against taxable income in future years. These losses expire periodically to 2008 and 2021 for Canada and the United States, respectively.

12. PENSION PLAN

The Company participates in a defined contribution 401(k) plan, which covers all United States employees meeting certain eligibility requirements. The Company matches employee contributions to the 401(k) plan at a rate of up to a 100% of the first 2% of the employee's salary, subject to the Internal Revenue Service annual contribution limits. In addition, the Company contributes an employer profit sharing amount of 1% of the employee's salary as defined by the plan. For the years ended December 31, 2001, 2000 and 1999, the Company's expense related to the 401(k) plan totaled $2.2 million, $1.8 million and $1.2 million, respectively.

In addition, the Company participates in various group retirement savings plans in Canada. Generally, the Company matches employee contributions to these plans at a rate of up to 3% of the employee's salary. The Company's expense related to these plans for the years ended December 31, 2001, 2000 and 1999 totaled $0.6 million, $0.5 million and $0.3 million, respectively.

13. RELATED PARTY TRANSACTIONS

For the years ended December 31, 2001, 2000 and 1999 consulting fees charged to the Company by shareholders were $Nil, $0.6 million and $0.7 million, respectively. These arrangements were terminated upon completion of the Company's initial public offering in 2000.

14. COMMITMENTS

The Company is committed under existing operating leases at December 31, 2001, to the following payments:

(in thousands of U.S. dollars)

2002	$	14,329
2003	$	11,436
2004	$	8,899
2005	$	7,415
2006	$	5,721
Thereafter	$	35,052

15. CONTINGENCIES

In January 2002, one of the Company's partnerships entered into a new lease, which may result in the early termination of its existing lease. An estimate of the lease termination cost, if any, is not currently determinable.

In 1995, the Company sold its retirement homes division. On the sale of one of the retirement homes, the purchaser assumed two mortgages with a total balance of $11.7 million at December 31, 2001, (2000 - $12.3 million). The Company has not been formally discharged from the mortgages, however, the Company has been indemnified by the purchaser and does not expect non-performance. The mortgages bear interest at 10.0% per annum and are repayable in 2003 and 2004.

The Company is contingently liable with respect to litigation and claims which arise from time to time. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable. It is reasonably possible that the final resolution of some of these matters may require the Company to make expenditures in excess of estimates, over an extended period of time and in a range of amounts that cannot be reasonably estimated at this time. However, in the opinion of management, any liabilities that may arise from these contingencies would not have a material adverse affect on the financial position and results of operations of the Company.

16. SEGMENTED INFORMATION

Management has determined that the Company operates in two geographic segments, the provision of clinical laboratory services in the United States and Canada.

As at and for the year ended December 31,

(in thousands of U.S. dollars)		2001		
		U.S.	Canada	Total
Revenues	$	297,334	$ 105,025	$ 402,359
Net earnings (loss)	$	(2,464)	$ 14,181	$ 11,717
Total assets	$	230,162	$ 154,163	$ 384,325
Capital assets and licenses and goodwill	$	145,332	$ 87,621	$ 232,953
Purchase of capital assets - net	$	10,255	$ 2,118	$ 12,373
Laboratory revenue by payor type:				
Canadian government agencies	$	-	$ 94,293	$ 94,293
Long-term hospital contracts	$	57,180	$ -	$ 57,180
Community (non-hospital) and other	$	240,154	$ 10,732	$ 250,886

As at and for the years ended December 31,

(in thousands of U.S. dollars)			2000			1999
	U.S.	Canada	Total	U.S.	Canada	Total
Revenues	$ 250,747	$ 102,172	$ 352,919	$ 173,566	$ 99,111	$ 272,677
Net earnings (loss)	$ (3,619)	$ 9,644	$ 6,025	$ 2,519	$ 3,122	$ 5,641
Total assets	$ 214,476	$ 134,500	$ 348,976	$ 133,287	$ 155,232	$ 288,519
Capital assets and licenses and goodwill	$ 117,541	$ 95,057	$ 212,598	$ 75,448	$ 98,522	$ 173,970
Purchase of capital assets - net	$ 12,302	$ 2,463	$ 14,765	$ 8,667	$ 2,323	$ 10,990
Laboratory revenue by payor type:						
Canadian government agencies	$ -	$ 90,405	$ 90,405	$ -	$ 87,645	$ 87,645
Long-term hospital contracts	$ 52,232	$ 1,863	$ 54,095	$ 49,056	$ 2,129	$ 51,185
Community (non-hospital) and other	$ 198,515	$ 9,904	$ 208,419	$ 124,510	$ 9,337	$ 133,847

17. Consolidated statements of cash flows

Supplementary disclosure required for the Company's consolidated statements of cash flows is as follows:

Income taxes paid

For the year ended December 31, 2001, income taxes paid by the Company were $4.8 million (2000 - $4.2 million, 1999 - $3.2 million).

Interest payments

For the year ended December 31, 2001, interest paid by the Company was $21.9 million (2000 - $18.8 million, 1999 - $18.5 million).

Business Combinations

The Company's total purchase price consideration for acquisitions made in 2001, 2000, and 1999 was $18.2 million, $40.9 million and $27.3 million, respectively. The Company did not acquire cash in any of its acquisitions. The total purchase price consideration was comprised of cash paid of $11.6 million (2000 - $38.5 million, 1999 - $20.8 million), promissory notes payable of $2.1 million (2000 - $1.3 million, 1999 - $6.2 million), and the assumption of short-term liabilities of $4.5 million (2000 - $1.1 million, 1999 - $0.3 million).

Capital assets

For the year ended December 31, 2001, capital assets were acquired at an aggregate cost of $12.4 million (2000 - $14.8 million, 1999 - $11.0 million) of which $0.6 million (2000 - $0.9 million, 1999 - $Nil) were financed by means of capital leases.

Cash and cash equivalents

December 31,

(in thousands of U.S. dollars)	2001	2000	1999
Cash	$ 13,146	$ 7,850	$ 2,057
Short-term investments with initial maturities of three months or less at acquisition	16,856	10,249	14,270
	$ 30,002	$ 18,099	$ 16,327

Change in non-cash working capital

Years Ended December 31,

(in thousands of U.S. dollars)	2001	2000	1999
Accounts receivable	$ (4,178)	$ (1,395)	$ (21,876)
Prepaid expenses	(339)	2,897	(21)
Inventory	(2,729)	273	(2,042)
Accounts payable and accrued liabilities	734	3,393	7,833
	$ (6,512)	$ 5,168	$ (16,106)

18. Earnings per share

Earnings per share data was computed as follows:

Years Ended December 31, (in thousands of U.S. dollars, except for share and per share amounts)	2001	2000	1999
Basic earnings per share			
Net earnings	$ 11,717	$ 6,025	$ 5,641
Weighted average number of common shares outstanding during the year	17,211,138	12,482,368	11,880,914
Basic earnings per share	$ 0.68	$ 0.48	$ 0.47
Diluted earnings per share			
Net earnings	$ 11,717	$ 6,025	$ 5,641
Weighted average number of common shares outstanding during the year	17,211,138	12,482,368	11,880,914
Stock options	674,042	661,603	583,191
	17,885,180	13,143,971	12,464,105
Diluted earnings per share	$ 0.66	$ 0.46	$ 0.45

19. MAJOR CUSTOMERS

The Company's laboratories in Canada are subject to certain regulatory controls issued by the Ontario Ministry of Health and Long-Term Care and the Ministry of Health and Wellness, Province of Alberta. Revenues received from government agencies approximates 23% of total revenues for the year ended December 31, 2001 (26% in 2000). As at December 31, 2001 and 2000 approximately 16% and 17%, respectively, of accounts receivable were due from these government agencies.

In the United States, the Company earns a portion of its revenues from U.S. government agencies (Medicare/Medicaid). These revenues constituted approximately 14% of total revenues for the year ended December 31, 2001 (13% in 2000). As at December 31, 2001 and 2000 approximately 21% and 18%, respectively, of accounts receivable were due from the Medicare/Medicaid programs.

In arriving at net revenues, certain allowances and discounts are deducted relating to the Company's reimbursement agreement with the Ontario government in Canada and contractual allowances for certain payors in the United States. The laboratory industry in Ontario is subject to an agreement with the provincial government wherein each laboratory is allocated a fixed share of the overall industry reimbursement each year. Factors can arise to cause an individual laboratory to receive more than its pro rata share of reimbursement obligating it to repay the Ontario government for such excess. An estimate of the excess is withheld by the Ontario government from monthly payments made to the Company with any residual amounts payable being settled subsequent to year end. In the United States, payment arrangements for laboratory services performed for certain payors include prospectively determined rates for service, discounted charges, capitation and other arrangements.

The calculation of these allowances and discounts and the resultant reserve on the balance sheet requires estimates and assumptions based on a number of different factors including the Company's past experiences. Despite the use of the Company's best estimates, it is reasonably possible that these amounts could change based on experience and other factors. Allowances and discounts of $181.2 million, $138.1 million and $71.9 million for the years ended December 31, 2001, 2000 and 1999, respectively, have been deducted in arriving at net revenues. Included in accounts receivable as at December 31, 2001, 2000 and 1999, are allowances and discounts of $56.9 million, $50.2 million, and $26.6 million, respectively.

The laws and regulations governing these programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

20. JOINT VENTURES AND PARTNERSHIPS

The Company conducts certain of its businesses through incorporated and unincorporated partnerships in which the Company has a 73% or less interest. Condensed combined statements of financial position, statements of operations and statements of cash flows based on the Company's proportionate interests in these partnerships are presented below. Certain costs recorded at the corporate level, have not been allocated to the operating results of the partnerships.

December 31,

(in thousands of U.S. dollars)		2001	2000	1999
Current assets	$	21,174 $	27,088 $	28,293
Other assets		99,082	116,229	106,916
		120,256	143,317	135,209
Current liabilities		13,689	13,712	12,855
Long-term debt		2,384	2,883	2,939
		16,073	16,595	15,794
Net investment in partnerships	$	104,183 $	126,722 $	119,415

Years Ended December 31,

(in thousands of U.S. dollars)		2001	2000	1999
Revenues	$	164,429 $	149,412 $	137,633
General and operating expenses		127,416	113,660	100,833
Depreciation		3,894	3,262	3,108
Amortization of licenses and goodwill		2,469	2,210	2,265
Earnings before income taxes	$	30,650 $	30,280 $	31,427
Cash provided by operating activities	$	30,962 $	35,689 $	33,678
Cash used in investing activities	$	(2,482)$	(14,788)$	(2,858)
Cash used in financing activities	$	(29,292)$	(23,944)$	(31,136)

21. DIFFERENCES BETWEEN U.S. AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The effects on the Company's consolidated financial statements resulting from the differences between Canadian and U.S. generally accepted accounting principles ("GAAP") as described in 21(a) to 21(j) are presented in the consolidated financial information that follows:

CONSOLIDATED BALANCE SHEETS (A) - U.S. GAAP

December 31,

(in thousands of U.S. dollars)	2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 26,831	$ 17,856
Accounts receivable	54,626	39,225
Prepaid expenses	2,294	1,844
Inventory	8,380	4,797
Deferred income taxes	5,059	5,956
Total current assets	97,190	69,678
Capital assets	41,641	30,899
Goodwill	103,521	76,989
Other assets	31,648	37,268
Equity investments	104,183	125,141
	280,993	270,297
	$ 378,183	$ 339,975
LIABILITIES		
Current liabilities:		
Accounts payable	$ 9,133	$ 4,323
Accrued liabilities	26,995	28,346
Current portion of deferred income taxes	12,799	10,961
Current portion of long-term debt	1,872	5,524
Total current liabilities	50,799	49,154
Long-term debt	205,532	199,716
Deferred income taxes	21,485	34,534
	277,816	283,404
SHAREHOLDERS' EQUITY		
Capital stock	126,173	101,514
Deficit	(30,531)	(47,785)
	95,642	53,729
Accumulated other comprehensive earnings	4,725	2,842
	100,367	56,571
	$ 378,183	$ 339,975

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE EARNINGS (A) - U.S. GAAP

Years Ended December 31, (in thousands of U.S. dollars, except for share and per share amounts)	2001	2000	1999
Revenues	$ 237,929	$ 203,922	$ 134,581
Earnings from equity investments	30,676	29,565	30,364
	268,605	233,487	164,945
General and operating expenses	223,662	192,811	128,793
Depreciation	8,179	8,095	5,225
Amortization of goodwill	2,645	2,337	1,728
Severance, relocation and other charges	-	6,750	-
	234,486	209,993	135,746
Operating earnings	34,119	23,494	29,199
Interest expense	19,920	22,124	18,949
Earnings before income taxes	14,199	1,370	10,250
Income taxes expense (benefit):			
Current	3,138	3,030	2,701
Deferred	(6,193)	(866)	2,159
	(3,055)	2,164	4,860
Net earnings (loss)	17,254	(794)	5,390
Other comprehensive earnings, net of tax	1,883	1,516	327
Comprehensive earnings	$ 19,137	$ 722	$ 5,717
Earnings (Loss) Per Share			
Basic	$ 1.00	$ (0.06)	$ 0.45
Diluted	$ 0.96	$ (0.06)	$ 0.43
Weighted average number of common shares outstanding-Basic	17,211,138	12,482,368	11,880,914
Weighted average number of common shares outstanding-Diluted	17,885,180	13,143,971	12,464,105

DYNACARE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Cash Flows(a) - U.S. GAAP

Years Ended December 31,

(in thousands of U.S. dollars)	2001	2000	1999
CASH FLOW FROM OPERATING ACTIVITIES			
Net earnings (loss)	$ 17,254	$ (794)	$ 5,390
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:			
Depreciation	8,179	8,095	5,225
Amortization of goodwill	2,645	2,337	1,728
Deferred income taxes	(6,193)	(866)	2,159
Severance, relocation and other charges	-	3,021	-
Equity earnings (net of distributions to partners)	(2,021)	4,418	(6,150)
Gain on sale of capital assets	-	(110)	(11)
Stock compensation	161	660	-
Change in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(1,385)	(3,037)	(18,129)
Prepaid expenses	(239)	2,700	(216)
Inventory	(2,119)	225	(1,198)
Accounts payable and accrued liabilities	(2,371)	3,324	4,756
Net cash provided by (used in) operating activities	13,911	19,973	(6,446)
CASH FLOW FROM INVESTING ACTIVITIES			
Decrease (increase) in equity investments	3,450	(3,901)	135
Acquisition of businesses	(14,486)	(37,681)	(20,005)
Purchase of capital assets	(7,158)	(7,745)	(8,234)
Proceeds from sale of capital assets	-	132	38
Increase in other assets	(4,175)	(7,670)	(6,420)
Net cash used in investing activities	(22,369)	(56,865)	(34,486)

Years Ended December 31, (in thousands of U.S. dollars)	2001	2000	1999
Cash flow from financing activities			
Decrease in bank indebtedness	-	(6,679)	(1,768)
Proceeds from long-term debt	778	4,738	69,156
Repayment of long-term debt	(4,792)	(5,806)	(16,841)
Issue of capital stock - net proceeds	24,498	46,433	-
Net cash provided by financing activities	20,484	38,686	50,547
Foreign exchange translation adjustments	(3,051)	2,435	2,716
Net increase in cash and cash equivalents during the year	8,975	4,229	12,331
Cash and cash equivalents, beginning of year	17,856	13,627	1,296
Cash and cash equivalents, end of year	$ 26,831	$ 17,856	$ 13,627

SUPPLEMENTAL DISCLOSURE REQUIRED UNDER U.S. GAAP:

Years Ended December 31, (in thousands of U.S. dollars)	2001	2000	1999
Rental expense	$ 6,273	$ 5,044	$ 3,172

The effects on the Company's consolidated earnings (loss) from operations resulting from the differences between Canadian and U.S. GAAP are as follows:

Years Ended December 31, (in thousands of U.S. dollars)	2001	2000	1999
Net earnings based on Canadian GAAP	$ 11,717	$ 6,025	$ 5,641
Earnings from equity investments (c)	(234)	(250)	(250)
Stock compensation (f)	(161)	(660)	-
Change in reporting currency (g)	-	60	(17)
Income taxes (i)	5,932	(5,969)	16
Net earnings (loss) based on U.S. GAAP	17,254	(794)	5,390
Adjustment to reconcile to comprehensive earnings:			
Foreign currency translation adjustment	1,883	1,516	327
Comprehensive earnings based on U.S. GAAP	$ 19,137	$ 722	$ 5,717

The Company's cumulative effect of these adjustments on the consolidated shareholders' equity of the Company is as follows

December 31,

(in thousands of U.S. dollars)		2001	2000	1999
Shareholders' equity based on Canadian GAAP	$	92,285 $	55,251 $	1,646
Amortization of licenses and goodwill (b)		(6,980)	(6,980)	(6,980)
Earnings from equity investments (c)		(2,832)	(2,592)	(2,342)
Write-down in equity investments (d)		(4,357)	(4,357)	(4,357)
Stock compensation (f)		(821)	(660)	-
Start-up costs and capitalized interest (h)		(1,661)	(1,661)	(1,661)
Foreign currency translation		2,582	1,357	267
Income taxes (i)		22,151	16,213	22,182
Shareholders' equity based on U.S. GAAP	$	100,367 $	56,571 $	8,755

The significant differences between Canadian GAAP and the principles prescribed by U.S. GAAP and U.S. securities regulations and the impact on the consolidated financial statements are described as follows:

(a) Equity method of accounting for joint ventures and partnerships

APB Opinion 18 and Statement of Position 78-9 generally require that investments in corporate and unincorporated joint ventures and partnerships are to be accounted for by the equity method. Under Canadian GAAP, investments in joint ventures and partnerships are accounted for by the proportionate consolidation method, as the use of the equity method is not permitted. The use of the proportionate consolidation method as compared to the equity method of accounting from a financial presentation perspective impacts almost all areas of the Company's consolidated balance sheets, statements of the operations and comprehensive earnings, and cash flow statements and as a result this financial information has been presented in its entirety. The proportionate consolidation and equity method of accounting do not impact the Company's consolidated shareholders' equity or net earnings (loss) for the years presented.

(b) Amortization of licenses and goodwill

Prior to December 31, 1990, the Company did not amortize certain components of licenses and goodwill on the basis that they were considered to have an indefinite life. Commencing January 1, 1991, the Company began amortizing the cost of licenses and goodwill on a straight-line basis primarily over 40 years to comply with the pronouncement of the Canadian Institute of Chartered Accountants requiring the amortization of intangible assets. Licenses in Ontario are required to perform specific tests and receive reimbursement for these tests. U.S. GAAP requires the cost of intangible assets to be amortized from the date of acquisition over a period not exceeding 40 years.

(c) Earnings from equity investments

Under the equity method of accounting, the Company's ownership interest in certain licenses and goodwill has been reclassified and appropriately accounted for in the equity investments account. The additional amortization of these licenses and goodwill has been reflected in the earnings from equity investments.

The differences in the book value and amortization of licenses and goodwill arose from the 1997 licenses and goodwill impairment charge, which under Canadian and U.S. GAAP totaled $79.4 million and $69.1 million, respectively. In addition, under U.S. GAAP, licenses and goodwill accounted for through the equity investments have been amortized since the date of acquisition, whereas under Canadian GAAP there was no amortization prior to 1991.

(d) Write-down in equity investments

The write-down in equity investments for U.S. GAAP purposes arises as the write-down in certain of the Company's licenses and goodwill are accounted for through the equity investments account, whereas for Canadian GAAP purposes they have been proportionately consolidated.

U.S. to Canadian GAAP differences in the write-down of equity investments of $4.4 million arose due to the following: (i) under U.S. GAAP, licenses and goodwill accounted for through the equity investments account have been amortized since the date of acquisition, whereas under Canadian GAAP there was no amortization prior to 1990; and (ii) different methods were used in the calculation of the cash flows to determine the fair value of the licenses and goodwill held through equity investments. The calculation of the licenses and goodwill impairment under U.S. GAAP does not include an allocation of interest expense but is based upon a discounted cash flow. Under Canadian GAAP, the cash flow is undiscounted and includes an allocation of interest.

(e) Business Acquisitions (unaudited)

For U.S. GAAP purposes, "APB Opinion 16 - Business Combinations" requires supplemental pro forma information on business acquisitions made during the years ended December 31, 2001 and 2000 to be disclosed as part of the notes to the acquiror's consolidated financial statements. The pro forma information shown below includes revenues and net earnings prepared both on a U.S. and Canadian GAAP basis.

The unaudited pro forma results of operations of the Company for the years ended December 31, 2001 and 2000 assuming that the Company's acquisitions made during 2001, had been consummated as of January 1, 2000 is as follows:

CANADIAN GAAP
Years Ended December 31,

(in thousands of U.S. dollars)	2001	2000
Revenues	$ 424,429	$ 394,839
Net earnings	$ 7,689	$ 5,952

U.S. GAAP
Years Ended December 31,

(in thousands of U.S. dollars)	2001	2000
Revenues	$ 314,209	$ 297,122
Net earnings	$ 13,226	$ (867)

Results of operations of the Company's acquisitions for 2001 and 2000 have been included in the statement of operations and comprehensive earnings from the respective dates of acquisition.

(f) Stock compensation

At December 31, 2001, the Company had two stock option plans, which are described below and in Note 9. For U.S. GAAP requirements, the Company applies APB Opinion 25 and related Interpretations, Accounting for Stock Issued to Employees, in accounting for its plans and follows the disclosure requirements as set out by Statement of Financial Accounting Standards - No. 123, Accounting for Stock-Based Compensation (FASB 123). For the year ended December 31, 2001, under APB Opinion 25, the compensation cost charged to earnings was $0.2 million (2000 - $0.7 million, 1999 - $Nil).

If the compensation cost for the Company's stock-based compensation plan had been determined based on the fair value at the dates the awards were granted under those plans consistent with the method of FASB 123, the pro forma net earnings (loss) under U.S. GAAP would have been as follows:

Years Ended December 31,

(in thousands of U.S. dollars, except per share amounts)	2001	2000	1999
Pro forma net earnings (loss)	$ 15,815	$ (461)	$ 5,054
Pro forma earnings (loss) per share	$ 0.92	$ (0.04)	$ 0.43

Beginning on November 22, 2000, which is the date the Company completed an initial public offering of its common shares, the fair value of each option grant of common shares for all options is estimated using an option-pricing model for public companies with the following assumptions for the period November 17, 2000 (initial market trade date) to December 31, 2000; dividend yield of Nil%, risk-free interest rate range of 4.73% to 5.93% and expected life of five years. Using the same stock option pricing model, the following assumptions were used by the Company for the year ended December 31, 2001: dividend yield of Nil%, risk-free interest rate range of 1.73% to 5.02% and expected life of five years and volatility factor of 0.90. Prior to the Company's initial public offering of its common shares the fair value of each option grant of common shares for all options was estimated on the date of the option grant using an option-pricing model for non-public companies with the following assumptions: dividend yield of Nil%, risk-free interest rate range of 4.76% to 5.07% and expected life of five years.

(g) Foreign Currency Translation

Effective July 1, 2000, the Company adopted the U.S. dollar as its reporting currency. Prior to this change the Canadian dollar had been used as the Company's reporting currency. Under Canadian GAAP, the Company's financial statements for all periods presented through June 30, 2000, have been translated from Canadian dollars to U.S. dollars using the exchange rate in effect at July 1, 2000. Under U.S GAAP, the financial statements for periods prior to the change in reporting currency must be translated to U.S. dollars using the current rate method, which uses year end or annual average exchange rates as appropriate.

(h) Start-up Costs and Capitalized Interest

The Company's policy has been to capitalize certain carrying costs, including interest, on real estate properties under development until the property became operational, which was deemed to be the earlier of when break-even cash flow was achieved and a reasonable time period after substantial completion, not to exceed 30 months. U.S. GAAP requires that interest costs incurred on real estate properties be capitalized, but only during the year in which the asset is being readied for its intended use. The Company's real estate retirement properties were disposed in 1995.

(i) Income taxes

Effective January 1, 2000, the Company adopted CICA - 3465, which is substantially similar with the Statement of Financial Accounting Standards - No. 109, Accounting for Income Taxes in the United States. CICA - 3465 and FASB 109 require the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, deferred tax assets and liabilities are recognized based on the temporary differences between the accounting and tax bases of assets and liabilities. Changes in income tax rates under CICA - 3465 are recorded when the tax rates have been substantially enacted. Under U.S. GAAP, changes in income tax rates are recorded when the change in income tax rates have been legislated. As of December 31, 2001, all of the tax rate reductions previously announced by the federal and provincial governments have been legislated.

(j) Accounting Pronouncements

(i) Financial Instruments

Financial Accounting Standards Board Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (FASB 133), requires companies to recognize all of its derivative instruments as either assets or liabilities in the statement of financial position at fair value. FASB 133 is effective for the Company on January 1, 2001. The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as either a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation. The Company's cross currency and interest rate swap derivative instruments are designated as fair value hedges. The fair value of the Company's cross currency and interest rate swap derivative instruments under U.S. GAAP has resulted in an increase in the Company's hedge asset and a corresponding increase in its $195 million senior notes of $6.1 million (2000 - $0.3 million).

Under U.S. GAAP, for derivative instruments that are designated and qualify as a fair value hedge (i.e., hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings during the year of the change in fair values. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk),

the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same year or years during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the year of change. For derivative instruments that are designated and qualify as a hedge of a net investment in a foreign currency, the gain or loss is reported in other comprehensive income as part of the cumulative translation adjustment to the extent it is effective. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the year of change. Canadian GAAP does not provide for other comprehensive income.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141 - Business Combinations (FASB 141), and No. 142 - Goodwill and Other Intangible Assets (FASB 142), effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have an indefinite life will no longer be amortized but will be subject to annual impairment tests in accordance with FASB 141 and FASB 142. Other intangible assets will continue to be amortized over their useful life. FASB 141 and FASB 142 are consistent with the new accounting pronouncements introduced under Canadian generally accepted accounting principles.

It is estimated that the Company's net earnings for the year ended December 31, 2001 would have increased by approximately $4.0 million, or $0.22 per diluted share, if goodwill and intangible assets deemed to have an indefinite life were not amortized during the year ended December 31, 2001.

The Company will perform the required impairment tests of goodwill and intangible assets with an indefinite life effective as of January 1, 2002, and has not yet determined what the impact that the results of the review may have on its net earnings and financial position.

(ii) Impairment or Disposal of Long-Lived Assets

In August 2001, the Financial Accounting Standards Board issued Standard No. 144 - - - Accounting for the Impairment or Disposal of Long-Lived Assets (FASB 144) effective for fiscal years beginning after December 15, 2001. FASB 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. This statement supersedes FASB 121-Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of. FASB 144 retains the fundamental provisions of FASB 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. The Company has not yet determined what the effect of FASB 144 will be on its net earnings and financial position.

(iii) Stock Compensation

The Canadian Institute of Chartered Accountants has recently released CICA - 3870 - Stock-Based Compensation and Other Stock-Based Payments. This standard is effective for the fiscal year beginning January 1, 2002 and is similar to U.S. accounting requirements, APB Opinion 25 and FASB 123. Following the adoption by the Company of CICA 3870, the Company does not expect any U.S. to Canadian GAAP differences related to stock compensation.

22. COMPARATIVE FIGURES.

For the years ended December 31, 2001, 2000 and 1999, certain taxes of $1.6 million, $1.3 million and $1.2 million have been reclassified from general and operating expenses and reflected as part of income tax expense as these taxes are based on earnings.