

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2000
Commission file number 333-77633

CAPITAL ENVIRONMENTAL RESOURCE INC.
(Exact name of registrant as specified in its charter)

Ontario, Canada
(Jurisdiction of incorporation)

Not Applicable
(I.R.S. Employer
Identification No.)

1005 Skyview Drive
Burlington, Ontario, Canada
(Address of principal executive offices)

L7P 5B1
(Postal Code)

Registrant's telephone number, including area code (905) 319-1237

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

As of October 31, 2000, there were 7,196,627 common shares outstanding.

CAPITAL ENVIRONMENTAL RESOURCE INC.

**INDEX TO FORM 10-Q
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000**

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CAPITAL ENVIRONMENTAL RESOURCE INC.
CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. dollars)

	September 30, 2000	December 31, 1999
	(unaudited)	(audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 147	\$ 1,398
Trade accounts receivable (net of allowance for doubtful accounts of \$253; December 31, 1999 - \$331)	17,074	14,655
Inventory, prepaid expenses and other current assets	2,423	3,724
Employee loans	214	471
Total current assets	<u>19,858</u>	<u>20,248</u>
 Property and equipment, net	 53,406	 40,692
 Other assets		
Goodwill (net of accumulated amortization of \$5,589; December 31, 1999 - \$3,528)	93,200	95,654
Other intangibles and non-current assets	4,819	5,358
Deferred income taxes	4,212	4,175
Total assets	<u><u>\$ 175,495</u></u>	<u><u>\$ 166,127</u></u>

The accompanying notes are an integral part of these statements

CAPITAL ENVIRONMENTAL RESOURCE INC.
CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. dollars)

	September 30, 2000	December 31, 1999
	(unaudited)	(audited)
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 12,729	\$ 12,050
Accrued purchase liabilities	341	600
Current portion of long-term debt (Note 3)	98,556	13,145
Total current liabilities	<u>111,626</u>	<u>25,795</u>
 Long-term debt (Note 3)	 4,558	 78,199
 Deferred income taxes	 3,538	 3,813
	<u>119,722</u>	<u>107,807</u>
 Commitments and contingencies (Note 3 & 4)		
 STOCKHOLDERS' EQUITY		
Common Stock; 7,196,627 issued and outstanding; (December 31, 1999 – 7,196,627) (Note 5)	57,066	57,066
Accumulated other comprehensive loss	(2,661)	(890)
Retained earnings	1,368	2,144
Total stockholders' equity	<u>55,773</u>	<u>58,320</u>
 Total liabilities and stockholders' equity	 <u><u>\$ 175,495</u></u>	 <u><u>\$ 166,127</u></u>

The accompanying notes are an integral part of these statements

CAPITAL ENVIRONMENTAL RESOURCE INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(In thousands of U.S. dollars, except share and per share data)
(unaudited)

STATEMENTS OF OPERATIONS

	Three Months Ended September 30		Nine Months Ended September 30	
	2000	1999	2000	1999
Revenues	\$ 31,674	\$ 28,716	\$ 88,704	\$ 69,519
Operating expenses:				
Cost of operations	21,997	19,679	60,210	47,372
Selling, general and administrative expenses	5,373	3,421	14,924	8,705
Depreciation and amortization expense	2,833	2,320	7,999	5,611
Income from operations	1,471	3,296	5,571	7,831
Interest and financing expense	2,939	1,592	7,189	4,343
Income (loss) before income taxes	(1,468)	1,704	(1,618)	3,488
Income tax provision (recovery)	(764)	614	(842)	1,256
Net income (loss) for the period	<u>\$ (704)</u>	<u>\$ 1,090</u>	<u>\$ (776)</u>	<u>\$ 2,232</u>
Basic net income (loss) per common share	<u>\$ (0.10)</u>	<u>\$ 0.15</u>	<u>\$ (0.11)</u>	<u>\$ 0.51</u>
Diluted net income (loss) per common share	<u>\$ (0.10)</u>	<u>\$ 0.15</u>	<u>\$ (0.11)</u>	<u>\$ 0.40</u>
Weighted average number of common shares outstanding (Note 6)				
Basic	<u>7,196,627</u>	<u>7,155,538</u>	<u>7,196,627</u>	<u>4,360,605</u>
Diluted	<u>7,288,799</u>	<u>7,365,567</u>	<u>7,288,876</u>	<u>5,531,156</u>

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Net income (loss) for the period	\$ (776)	\$ 2,232
Other comprehensive income (loss) - foreign currency translation adjustments	<u>(1,771)</u>	<u>159</u>
Comprehensive income (loss) for the period	<u>\$ (2,547)</u>	<u>\$ 2,391</u>

The accompanying notes are an integral part of these statements

CAPITAL ENVIRONMENTAL RESOURCE INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(In thousands of U.S. dollars)
(unaudited)

	Common stock		Accumulated other comprehensive loss	Retained earnings	Total
	Shares	Amount			
Balances at December 31, 1999	7,196,627	\$ 57,066	\$ (890)	\$ 2,144	\$ 58,320
Foreign currency translation adjustments	-	-	(1,771)	-	(1,771)
Income for the period	-	-	-	(776)	(776)
Balances at September 30, 2000	<u>7,196,627</u>	<u>\$ 57,066</u>	<u>\$ (2,661)</u>	<u>\$ 1,368</u>	<u>\$ 55,773</u>

The accompanying notes are an integral part of these statements

CAPITAL ENVIRONMENTAL RESOURCE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of U.S. dollars)
(unaudited)

	Nine Months Ended September 30	
	2000	1999
Cash flows from operating activities:		
Net income (loss) for the period	\$ (776)	\$ 2,232
Adjustments to reconcile net income to net cash flows from operating activities -		
Depreciation and amortization	7,999	5,611
Deferred income taxes	(421)	879
Net gain on disposal of property, plant and equipment	(75)	(134)
Restructuring and assets written down	1,784	-
Other	473	255
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures -		
Trade accounts receivable	(1,012)	(4,756)
Prepaid expenses and other current assets	(464)	(377)
Accounts payable and accrued liabilities	780	432
Income and other taxes	(2,188)	(914)
	<u>6,100</u>	<u>3,228</u>
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(7,847)	(46,393)
Capital expenditures	(13,651)	(2,763)
Proceeds from sale/replacement of assets	1,671	374
Net loans and advances to employees	42	(272)
Other	(1,173)	(1,412)
	<u>(20,958)</u>	<u>(50,466)</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	25,495	62,732
Principal payments on long-term debt	(11,003)	(36,618)
Repayment of capital lease liability	(765)	(812)
Net proceeds from issuance of common stock	-	30,875
Redemption of redeemable and convertible stock	-	(6,900)
Debt issuance costs	(90)	(1,824)
	<u>13,637</u>	<u>47,453</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(30)</u>	<u>44</u>
Increase (decrease) in cash and cash equivalents	<u>(1,251)</u>	<u>259</u>
Cash and cash equivalents at beginning of period	<u>1,398</u>	<u>1,060</u>
Cash and cash equivalents at end of period	<u>\$ 147</u>	<u>\$ 1,319</u>

SUPPLEMENTARY INFORMATION ON NON-CASH TRANSACTIONS:

Value of acquisitions partially or totally effected by the issue of capital stock	\$ -	\$ 66
Other long-term liabilities assumed on acquisition	\$ 55	\$ 709
Assets acquired under capital leases	\$ 53	\$ 3,374

The accompanying notes are an integral part of these statements

CAPITAL ENVIRONMENTAL RESOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000 (In thousands of U.S. dollars)

1. Basis of Presentation

The accompanying interim consolidated financial statements of Capital Environmental Resource Inc. and its subsidiaries (the "Company") for the three and nine month periods ended September 30, 2000 and 1999 have been prepared in accordance with generally accepted accounting principles in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Operating results for the nine month period ended September 30, 2000 are not necessarily indicative of the results that may be expected for the year ending December 31, 2000.

The Company's consolidated balance sheet as of September 30, 2000, and the interim consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the three and/or nine month periods ended September 30, 2000 and 1999 are unaudited. In the opinion of management, such financial statements include all adjustments necessary for a fair presentation of the Company's financial position, results of operations, and cash flows for the periods presented. The consolidated financial statements presented herein should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

2. Acquisitions

For the nine months ended September 30, 2000, the Company acquired three solid waste collection businesses and one landfill that were accounted for using the purchase method of accounting. The aggregate consideration for these acquisitions was approximately \$7.9 million. The purchase prices have been allocated to the identified intangible and tangible assets acquired based on fair values at the dates of acquisition, with any residual amounts allocated to goodwill or landfill property as appropriate.

3. Long-term debt

The Company has pledged all of its assets, including the stock of its subsidiaries, as collateral under the \$110.0 million senior debt. A \$85.0 million Credit Facility matures in November 2004 with a \$25.0 million Term Loan requiring principal repayments beginning in November 2002.

CAPITAL ENVIRONMENTAL RESOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000 (In thousands of U.S. dollars)

Long-term debt consists of the following:

	September 30, 2000 (unaudited)	December 31, 1999 (audited)
Senior debt	\$ 96,885	\$ 72,763
Subordinated promissory notes	-	11,371
Capital lease obligations	4,239	4,995
Other	1,990	2,215
	103,114	91,344
Less: current portion	98,556	13,145
	\$ 4,558	\$ 78,199

As at June 30, 2000 and September 30, 2000, the Company was in breach of certain financial covenants under its Senior Debt facilities. The Company is in discussions with its bankers to obtain an amendment to its Senior Debt facility and accordingly the senior debt is subject to demand. The Company has received a proposed amendment from its banks, which will cure the covenant breach and is currently negotiating the amendment. In the event the Company is unsuccessful in its negotiations with the bank and should the lenders demand payment on their Senior Debt facility, the Company would be required to raise additional debt or equity to extinguish the Senior Debt facility. There is no assurance the Company will be successful in obtaining additional debt or capital on acceptable terms.

4. Commitments and Contingencies

(a) Environmental risks

The Company is subject to liability for environmental damage that its solid waste facilities may cause, including damage to neighbouring landowners or residents, particularly as a result of the contamination of soil, groundwater or surface water, and especially drinking water, including damage resulting from conditions existing prior to the acquisition of such facilities by the Company. The Company may also be subject to liability for any off-site environmental contamination caused by pollutants or hazardous substances whose transportation; treatment or disposal was arranged by the Company or its predecessors. Any substantial liability for environmental damage incurred by the Company could have a material adverse effect on the Company's financial condition, results of operations or cash flows. As at the date of these financial statements, the Company is not aware of any such environmental liabilities that would be material to the Company's operations or financial condition.

CAPITAL ENVIRONMENTAL RESOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000 (In thousands of U.S. dollars)

(b) Legal proceedings

In the normal course of its business and as a result of the extensive governmental regulation of the solid waste industry, the Company may periodically become subject to various judicial and administrative proceedings involving federal, state, provincial or local agencies. In these proceedings, an agency may seek to impose fines on the Company or to revoke or deny renewal of an operating permit held by the Company. From time to time the Company may also be subject to actions brought by citizens' groups or adjacent landowners in connection with the permitting and licensing of landfills and transfer stations, or alleging environmental damage or violations of the permits and licenses pursuant to which the Company operates.

In addition, the Company may become party to various claims and suits pending for alleged damages to persons and property, alleged violations of certain laws and alleged liabilities arising out of matters occurring during the normal operation of the waste management business. However, other than as described below, as at September 30, 2000, there was no current proceeding or litigation involving the Company that the Company believes will have a material adverse impact on the Company's business, financial condition, results of operations or cash flows.

On October 12, 1999, Lynn Bishop and L&S Bishop Enterprises Inc. (collectively "Bishop") commenced an action against the Company, Capital Environmental Alberta Inc. and Tony Busseri, the former Chairman of the Company, in which Bishop claims damages in the aggregate amount of approximately \$7.4 million. The claim includes \$2.1 million for alleged wrongful termination, \$5.3 million for misrepresentations allegedly made in connection with the Share Purchase Agreement, dated as of November 1, 1997, among Lynn Bishop, L&S Bishop Enterprises Inc., the Company and Western Waste Services Inc. (the "Share Purchase Agreement"), as well as \$0.3 million for punitive damages. The Company believes that Bishop's claims are wholly without merit, and that Lynn Bishop's employment was terminated for just cause and that it has no further obligation to Bishop beyond the contingent payment described in Note 4 (c). The Company is defending the claim and has issued a counterclaim against Bishop, and does not believe the outcome will have a material adverse impact on the Company's business, financial condition, results of operations or cash flows. Accordingly, the Company has not made a provision for this claim in its financial statements.

(c) Contingent payment related to acquisitions

In connection with the acquisition of Western Waste from L&S Bishop Enterprises ("L&S"), the Company may have to make an additional payment to L&S. L&S may elect to sell up to 112,323 shares in the future and if, at that time, the price of the Common Stock is less than C\$21.67 per share, the Company will have to make up the shortfall. This agreement was subject to a 180-day lock-up agreement, which expired on December 8, 1999. The Company has since been advised that L&S has sold the aforementioned shares resulting in a shortfall of approximately \$1.0 million however, in view of the litigation referred to in Note 4 (b) challenging the Shares Purchase Agreement, the obligation of the Company, if any, will not be recorded until the litigation is settled.

CAPITAL ENVIRONMENTAL RESOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000 (In thousands of U.S. dollars)

5. Capital Stock

a) Changes in Capital Stock since Inception on May 23, 1997:

Common and preferred stock

The Company has an unlimited number of Preferred Shares, issuable in series. As of September 30, 2000, there were no Preferred Shares authorized or outstanding.

On April 27, 1999, the stockholders of the Company approved a split of the Company's Common Stock whereby 1.3847 Common Shares were issued for each previously outstanding Common Share. All Common Shares and per Common Share data in the financial statements has been restated to give retroactive effect to this 1.3847 for 1 stock split.

- (i) On May 23, 1997, the Company issued 1,353,924 Common Shares for nominal cash consideration.
- (ii) On October 31, 1997, the Company issued 73,850 Common Shares with a value of \$789 in exchange for certain business assets and cash of \$89.
- (iii) On April 1, 1998, in connection with the acquisition of Muskoka Containerized Services Limited ("MCS"), the Company issued 6,923 Common Shares with a value of \$71 as partial consideration for the acquisition of MCS.
- (iv) On June 15, 1998, the Company issued 553,869 Common Shares for net proceeds of \$6,595 cash in a private placement.
- (v) On July 2, 1998, in connection with the acquisition of Johns Cartage Waste Management Services Ltd., the Company issued 5,192 Common Shares valued at \$64 as part of the acquisition consideration.
- (vi) On March 5, 1999, in connection with the acquisition of Ram-Pak Compaction Services, the Company issued 4,784 Common shares valued at C\$100 as part of the acquisition consideration.
- (vii) On June 8, 1999, the Company completed an Initial Public Offering ("IPO") of 3,258,725 Common Shares at a price of \$11.00 per share. Of the 3,258,725 Common Shares sold in the offering, 2,998,725 were sold by the Company and 260,000 were sold by certain selling stockholders. The Company received approximately \$30 million in net proceeds from the IPO.
- (viii) On June 8, 1999, the Convertible Preference Shares were converted into 1,107,750 Common Shares; the Class "B" Special Stock was converted into 484,645 Common Shares and the Redeemable Common Shares were converted into 280,240 Common Shares.

CAPITAL ENVIRONMENTAL RESOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000 (In thousands of U.S. dollars)

- (ix) On June 8, 1999, in connection with the October 1, 1998 acquisition of General Environmental Technical Services Inc. and J.V. Services of Western New York, the Company issued 106,128 additional Common Shares resulting in additional purchase consideration of \$709.
- (x) On July 1, 1999 the Company completed the sale of 189,825 Common Shares to cover over-allotments in connection with the initial public offering. The Company received approximately \$1.9 million in net proceeds from the exercise by the underwriters of their over-allotment option.

b) Stock option and option grants

Under the 1997 Stock Option Plan, the Company may grant options to acquire Common Shares up to a maximum of 10% of the then issued and outstanding Common Shares on an as converted basis. All of the options issued under the 1997 plan vested on completion of the initial public offering of the Company's securities. No option will remain exercisable later than five years after the grant date, unless the Board of Directors determines otherwise.

Under the 1999 Stock Option Plan, the Company may grant options to acquire Common Shares up to a maximum of 19% of the then issued and outstanding shares of Common Stock and Common Stock equivalents, including stock options issued under the 1997 Stock Option Plan. Options granted to non-employee directors will generally vest one year from the date of grant. Options granted to non-directors become exercisable only after the second anniversary of the grant date unless otherwise determined by the Compensation Committee. No option will remain exercisable later than five years after the grant date, unless the Compensation Committee determines otherwise. Upon a change of control event, options become immediately exercisable.

At September 30, 2000, December 31, 1999, and September 30, 1999, the aggregate options outstanding entitled holders to purchase 1,110,648, 1,004,301 and 974,301 Common Shares, respectively, at prices ranging from C\$7.22 - \$18.05 and US\$3.46 - \$14.50. During the nine months ended September 30, 2000, no Common Shares were issued under the plans.

As permitted by the Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation", the Company applies APB 25 in accounting for options to acquire Common Shares. As a result, no compensation cost has been recognized as options have been granted at market value.

c) Stock purchase warrants

In 1997, the Company issued 123,084 warrants to certain founding stockholders. These warrants entitle the holder thereof to receive upon exercise, one common share at C\$0.007 per share. These warrants expire July 15, 2002.

CAPITAL ENVIRONMENTAL RESOURCE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000 (In thousands of U.S. dollars)

At September 30, 2000, December 31, 1999, and September 30, 1999, the aggregate warrants outstanding entitled holders to purchase 92,312, 92,312 and 123,084 Common Shares, respectively. During the nine months ended September 30, 2000, no Common Shares were issued on exercise of warrants.

d) Shareholder rights plan

On September 2, 1999, the Company adopted a Shareholder Rights Plan (the "Plan"). Under the terms of the Plan, Common Share purchase rights (the "Rights") were distributed at the rate of one Right for each Common Share held. Each Right will entitle the holder to buy 1/100th of a Common Share of the Company at an exercise price of \$60.00. The Rights will be exercisable and will trade separately from the Common Shares only if a person or group acquires beneficial ownership of 20% or more of the Company's Common Shares or commences a tender or exchange offer that would result in owning 20% or more of the Common Shares (unless the Board of Directors determines that the acquisition is fair to all shareholders and amends the Plan to permit the acquisition). If either of these events occurs, the Rights will entitle each holder to receive, upon exercise, a number of Common Shares (or, in certain circumstances, a number of Common Shares in the acquiring company) having a Current Market Price (as defined in the Plan) equal to approximately two times the exercise price of the Right. The Rights will not be exercisable with respect to the share ownership of Environmental Opportunities Fund I, Environmental Opportunities Fund II and Sanders Morris Mundy Inc. and any affiliate or associate thereof, that already own more than 20% of the Company's Common Shares as long as these persons, along with their affiliates and associates, do not acquire beneficial ownership of 30% or more. The number of Rights outstanding is subject to adjustment under certain circumstances and all Rights expire on September 30, 2009.

6. Net Income (Loss) per Share Information

The following table sets forth the computation of earnings (loss) per Common Share:

Nine Months Ended September 30	2000		1999	
	Basic	Diluted	Basic	Diluted
Net income (loss)	\$ (776)	\$ (776)	\$ 2,232	\$ 2,232
Weighted average Common Shares				
outstanding – basic	7,196,627	7,196,627	4,360,605	4,360,605
Dilutive effect of stock options and				
warrants outstanding	-	92,249	-	243,106
Common Shares issuable upon conversion				
of redeemable and convertible stock	-	-	-	927,445
Weighted average common shares	7,196,627	7,288,876	4,360,605	5,531,156

outstanding – diluted					
Diluted earnings (loss) per share	\$	(0.11)	\$	(0.11)	\$ 0.51 \$ 0.40

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the unaudited financial statements and notes thereto included elsewhere herein.

Forward Looking Statements

Certain statements included in this Quarterly Report on Form 10-Q, including, without limitation, information appearing under Part 1, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," are forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934) that involve risks and uncertainties. Factors set forth under the caption "Risk Factors" in the Company's Registration Statement could affect the Company's actual results and could cause the Company's actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company in this Report on Form 10-Q.

Overview

Capital Environmental Resource Inc. ("Capital" or the "Company") is a regional, integrated solid waste services company that provides collection, transfer, disposal, landfill and recycling services. Capital was founded in May 1997 in order to take advantage of consolidation opportunities in the solid waste industry in secondary markets in Canada and the northern United States. The Company began operations in June 1997 when it acquired selected solid waste assets and operations in Canada from Canadian Waste Services Inc. and its parent, USA Waste Services, Inc. Since commencing operations, the Company has acquired 42 solid waste services businesses in Canada and the United States, including 43 collection operations, 11 transfer stations, 7 recycling processing facilities and a contract to operate 2 landfills. In addition, the Company owns and operates a landfill located in Coronation, Alberta. The consolidated operations presently serve over 658,000 residential, commercial and industrial customers. Largely as a result of acquisitions, the Company believes that it has become one of the largest solid waste services companies in Canada.

The Company's objective is to build a leading solid waste services company in the markets of Canada and the northern United States in markets other than major urban centers. The Company's strategy for achieving this objective is to generate internal growth and to make selective acquisitions that complement its existing business. The Company seeks to acquire businesses that expand its existing market presence. The Company's internal growth strategy is focused on increasing its services to existing customers, winning new customers, implementing selective price increases and achieving operating efficiencies.

Results of Operations for the Three Months Ended September 30, 2000 and 1999

The following table sets forth items in the Consolidated Statement of Operations as a percentage of revenues and the percentage changes in the dollar amounts of these items compared to the same period in the previous year:

	(\$ thousands)		Percentage of Revenue		Percentage Change
Three Months Ended September 30	2000	1999	2000	1999	2000 Over 1999
Revenues	\$31,674	\$28,716	100.0%	100.0%	10.3%
Cost of operations	21,997	19,679	69.4	68.5	11.8
Selling, general and administrative expenses	5,373	3,421	17.0	11.9	57.1
Depreciation and amortization expense	2,833	2,320	9.0	8.1	22.1
Income from operations	1,471	3,296	4.6	11.5	(55.4)
Interest and financing expense	2,939	1,592	9.2	5.6	84.6
Income (loss) before income taxes	(1,468)	1,704	(4.6)	5.9	n.a.
Income tax provision (recovery)	(764)	614	(2.4)	2.1	n.a.
Net income (loss)	\$ (704)	\$ 1,090	(2.2)%	3.8%	n.a.
EBITDA	\$ 4,304	\$ 5,616	13.6%	19.6%	(23.4)%

Revenue

The sources of revenue and growth rates are as follows: (\$thousands)

Three Months Ended September 30	2000		1999		Growth Rates
Commercial and industrial collection	\$ 18,017	56.9%	\$ 16,841	58.6%	7.0%
Residential collection	7,153	22.6	5,695	19.8	25.6
Transfer station and landfill	2,505	7.9	2,517	8.8	(0.5)
Commercial and residential recycling	1,234	3.9	1,029	3.6	19.9
Contract management and other specialized services	2,765	8.7	2,634	9.2	5.0
	\$ 31,674	100.0%	\$ 28,716	100.0%	10.3%

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

Three Months Ended September 30	2000	1999
Price	1.0%	2.0%
Volume	2.1	3.0
Acquisitions, net of divestitures	7.0	62.4
Foreign currency translation	0.2	1.3
Total	10.3%	68.7%

Total revenues in the quarter were \$31.7 million compared to \$28.7 million in the same quarter last year. The 10.3% increase was primarily as a result of acquisitions made over the past twelve months. The current period pricing continues to be impacted by a disposal price reduction in a market place located in the United States, which has been passed on to customers. Excluding these price rollbacks, pricing growth was 1.8% in the quarter.

There were no acquisitions completed during the quarter ended September 30, 2000. In the same period of the prior year, three acquisitions were completed with annualized revenue of approximately \$13.0 million.

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

Three Months Ended September 30	2000		1999		Growth Rates
Eastern Canada	\$16,674	52.6%	\$15,651	54.5%	6.5%
Western Canada	7,785	24.6	6,204	21.6	25.5
United States	7,215	22.8	6,861	23.9	5.2
	\$ 31,674	100.0%	\$ 28,716	100.0%	10.3%

The growth in revenue in both Eastern and Western Canada exceeded the growth in revenue in the United States as significant acquisitions were completed in Canada during the past twelve months. The United States growth rate is lower due to the disposal price decreases in certain markets that was required to be passed onto customers, as described in the previous section, and the competitive environment in which the Company operates.

Cost of operations

Cost of operations include labor, fuel, equipment maintenance, tipping fees paid to third-party disposal facilities, worker's compensation and vehicle insurance, the cost of materials purchased to be recycled, subcontractor expense and local, state or provincial taxes. The Company owns and operates 11 transfer stations, which reduces costs by improving utilization of collection personnel and equipment and by consolidating the waste stream to gain access to remote landfills with lower disposal rates. The Company obtained long-term disposal agreements in some of its markets, which it believes, are at or below market disposal rates. There can be no assurance that these contracts can be renewed on favorable terms. Cost of operations for the

three months ended September 30, 2000 was \$22.0 million compared to \$19.7 million for the three months ended September 30, 1999. The 11.8% increase in cost of operations was attributable primarily to increases in the Company's revenues described above. Cost of operations as a percentage of revenue for the three months ended September 30, 2000 was 69.4%, compared with 68.5% in 1999. In the three months ended September 30, 2000, cost of operations increased as a percentage of revenue primarily as a result of increased disposal costs and additional costs associated with certain national accounts.

Selling, general and administrative expenses

Selling, general and administrative ("SG&A") expenses include management, clerical, financial, accounting and administrative compensation and overhead costs associated with marketing and the sales force, professional services and community relations expense. SG&A expenses for the three months ended September 30, 2000 were \$5.4 million compared to \$3.4 million for the period ended September 30, 1999. The \$2.0 million or 57.1% increase compared to the prior year primarily relates to infrastructure changes to support business growth compared to the prior period and additional costs related to restructuring the Company due to a strategic decision to focus on improving current operations. Approximately \$1.4 million of unusual items occurred in the quarter primarily relating to severance costs, a contract renegotiation, and various associated accruals. As a percentage of revenues, SG&A expenses increased to 17.0% for the three months ended September 30, 2000 from 11.9% in the comparable period last year.

Depreciation and amortization expense

Depreciation and amortization expense includes depreciation of fixed assets over the estimated useful life of the assets using the straight-line method, the amortization of goodwill over 40 years and the amortization of other intangible assets over appropriate time periods. The Company has accounted for all business acquisitions since inception using purchase accounting which has resulted in significant amounts of goodwill being included on the balance sheet. Depreciation and amortization expense for the three months ended September 30, 2000 was \$2.8 million compared to \$2.3 million for the three months ended September 30, 1999. The 22.1% increase was primarily due to acquisition activity over the past 12 months. As a percentage of revenues, depreciation and amortization expense increased to 9.0% for the three months ended September 30, 2000 from 8.1% for the period ended September 30, 1999. The increase primarily relates to depreciation and amortization associated with the increased goodwill on the balance sheet and capital expenditures incurred over the past 12 months.

Interest and financing expense

In the three months ended September 30, 2000, interest and financing expense increased 84.6% to \$2.9 million from \$1.6 million for the comparable period in 1999. The increase over the prior year was primarily a result of an increase in the average level of outstanding debt due to borrowings to finance acquisition activity over the past 12 months, an increase in the weighted average rate of interest on the total debt from 7.4% in 1999 to 9.62% in 2000, an increase in amortization of deferred financing costs related to the 1999 expansion of the Credit Facility and anticipated costs associated with amending the Credit Facility.

Results of Operations for the Nine Months Ended September 30, 2000 and 1999

The following table sets forth items in the Consolidated Statement of Operations as a percentage of revenues and the percentage changes in the dollar amounts of these items compared to the same period in the previous year:

	(\$ thousands)		Percentage of Revenue		Percentage Change
Nine Months Ended September 30	2000	1999	2000	1999	2000 Over 1999
Revenues	\$88,704	\$ 69,519	100.0%	100.0%	27.6%
Cost of operations	60,210	47,372	67.9	68.1	27.1
Selling, general and administrative expenses	14,924	8,705	16.8	12.5	71.4
Depreciation and amortization expense	7,999	5,611	9.0	8.1	42.6
Income from operations	5,571	7,831	6.3	11.3	(28.9)
Interest and financing expense	7,189	4,343	8.1	6.3	65.5
Income (loss) before income taxes	(1,618)	3,488	(1.8)	5.0	n.a.
Income tax provision (recovery)	(842)	1,256	(0.9)	1.8	n.a.
Net income	\$ (776)	\$ 2,232	(0.9)	3.2%	n.a.
EBITDA	\$13,570	\$ 13,442	15.3%	19.3%	1.0%

Revenue

The sources of revenue and growth rates are as follows: (\$thousands)

Nine Months Ended September 30	2000		1999		Growth Rates
Commercial and industrial collection	\$ 50,522	57.0%	\$ 40,012	57.6%	26.3%
Residential collection	19,946	22.5	15,188	21.8	31.3
Transfer station and landfill	7,276	8.2	5,669	8.1	28.3
Commercial and residential recycling	3,753	4.2	2,132	3.1	76.0
Contract management and other specialized services	7,207	8.1	6,518	9.4	10.6
	\$ 88,704	100.0%	\$ 69,519	100.0%	27.6%

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

Nine Months Ended September 30	2000	1999
Price	2.0%	2.4%
Volume	0.9	2.7
Acquisitions, net of divestitures	23.7	52.8
Foreign currency translation	1.0	(1.0)
Other	-	-

Total	27.6%	56.9%
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During the nine months ended September 30, 2000, four acquisitions were completed with annualized revenue of approximately \$7.2 million. In the same period of the prior year, 19 acquisitions were completed (15 in Canada and 4 in the United States) with annualized revenue of approximately \$34.0 million. Other represents the impact on revenues of the May 18, 1999 fire that destroyed one of the Company's material recycling and transfer station facilities. The facility reopened in late June 2000.

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

Nine Months Ended September 30	2000		1999		Growth Rates
Eastern Canada	\$ 46,239	52.1%	\$35,127	50.5%	31.6%
Western Canada	22,270	25.1	15,347	22.1	45.1
United States	20,195	22.8	19,045	27.4	6.0
	\$ 88,704	100.0%	\$ 69,519	100.0%	27.6%

Cost of operations

Cost of operations for the nine months ended September 30, 2000 was \$60.2 million compared to \$47.4 million for the nine months ended September 30, 1999. The 27.1% increase in cost of operations was attributable primarily to increases in the Company's revenues described above. Cost of operations as a percentage of revenue for the nine months ended September 30, 2000 as 67.9%, compared with 68.1% in 1999. In the nine months ended September 30, 2000, cost of operations decreased as a percentage of revenue primarily as a result of the synergies achieved from integrating acquisitions during the past 12 months and further internalization of waste through the Company's transfer stations.

Selling, general and administrative expenses

Selling, general and administrative expenses for the nine months ended September 30, 2000 were \$14.9 million compared to \$8.7 million for the period ended September 30, 1999. The \$6.2 million (71.4%) increase primarily relates to additional management, consulting and related costs to support the Company's level of growth and additional requirements related to the change to a public company in June of 1999. In addition during the period, the Company incurred additional costs in excess of \$2.2 million related to failed acquisitions, severance costs, a contract renegotiation and legal fees. As a percentage of revenues, SG&A expenses increased to 16.8% for the nine months ended September 30, 2000 from 12.5% in the same period last year.

Depreciation and amortization expense

Depreciation and amortization expense for the nine months ended September 30, 2000 was \$8.0 million compared to \$5.6 million for the nine months ended September 30, 1999. The 42.6% increase was primarily due to acquisition activity over the past 12 months. As a percentage of revenues, depreciation and amortization expense increased to 9.0% for the nine months ended September 30, 2000 from 8.1% for the period ended September 30, 1999. The increase primarily

relates to depreciation and amortization associated with the increased goodwill on the balance sheet and capital expenditures incurred over the past 12 months.

Interest and financing expense

In the nine months ended September 30, 2000, interest and financing expense increased 65.5% to \$7.2 million from \$4.3 million for the period ended in 1999. The increase over the prior year was primarily a result of an increase in the average level of outstanding debt due to borrowings to finance acquisition activity over the past 12 months, an increase in the weighted average rate of interest on the total debt from 7.5% in 1999 to 8.4% in 2000, and an increase in amortization of deferred financing costs related to the 1999 expansion of the Credit Facility.

Income taxes

The effective income tax rate during 2000 has increased to 52.0% compared to 36.0% during the same period in 1999. The increase rate over the prior year primarily relates to the higher proportion of business in Canada, which has a higher tax rate than the United States, and the increase in non-deductible goodwill amortization.

Financial Condition

As of September 30, 2000 and December 31, 1999, the Company's capital consisted of: (\$thousands)

	September 30, 2000		December 31, 1999		Change
	(unaudited)		(audited)		
Long-term debt	\$103,114	63.5%	\$ 91,344	59.5%	12.9%
Deferred income taxes	3,538	2.2	3,813	2.5	(7.2)
Stockholders' equity	55,773	34.3	58,320	38.0	(4.4)
	\$162,425	100.0%	\$153,477	100.0%	5.8%

The \$11.8 million increase in long-term debt is primarily a result of borrowing since year-end to finance acquisition activity and capital expenditures, partly offset by repayments during the period.

Liquidity and Capital Resources

The Company's capital requirements include acquisitions, working capital increases and fixed asset replacement. The Company plans to meet capital needs through various financial sources, including internally generated funds, debt and equity financing. As of September 30, 2000, adjusted working capital was \$6.8 million (December 31, 1999 - \$7.6 million), excluding the current portion of long-term debt. The Company generally applies the cash generated from its operations that remains available after satisfying working capital and capital expenditure requirements to reduce indebtedness under the Credit Facility and to minimize cash balances. Working capital requirements are financed from internally generated funds and bank borrowings.

For the nine months ended September 30, 2000, net cash provided by operations was \$6.1 million, compared to \$3.2 million for the nine months ending September 30, 1999. This increase

was primarily due to a reduction in the usage of cash for working capital primarily through improved accounts receivable. Days sales outstanding has significantly improved from 50 in September of 1999 to 43 in September 2000. This was partly offset by higher tax payments.

For the nine months ended September 30, 2000, net cash used in investing activities was \$21.0 million. Most of this was related to spending on capital expenditures of \$13.7 million and funding current year acquisitions of approximately \$7.9 million. Capital expenditures for 2000 are expected to be approximately \$7.5 million primarily for vehicle and equipment additions and replacements. The Company intends to continue to fund capital expenditures principally through internally generated funds. The net cash used in investing decreased \$29.5 million from the \$50.5 million used in investing activities for the nine months ending September 30, 1999. This is primarily due to the reduced acquisition activity partly offset by the timing and increased level of capital expenditures in the current year.

For the nine months ended September 30, 2000, net cash provided by financing activities was \$13.6 million. This was provided primarily by net borrowings of \$25.5 million and was partly offset by cash used for other financing payments. The \$33.9 million decrease from the \$47.5 million provided by financing activities in the prior year was primarily due to the reduction in acquisition activity.

The Company has a combined \$110.0 million Credit and Term Loan Agreement ("Loan Agreement") with a syndicate of banks led by Bank of America N.A., as agent and United States agent, Bank of America Canada as Canadian agent and Canadian Imperial Bank of Commerce as syndication agent. As of September 30, 2000 approximately \$96.9 million (December 31, 1999 - \$72.8 million) under the Loan Agreement was outstanding. The Loan Agreement is secured by all of the Company's assets, including the interest in the equity securities of the Company's subsidiaries. Of the \$96.9 million outstanding at September 30, 2000, \$44.8 million consisted of U.S. dollar loans bearing interest at approximately 10.8% and \$52.1 million consisted of Canadian dollar loans bearing interest at approximately 10.5%.

The Company believes that its cash flows from its operations throughout the balance of fiscal 2000 and for fiscal 2001 will be sufficient to service its ongoing business obligations and to repay debt service obligations based on the existing arrangements under its senior debt facility. As a result of the breach of a covenant under the Senior Credit facility, the Senior Debt facility is subject to demand. There is no assurance that the Company will be successful in its efforts to have the covenant violation waived or to have the existing covenants amended. In the event that the Company is unsuccessful in its negotiations with the bank and should the lenders demand payment on their Senior Debt facility, the Company would be required to raise additional debt or equity to extinguish the Senior Debt facility. However, there is no assurance that the Company would be successful in obtaining additional debt or capital on acceptable terms.

The current Loan Agreement will terminate in November 2004. The Loan Agreement requires the Company to maintain fixed financial ratios and satisfy other predetermined requirements, such as a minimum net worth, a minimum interest coverage ratio, a maximum debt to total capital ratio and a maximum debt to proforma EBITDA ratio and imposes annual restrictions on capital expenditures. The Loan Agreement also restricts the Company's ability to incur or assume other debt or capital leases beyond a fixed amount and does not permit the payment of cash dividends. In addition, it requires the lenders' approval for certain acquisitions. As of September 30, 2000, an aggregate of \$100.3 million was outstanding under the Loan

Agreement, after taking into account letters of credit of \$3.4 million subject to the restrictions noted above.

Seasonality

The Company's results of operations vary seasonally, with revenues typically lowest in the first quarter of the year, higher in the second and third quarters, and lower in the fourth quarter than in the third quarter. The Company believes this seasonality can be attributed to a number of factors. First, less solid waste is generated during the late fall, winter and early spring because of decreased construction and demolition. Second, some of the Company's operating costs are higher in the winter months because winter weather conditions slow waste collection activities, resulting in higher labor costs, and rain and snow increase the weight of collected waste, resulting in higher disposal costs, which are calculated on a per ton basis. Consequently, operating income is generally lower during the winter months. Finally, during the summer months, there are more tourists and part-time residents in some of the Company's service areas, resulting in more residential and commercial collection business.

Other legal proceedings

See Note 4 (b) of Notes to Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in information that would be provided in this section during the nine months ended September 30, 2000.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 4 (b) of Notes to Consolidated Financial Statements.

SIGNATURES

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

CAPITAL ENVIRONMENTAL RESOURCE INC.

November 14, 2000

/s/ Bruce Cummings
Bruce Cummings
Chairman of the Board

November 14, 2000

/s/ David Langille
David Langille
Executive Vice President, Chief Financial Officer