407 INTERNATIONAL INC.

Management's Discussion and Analysis

December 31, 2016

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Management's Discussion and Analysis

The following is a discussion of the consolidated financial condition and results of operations of 407 International Inc. (the "Company") for the years ended December 31, 2016 and 2015 (the "MD&A"). The MD&A should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto for the years ended December 31, 2016 and 2015 (the "Financial Statements"). The Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts in the Financial Statements and the MD&A are shown in millions of Canadian dollars unless otherwise indicated. Additional information relating to the Company, including the Company's 2016 Annual Information Form dated February 9, 2017 (the "AIF"), can also be accessed on the System for Electronic Document Analysis and Retrieval ("SEDAR") (www.sedar.com).

Forward-Looking Statements

The MD&A includes statements about expected future events and financial and operating results that are forward-looking. Forward-looking statements may include words such as anticipate, believe, could, expect, goal, intend, may, outlook, plan, strive, target and will. These forward-looking statements, including those set out in the "Outlook" sections of the MD&A, reflect the internal projections, expectations, future growth, performance and business prospects and opportunities of the Company and are based on information currently available to the Company. Actual results and developments may differ materially from results and developments discussed in the forward-looking statements as they are subject to a number of risks and uncertainties as discussed under the section entitled "Risks and Uncertainties" and are made based on certain assumptions including those relating to traffic and the operation and maintenance of Highway 407 ETR (as defined below). These forward-looking statements are also subject to the risks described in the AIF under the heading "Risk Factors". Readers are cautioned not to place undue reliance on the Company's forward-looking statements and assumptions as management of the Company and its subsidiaries ("Management") cannot provide assurance that actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. These forward-looking statements are made as of February 9, 2017, the date of the MD&A, and are subject to change as a result of new information, future events or other circumstances, as discussed above, in which case they will be updated by the Company as required by law.

Non-IFRS Financial Measures

Earnings Before Interest and Other, Taxes, Depreciation and Amortization ("EBITDA") is not a recognized measure under IFRS and investors are cautioned that EBITDA should not be construed as an alternative to net income (loss) or cash flows from operating activities as an indicator of the Company's performance or cash flows. The Company's method of calculating EBITDA may differ from other companies methods and may not be comparable to measures used by other companies. Management uses EBITDA to assist in identifying underlying operating trends and allows for a comparison of the Company's operating performance on a consistent basis. Investors may also use EBITDA, amongst other financial measures, to assist in the valuation of the Company.

The earnings coverage and the earnings coverage ratio are not recognized measures under IFRS and investors are cautioned that the earnings coverage and earnings coverage ratio should not be construed as an alternative to net income (loss) or cash from operating activities as an indicator of the Company's performance or cash flows. Earnings coverage, as defined by the Company, is income before income tax expenses and interest expense on long-term debt less interest expense on long-term debt. Earnings coverage ratio, as defined by the Company, is income before income tax expenses and interest expense on long-term debt, divided by interest expense on long-term debt. The earnings coverage and the earnings coverage ratio are provided pursuant to and in compliance with National Instrument 44-102 *Shelf Distributions* of the Canadian Securities Administrators.

Corporate Background

The Company was incorporated on March 17, 1999 under the *Business Corporations Act* (Ontario) (the "OBCA"). The Company was established for the purpose of submitting a bid to the Government of the Province of Ontario (the "Province") to acquire all of the issued and outstanding shares of 407 ETR Concession Company Limited ("407 ETR"). On May 5, 1999, the Company completed the acquisition of all of the issued and outstanding shares of 407 ETR. Currently, the principal business of the Company is the ownership of 407 ETR and, through 407 ETR, the operation, maintenance, management and expansion of highway 407 (the "Highway"). On October 10, 2003, the Company was continued under the *Canada Business Corporations Act* (the "CBCA").

On December 6, 2001, 2007466 Ontario Inc. was incorporated under the OBCA. On October 10, 2003, 2007466 Ontario Inc. was continued under the CBCA under the name Canadian Tolling Company International Inc. ("Cantoll"). Cantoll assumed ownership of a new integrated computerized accounting, billing and customer relationship management system and new transponders, and is responsible for the development of its integrated automation systems and the implementation and management of road-side tolling technologies and back-office systems. 7253770 Canada Inc. ("7253770 Inc."), 8011397 Canada Inc. ("8011397 Inc."), 8018278 Canada Inc. ("8018278 Inc."), 8915172 Canada Inc. ("8915172 Inc.") and 9665641 Canada Inc. ("9665641 Inc.") were incorporated under the CBCA on October 5, 2009, October 31, 2011, April 30, 2012, August 28, 2014 and March 11, 2016 respectively, and Financing Limited Partnership ('FLP") was registered under the *Limited Partnerships Act* (Ontario) on November 25, 2011, all to assist in the implementation of the Company's tax planning strategies. FLP was dissolved on October 28, 2016, and 7253770 Inc., 8011397 Inc., 8018278 Inc. and 8915172 Inc. were dissolved on November 18, 2016.

The Company has no direct or indirect subsidiaries other than 407 ETR, Cantoll and 9665641 Inc. The registered and principal executive office of the Company, and the head office of 407 ETR, are located at 6300 Steeles Avenue West, Woodbridge, Ontario, L4H 1J1.

The current shareholders of the Company are 4352238 Canada Inc., a wholly-owned subsidiary of Cintra Global Holding Limited ("Cintra"), MICI Inc. and 7577702 Canada Inc., subsidiaries of Canada Pension Plan Investment Board ("CPPIB"), and SNC-Lavalin Highway Holdings Inc., a wholly-owned subsidiary of SNC-Lavalin Group Inc.

Our Business

The Company, through its wholly-owned subsidiary, 407 ETR operates, maintains and owns the right to toll the world's first all-electronic, open-access toll highway ("Highway 407 ETR") which is situated just north of Toronto. The Company's mission is to serve the Greater Toronto Area (the "GTA") by providing customers a fast, safe, reliable travel alternative, maximizing both customer satisfaction and shareholder value. Highway 407 ETR consists of four, six, eight and ten-lane sections (expandable to eight and ten lanes) from Highway 403/QEW in Burlington in the west to Brock Road in Pickering in the east for a distance of 108 kilometres.

The Company is also responsible for the development and operation of its integrated automation systems and the implementation and management of road-side tolling technologies and back-office systems, through its wholly-owned subsidiary, Cantoll.

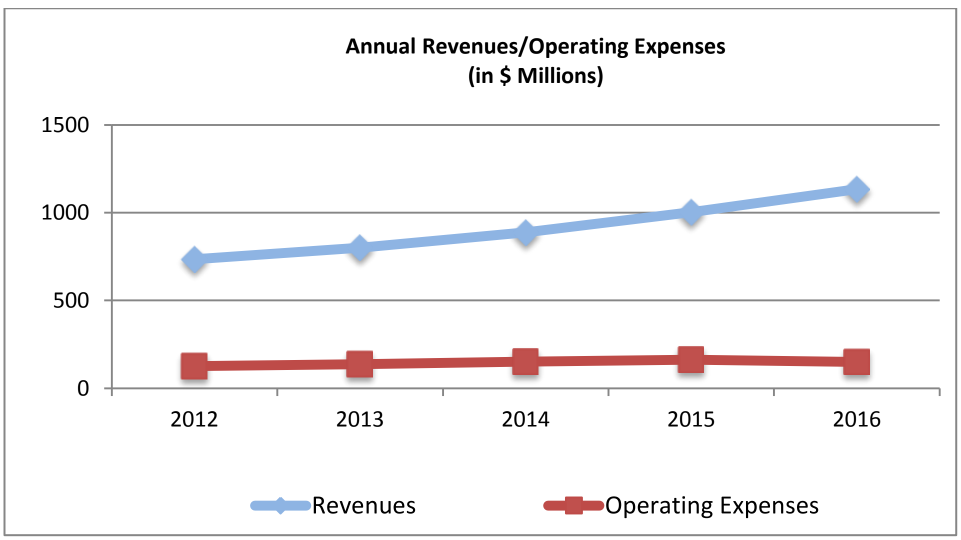
The Company's ability to create economic value depends largely on its ability to sustain revenue growth as well as to generate earnings and cash flows from operations growth by controlling the level of its operating expenditures while maintaining a safe highway and a high standard of customer service. Revenue growth depends mostly on the future demand for this alternate transportation route in the GTA and the levels of toll rates. The Company has continued to expand Highway 407 ETR to meet increasing demand and maintain a congestion-free experience for customers. Factors that could affect future demand include residential and commercial construction along the Highway 407 ETR corridor, economic conditions and the relative congestion of traditional alternative routes, such as Highway 401 and the Queen Elizabeth Way (the "QEW"), the addition of lanes on Highway 407 ETR and additional traffic likely to result from the opening of Highway 407 (east of Brock Road).

The Company's ability to remain profitable and improve cash flow from operating activities also depends largely upon other factors, such as its ability to widen Highway 407 ETR and the availability of funds on commercially reasonable terms to finance such an expansion as well as its ability to finance operating and capital expenditures and interest to bondholders. Management is confident of the Company's current ability to access sufficient financial resources to finance such future amounts on commercially reasonable terms.

Selected Annual Information

(In $ Millions, except per share amounts)	Selected Financial Information		
	2016	2015	2014
Revenues	1,134.7	1,002.2	887.6
Operating Expenses	149.7	162.2	151.9
EBITDA	985.0	840.0	735.7
Depreciation and Amortization	104.9	86.0	78.4
Interest and Other Expenses	372.8	326.9	354.6
Income Tax Expense	134.4	115.9	79.8
Net Income	372.9	311.2	222.9
Dividends per share	1.019	0.968	0.942
	As at December 31, 2016	**As at December 31, 2015**	**As at December 31, 2014**
Total assets	5,329.2	5,131.5	5,199.5
Total non-current liabilities	7,309.9	6,732.9	6,355.0

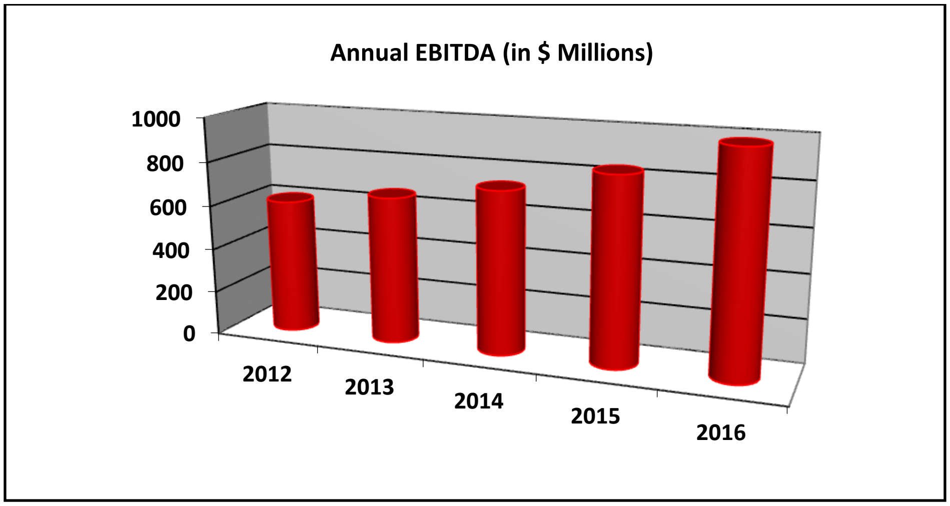
Revenues and Operating Expenses



Total revenues amounted to $1,134.7 million in 2016, an increase of $132.5 million or 13.2%, compared to 2015, primarily due to higher tolling revenues attributed to a toll rate increase, coupled with higher trips and Vehicle Kilometres Travelled (“VKTs”) and slightly offset by lower contract revenues as a higher volume of work relating to the construction of tolling equipment was completed in 2015.

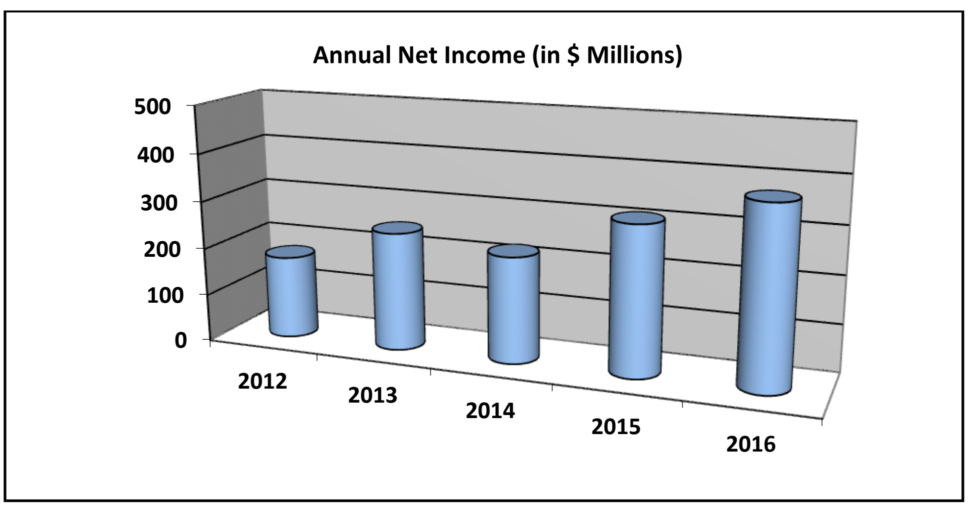
Total operating expenses amounted to $149.7 million in 2016, a decrease of $12.5 million or 7.7%, when compared to 2015. The decrease was mainly due to lower customer operations expenses resulting from lower customer litigation expense, partially offset by higher systems operations expenses due to higher support and licence costs and higher highway operations expenses due to higher fixed winter maintenance contract costs.

EBITDA



EBITDA increased by 17.3% or $145.0 million to $985.0 million in 2016 as compared to $840.0 million in 2015. The improvement in EBITDA was a result of growth in revenues, coupled with lower operating expenses. EBITDA as a percentage of revenues was 86.8% in 2016 and was higher than 83.8% in 2015. Excluding contract revenues and expenses, EBITDA as a percentage of revenues was 87.5% in 2016 compared to 85.2% in 2015. See “Non-IFRS Financial Measures”.

Net Income



Net income of $372.9 million increased by $61.7 million or 19.8% as compared to 2015 mainly due to higher EBITDA, offset by higher interest and other expenses, coupled with higher depreciation and amortization expense and higher income tax expenses.

Dividends

Dividends to shareholders in 2016 amounted to $790.0 million, compared to $750.0 million in 2015 and $730.0 million in 2014.

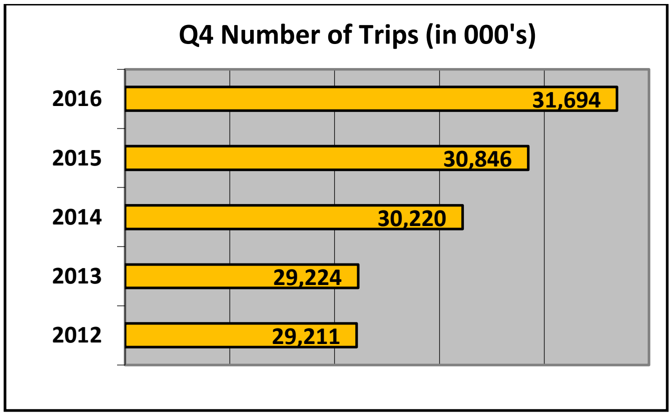
Statement of Financial Position Items

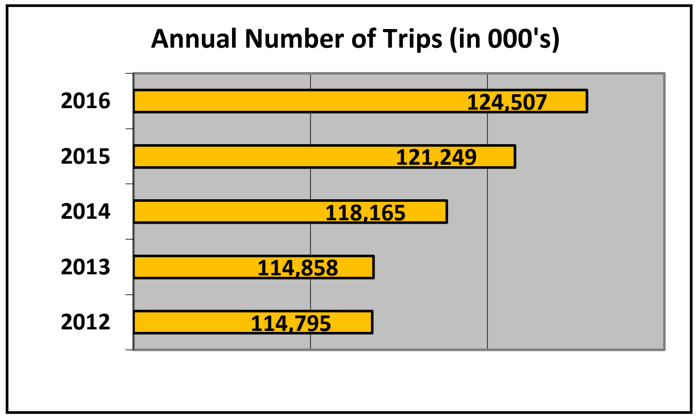
Total assets were $5,329.2 million at December 31, 2016 compared with $5,131.5 million at December 31, 2015. The increase in 2016 is primarily due to higher cash and cash equivalents, increases in trade receivables due to higher revenues and increases in restricted cash and investments due to funding of debt service reserves for Senior Bonds, Series 16-A1 and Senior Bonds, Series 16-A2, and timing of contributions and coupon payments, offset by a decrease in deferred tax assets due to utilization of tax losses.

Total non-current liabilities at December 31, 2016 amounted to $7,309.9 million compared with $6,732.9 million at December 31, 2015. The increase in non-current liabilities of $577.0 million in 2016 was mainly due to the issuance of Senior Bonds, Series 16-A1 on May 19, 2016 for $500.0 million, issuance of Senior Bonds, Series 16-A2 for $350 million, increase in fair value of Senior Bonds, Series 04-A2, increase in the non-cash inflation compensation component of the Real Return Bonds (“RRBs”) and the non-cash accretion of Senior Bonds, Series 04-A2 due to an increase in the Consumer Price Index (“CPI”), offset by the reclassification of Subordinated Bonds, Series 10-D1 to the current portion of the long term debt as the bonds are due to mature within twelve months, coupled with the repayment of Senior Bonds, Series 99-A4 and the partial repayments of Senior Bonds, Series 99-A3 and Senior Bonds, Series 00-A2. In addition, deferred tax liabilities increased by $14.6 million.

The share capital and contributed surplus remained unchanged at December 31, 2016 at $775.0 million (775,000,003 number of common shares issued and outstanding) and $29.6 million, respectively, as compared to December 31, 2015.

Traffic Results





	Q4 2016	Q4 2015	2016	2015
Traffic/Trips (in millions) (1)	31.694	30.846	124.507	121.249
Average Workday Number of Trips (in thousands)	416.928	402.777	408.213	399.613
VKTs (in millions) (2)	674.644	634.947	2,640.770	2,516.950
Average Trip Length (kilometres) ("ATL") (3)	21.29	20.58	21.21	20.76
Unbillable Trips (percent) (4)	2.42	2.00	2.30	2.29
Average Revenue per Trip ($) (5)	9.30	8.16	9.02	8.10
Transponder Penetration Rate (percent) (6)	82.8	83.5	82.5	82.8
Transponders in Circulation as at December 31 (7)			1,342,290	1,275,892

1. *Trips are measured during the reporting period based on the number of vehicle transactions recorded on Highway 407 ETR.*
2. *VKTs refer to the sum of distances travelled on Highway 407 ETR during the reporting period.*
3. *Average Trip Length is calculated as the total VKTs divided by the total number of trips in the reporting period.*
4. *Unbillable Trips represents the number of trips that were not billed divided by the number of trips in the reporting period. Unbillable Trips includes unreadable transactions where a licence plate image was not captured, trips taken by vehicles from jurisdictions in which 407 ETR is unable to bill and trips taken by certain toll-exempt vehicles (such as emergency and 407 ETR service vehicles and vehicles with diplomatic plates).*
5. *Average Revenue per Trip is calculated as total tolls and fee revenue over total number of trips in the reporting period.*
6. *Transponder Penetration Rate is the ratio of transponder trips to total trips in the reporting period.*
7. *Transponders in Circulation are measured at the end of the reporting period based on the number of transponders registered to customers.*

Fourth Quarter

Total trips in the fourth quarter of 2016 were 2.7% higher than the same period in 2015. VKTs increased by 6.3% to 674.6 million in the fourth quarter of 2016 when compared with the same period in 2015 mainly due to economic growth and a positive impact on traffic on the eastern section of Highway 407 ETR as a result of the opening of Phase I of Highway 407 (east of Brock Road). Average workday trips were higher by 3.5% when compared to the same period in 2015 despite one less workday in the quarter. Unbillable trips increased by 21.0% when comparing the fourth quarter of 2016 to the same period in 2015. The increase was mainly attributable to unfavourable weather conditions compared to the same period in 2015. Average revenue per trip was $9.30 in the fourth quarter of 2016 compared to $8.16 in the fourth quarter of 2015, representing an increase of 14.0%. The opening of Highway 407 (east of Brock Road) has generated more video trips, resulting in a slightly lower transponder penetration rate compared to the same period in 2015.

2016 vs 2015

Total trips for 2016 were 124.5 million and were 2.7% higher than 121.2 million trips in 2015. VKTs increased by 4.9% due to economic growth, lower gas prices and a positive impact on traffic on the eastern section of Highway 407 ETR as a result of the opening of Phase I of Highway 407 (east of Brock Road). Unbillable trips in 2016 were comparable to 2015. Average revenue per trip was $9.02 for 2016 compared to $8.10 in 2015, representing an increase of 11.4%.

Overview of Current Operations

Construction

The Company continues to improve Highway 407 ETR through construction projects designed to increase capacity and improve traffic flow and customer convenience, including investments in widening bridge structures and adding new lanes to Highway 407 ETR. The Company also regularly undertakes various Highway 407 ETR rehabilitation initiatives designed to improve and replace existing elements of the infrastructure, such as resurfacing the asphalt pavement in certain sections of Highway 407 ETR, replacement of concrete pavement, replacement and relining of culverts under and along Highway 407 ETR and rehabilitating various bridge structures in order to continue to provide customers with fast, safe and reliable travel.

In 2012, the Company entered into an agreement with the Province of Ontario ("the Province") for construction work relating to the connection of the Brock Road Interchange with Highway 407 (east of Brock Road), for which the Company acted as agent and construction manager on behalf of the Province. The Company has completed the construction work related to the Brock Road Interchange, which commenced during the second quarter of 2013. The Brock Road Interchange, which connects with Highway 407 (east of Brock Road) was opened to traffic, along with the opening of Phase 1 of Highway 407 (east of Brock Road), on June 20, 2016.

In 2016, the Company continued with the construction of the widening of Highway 407 ETR between Highway 410 and Highway 427, including the construction of the widening of the northbound and southbound Highway 427 bridge structures over the Highway's infrastructure, for which the Company acts as agent and construction manager on behalf of the Province. Construction work is expected to be completed with the new lanes opened to traffic in the second half of 2017.

The Company has substantially completed detailed design work for the widening of Highway 407 ETR from Markham Road to just west of Brock Road, including the Sideline 26 interchange work.

Information Technology

The Company continues to maintain and enhance the back-office systems. Formal processes are in place to identify, evaluate and implement potential system enhancements to ensure continued alignment with business strategies. The Company continues to focus on enhancing the core capabilities of capturing and processing vehicle information with continued investments in roadside equipment, automated licence plate recognition, complementary metal-oxide semi-conductor (CMOS) camera technology, and the operation of a front-capture camera enforcement system. The Company continues to enhance the security, functionality, scalability and usability of its self service (website and Interactive Voice Response) systems. Cyber security continues to be an area of focus with ongoing improvements in areas such as data security and network security, event management and overall information technology risk management. In addition, the Company continues to actively monitor its compliance with payment card industry data security standards. The Company has implemented all of the required changes to its back-office systems in order to provide services to the Province as agreed under the Tolling Services Contract. The Company is currently evaluating a new enterprise resource planning platform and is gathering information to determine options that will best address the future business needs of the Company.

Customer Service

The Company offers customers a broad range of services through its website, operations centre and automated telephone attendant and is committed to increasing customer awareness and customer service. The Company engages an external call centre specialist in benchmarking customer satisfaction to continually survey its customers. The results of recent surveys continue to show high levels of customer satisfaction and are consistent with other market research studies commissioned by the Company. In addition, the Company conducts email-based communications from the President and Chief Executive Officer thanking customers and seeking their feedback on the services provided by the Company.

Many 407 ETR customers continue to enjoy the 407 ETR Rewards Program. The program provides free kilometres on Highway 407 ETR and gas savings to qualified 407 ETR customers. Since inception, the program has offered more than $138.1 million in benefits and savings to over 100,000 frequent light-vehicle transponder users.

In early 2016, 407 ETR Customer Service was recognized as a certified World Class Call Centre, the Best Performing Small to Mid-size Contact Centre finalist and received the First Call Resolution Improvement Award (one of the industry’s most important indicators of customers’ very high level of satisfaction with the call centre and the effective and quick resolution of customer inquiries).

407 ETR in the Community

407 ETR and its employees continued to support the communities served by Highway 407, through supporting hospitals, rehabilitation centres and medical research along the corridor; participating in the IceWave and HeatWave Volleyball tournaments supporting the Hospital for Sick Children; and encouraging employees to participate in charitable giving through payroll deductions to the United Way of Toronto/York Region, with the company making a 2-to-1 matching donation to the United Way or the charity of their choice. In addition, 407 ETR directly supports children and youth amateur sports through the sponsorship of local teams across the Highway 407 corridor.

407 ETR sponsors several driver safety and new driver education programs that are operated by dedicated volunteers and not-for-profit organizations within schools across the corridor. In addition, 407 ETR sponsored a driver safety campaign on a popular local news radio station to help promote safety on all roadways.

In 2016, 407 ETR donated over $120.0 thousand to various hospitals, rehabilitation centres and medical research facilities, to promote health care.

407 ETR supports excellence in education and varsity sports through an ongoing relationship with York University. The Company contributed over $100.0 thousand to various sporting associations as part of its support towards children and youth amateur sports activities.

407 ETR continued an environmental stewardship sponsorship with Evergreen, a national not-for-profit environmental organization, to support and promote community tree-planting. In 2016, Evergreen hosted volunteer tree-planting events along the Highway 407 corridor, which included support and participation by teams of 407 ETR employees.

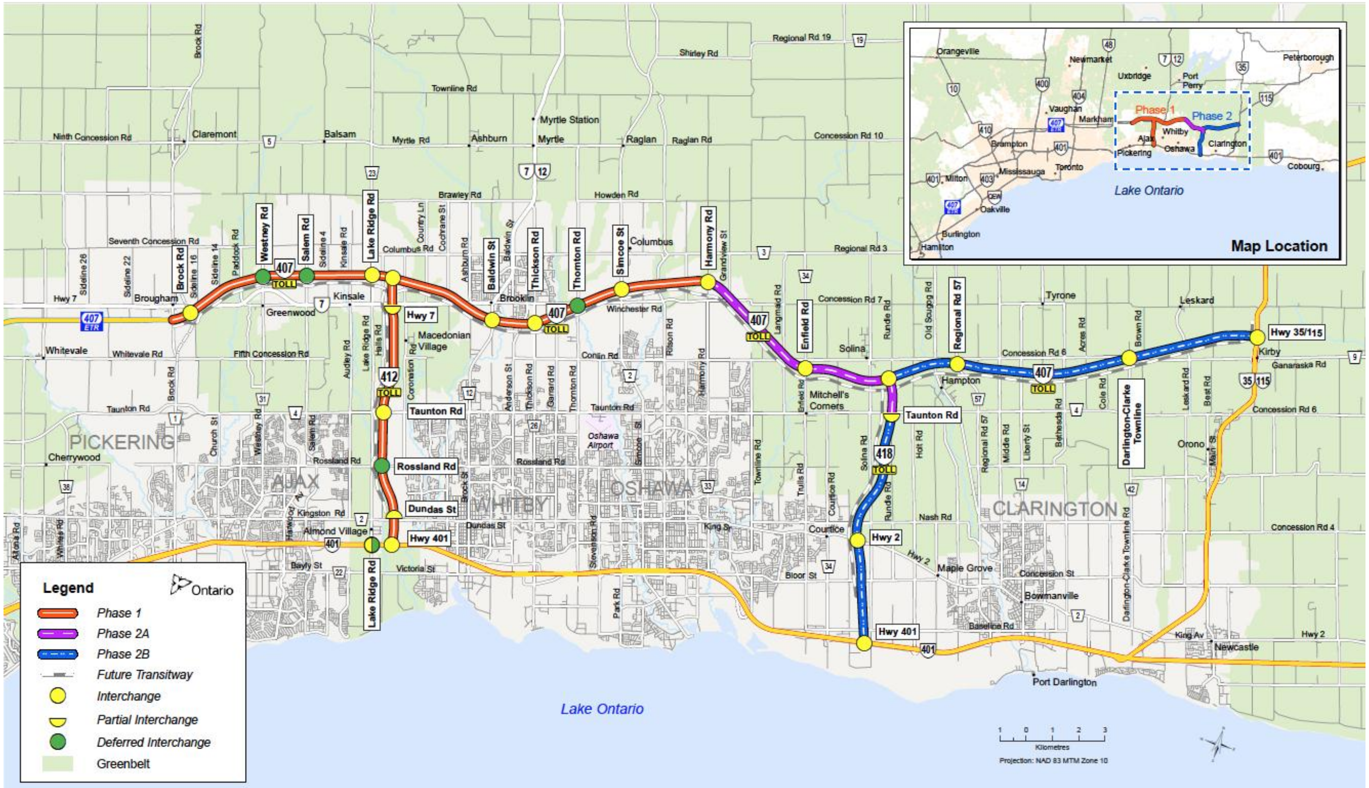
In 2016, 407 ETR continued its sponsorship and visibility at the Rogers Cup of Tennis. The event, held at the tennis facility on the York University Campus, is situated near the central portion of Highway 407 and serves as a key event for 407 ETR's corporate branding and sponsorship initiatives. Included in the sponsorship is support for Tennis Canada's tennis programs for young people.

Highway 407 (east of Brock Road)

Highway 407 will begin at the eastern terminus of Highway 407 ETR at Brock Road, and extend to Highways 35/115 ["Highway 407 (east of Brock Road)"]. The Province will maintain public ownership of Highway 407 (east of Brock Road), set tolls and receive toll revenues in respect of its use. Highway 407 (east of Brock Road) is being constructed in two phases ("Phase 1" and "Phase 2" respectively), as further described below:

- Phase 1 of construction is complete from Brock Road (at the eastern terminus of Highway 407 ETR) to Harmony Road in Oshawa and includes Highway 412, which runs north-south and connects Highway 407 (east of Brock Road) to Highway 401. Phase 1 has three lanes in each direction from Brock Road to Highway 412, two lanes in each direction from Highway 412 to Harmony Road and two lanes in each direction on Highway 412.

- Phase 2 of construction will complete the extension of Highway 407 (east of Brock Road) from Harmony Road to Highway 35/115 in Clarington. Phase 2 will include Highway 418, which will run north-south and connect Highway 407 (east of Brock Road) to Highway 401. An interchange at Taunton Road and Highway 418 is expected to be completed in 2017. Phase 2 is expected to be completed between Harmony Road and Highway 418 by December 2017, and between Highway 418 and Highway 35/115 by 2020.



In 2012, Ontario Infrastructure and Lands Corporation ("IO") and Ontario Ministry of Transportation ("MTO") contracted with 407 East Development Group ("EDG"), a consortium which includes Cintra and SNC-Lavalin Group Inc., to design, build, finance and maintain Phase 1 of Highway 407 (east of Brock Road). The opening of Phase 1, originally planned for December 2015, and delayed during the construction phase, was opened to traffic on June 20, 2016 on a toll-free basis. The Province announced that tolling of Highway 407 (east of Brock Road) will commence on February 1, 2017.

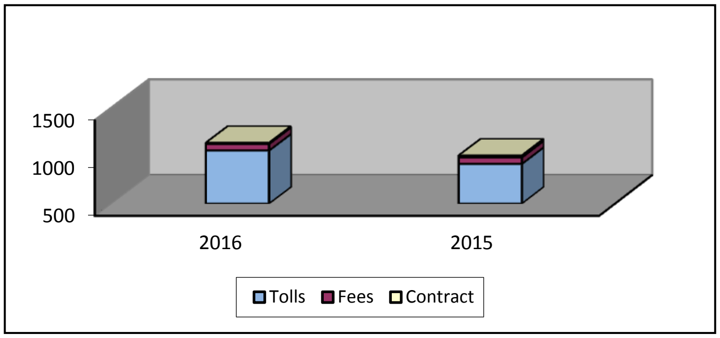
In January 2015, IO and MTO announced that they had selected the Blackbird Infrastructure Group, a consortium led by Cintra and Cement Roadstone Holdings plc, to design, build, finance and maintain Phase 2 of Highway 407 (east of Brock Road). The Company believes that both phases of Highway 407 (east of Brock Road) will increase traffic levels on the eastern end of Highway 407 ETR.

In December 2011, Cantoll entered into an agreement with the Province to implement and maintain the road-side tolling technology and back-office systems [the "Tolling Services Contract"] relating to Phase 1 of Highway 407 (east of Brock Road). In October 2015, Cantoll and the Province amended and restated the Tolling Services Contract to include Phase 2 of Highway 407 (east of Brock Road). Under the terms of the Tolling Services Contract, the Province will reimburse Cantoll for the cost of implementing both Phase 1 and Phase 2. Following implementation, Cantoll will provide tolling, billing and back-office services to the Province in a transparent and seamless way for customers. The operating agreement has an initial term of 10 years from December 2015 , and is renewable by 10-year increments, for up to 30 years in total. Pursuant to the terms of the Tolling Services Contract, Cantoll deposited $9.0 million into a segregated funds account which will be released upon completion of Phase 2.

Cantoll has completed all of the key deliverables required for Phase 1 under the Tolling Services Contract. The substantial completion certification was issued by the Province on November 30, 2016. Tolling for the Phase 1 of Highway 407 (east of Brock Road) will commence from February 1, 2017. Cantoll also continued with the contract work associated with Phase 2 of the Tolling Services Contract.

2016 Results of Operations

Revenues



Revenues (in $ Millions)

	2016	2015
Tolls	1,055.8	915.9
Fees	68.3	66.4
Contract	10.6	19.9
Total Revenues	1,134.7	1,002.2

The Company's revenues are generated from toll charges for trips on Highway 407 ETR including camera charges for non-transponder trips ("Tolls"), monthly fees ("Fees") and contract revenues. Fees include transponder lease fees, account fees relating to the maintenance and billing of non-transponder customer accounts, late payment charges, enforcement fees for past due amounts sent to the Ontario Registrar of Motor Vehicles (the "Registrar") to refuse to renew or issue vehicle permits until outstanding amounts are paid or settled ("Licence Plate Denial") and service fees related to tolling, billing and back-office services. Account fees are driven by the number of non-transponder customers that travel on Highway 407 ETR and are subject to seasonal fluctuation. Enforcement fees and late payment charges are applied to customers with overdue accounts. Contract revenues include the implementation of the road-side tolling technology and back-office systems work performed under the Tolling Services Contract.

Toll Revenues

2016 vs 2015

Toll revenues amounted to $1,055.8 million in 2016, an increase of $139.9 million or 15.3%, compared to $915.9 million in 2015. The increase in toll revenues is primarily attributable to a toll rate increase effective February 1, 2016, coupled with an increase in trips and VKTs.

Fee Revenues

2016 vs 2015

Fee revenues amounted to $68.3 million in 2016, an increase of $1.9 million when compared to $66.4 million in 2015. The increase was mainly due to higher transponder lease fees as a result of an increase in the number of transponders in circulation, coupled with higher video account fee revenue due to higher rates, partially offset by lower net late payment charges on overdue account balances.

Contract Revenues

2016 vs 2015

Contract revenues amounted to $10.6 million in 2016 when compared to $19.9 million in 2015 reflecting the higher volume of work completed in the prior year relating to the construction of tolling equipment and back office initiatives. Current year contract revenue mainly relates to the installation and commissioning of tolling sites.

Outlook

Management anticipates higher revenues in 2017 compared to 2016 primarily due to the new toll rate structure that took effect on February 1, 2017 and higher traffic volumes, coupled with service fees related to Highway 407 (East of Brock Road), offset by lower contract revenues as a major portion of contract work under the Tolling Services Contract work was completed by the end of 2016.

Toll Rates

Toll rates changed effective February 1, 2016. The following table illustrates the Company's toll rates in effect on February 1, 2016 and February 1, 2015. For further details on the Company's toll rates, please visit www.407etr.com.

	2016 (1) (In $ CAD)			2015 (2) (In $CAD)		
	Light Vehicle	Heavy Single Unit Vehicle	Heavy Multiple Unit Vehicle	Light Vehicle	Heavy Single Unit Vehicle	Heavy Multiple Unit Vehicle
Toll Rate per km Regular zone (3) (AM Peak Period) (4)	0.3300	0.6600	0.9900	0.3056	0.6112	0.9168
Toll Rate per km Regular zone (3) (PM Peak Period) (5)	0.3424	0.6848	1.0272	0.3113	0.6226	0.9339
Toll Rate per km Regular zone (3) (AM Peak Hours) (6)	0.3754	0.7508	1.1262	0.3413	0.6826	1.0239
Toll Rate per km Regular zone (3) (PM Peak Hours) (7)	0.3890	0.7780	1.1670	0.3473	0.6946	1.0419
Toll Rate per km Light zone (3) (AM Peak Period) (4)	0.3137	0.6274	0.9411	0.2905	0.5810	0.8715
Toll Rate per km Light zone (3) (PM Peak Period) (5)	0.3255	0.6510	0.9765	0.2959	0.5918	0.8877
Toll Rate per km Light zone (3) (AM Peak Hours) (6)	0.3567	0.7134	1.0701	0.3243	0.6486	0.9729
Toll Rate per km Light zone (3) (PM Peak Hours) (7)	0.3697	0.7394	1.1091	0.3301	0.6602	0.9903
Toll Rate per km (Midday - Weekdays) (8)	0.2833	0.5666	0.8499	0.2575	0.5150	0.7725
Toll Rate per km (Midday - Weekends & Holidays) (9)	0.2595	0.5190	0.7785	0.2359	0.4718	0.7077
Toll Rate per km (Off-Peak Period) (10)	0.2162	0.4324	0.6486	0.1974	0.3948	0.5922
Camera Charge per trip	4.05	50.00	50.00	4.00	50.00	50.00
Trip Toll Charge per trip	1.00	2.00	3.00	0.90	1.80	2.70

Note 1: Toll rates are effective from February 1, 2016.
Note 2: Toll rates are effective from February 1, 2015.
Note 3: Effective February 1, 2016, Regular zone means the area of the Highway 407 ETR between QEW to highway 401 and highway 427 to highway 404. Light zone means the area of the Highway 407 ETR between highway 401 to highway 427 and highway 404 to Brock Road.
Note 4: AM Peak Period means weekdays between 6am-7am, 9am-10am.
Note 5: PM Peak Period means weekdays between 3pm-4pm, 6pm-7pm.
Note 6: AM Peak Hours means weekdays between 7am-9am.
Note 7: PM Peak Hours means weekdays between 4pm-6pm.
Note 8: Midday - Weekdays means between 10am-3pm.
Note 9: Midday - Weekends/Holidays means between 11am-7pm.
Note 10: Off-Peak Period means weekdays between 7pm-6am, weekends and holidays between 7pm-11am.

Effective February 1, 2016, the Company implemented a new toll structure, including the introduction of differing toll rates for AM and PM Peak Hours and Peak Periods, to address customer travel patterns and to optimize revenues. Highway 407 ETR has been segmented into the regular zone for the area of Highway 407 ETR from the QEW to highway 401 and from highway 427 to highway 404, and the light zone for the area of the Highway from highway 401 to highway 427 and highway 404 to Brock Road.

On February 1, 2016, toll rates for light vehicles, heavy single unit vehicles ("HSU") and heavy multiple unit vehicles ("HMU") increased by 8.0% and by 10.0% during AM and PM Peak Periods, respectively, by 10.0% and 12.0% during AM and PM Peak Hours respectively, by 10.0% for weekday midday hours and weekend and holiday midday and by 9.5% during off-peak periods. Camera Charge (previously referred to as Video Toll Charge) for light vehicles increased by 1.3% and trip toll charge increased by 11.1% when compared to the 2015 pricing structure. The overall toll revenue is influenced by the mix of customers on Highway 407 ETR, which includes video and transponder customers, light and heavy vehicles, peak hours, peak period, midday period and off-peak period use, travel distance per trip, trip toll charge and regular zone and light zone toll rates.

Calculated Tolls

The Company continues to charge a Calculated Toll, in addition to the Trip Toll Charge, for trips taken on Highway 407 ETR where either the entry or exit point of a vehicle is not recorded by the Company's tolling systems:

- For any vehicle (light or heavy), with a transponder for which there is a sufficient transponder trip history, a Transponder Vehicle Median Trip (referred to as a Calculated Trip) is charged using the median distance of the trips taken with the transponder in the preceding 72 days.
- For all light vehicles with a transponder for which there is insufficient transponder trip history, or if more than 25% of trips over the past 72 days did not accurately record either the entry or exit point, a Transponder Minimum Trip Toll is charged using the entry or exit nearest the recorded part of travel (in the same direction).
- For all light vehicles without a transponder, a Flat Toll Charge plus the Camera Charge is charged.
- For all heavy vehicles without a transponder, a Camera Charge of $50.00 plus a Heavy Vehicle Minimum Trip Toll using the entry or exit nearest the recorded part of travel (in the same direction) is charged.
- For all heavy vehicles with a transponder for which there is insufficient transponder trip history, or more than 25% of trips over the past 72 days did not accurately record either the entry or exit point, a Heavy Single or Heavy Multiple Unit Vehicle Flat Toll is charged.

The following table illustrates the Flat Toll Charge for light and heavy vehicles:

	2016 and 2015 (1) (In $ CAD)		
	Light Vehicle (2)	Heavy Single Unit Vehicle ("HSU")	Heavy Multiple Unit Vehicle ("HMU")
Flat Toll Charge (up to) (Peak Period/Hours) (3)	4.50	19.85	36.95
Flat Toll Charge (up to) (All Other Periods) (4)	3.20	12.80	23.85

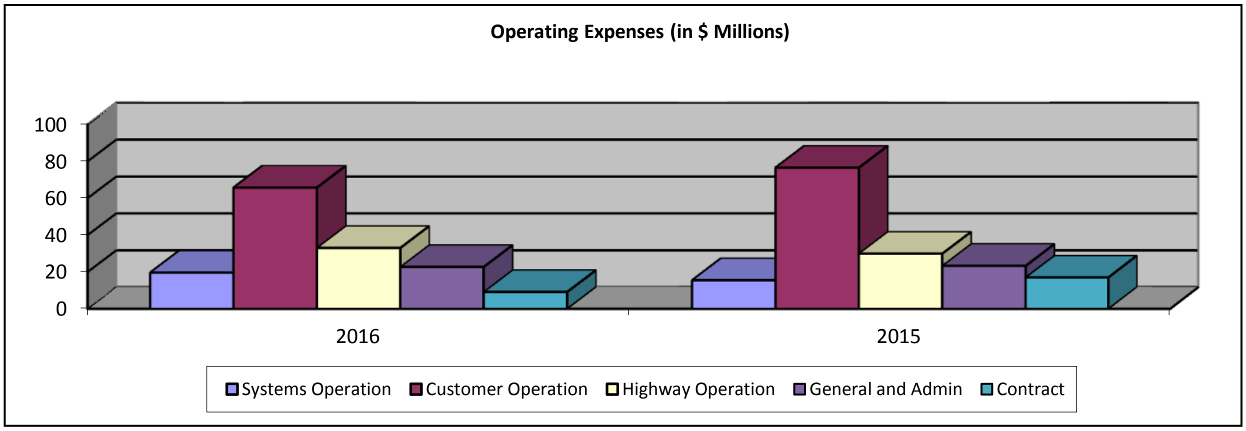
(1) Flat Toll Charge effective since February 1, 2015 and February 1, 2016
(2) Applicable to light vehicles without a transponder
(3) Peak Period/Hours means weekdays between 6am-10am and 3pm-7pm.
(4) All Other Periods means weekdays between 10am-3pm and 7pm-6am, weekends and holidays.

Effective February 1, 2017, the toll rate structure was revised and is illustrated in the following table:

TOLL RATE PER KM	2017 (1) (in $CAD)					
	Light Vehicle		Heavy Single Unit Vehicle		Heavy Multiple Unit Vehicle	
	EASTBOUND	WESTBOUND	EASTBOUND	WESTBOUND	EASTBOUND	WESTBOUND
Zone 1 (2) (AM Peak Periods) (3)	0.3597	0.3465	0.7194	0.6930	1.0791	1.0395
Zone 2 (2) (AM Peak Periods) (3)	0.3597	0.3597	0.7194	0.7194	1.0791	1.0791
Zone 3 (2) (AM Peak Periods) (3)	0.3465	0.3597	0.6930	0.7194	1.0395	1.0791
Zone 1 (2) (PM Peak Periods) (4)	0.3595	0.3732	0.7190	0.7464	1.0785	1.1196
Zone 2 (2) (PM Peak Periods) (4)	0.3732	0.3732	0.7464	0.7464	1.1196	1.1196
Zone 3 (2) (PM Peak Periods) (4)	0.3732	0.3595	0.7464	0.7190	1.1196	1.0785
Zone 1 (2) (AM Peak Hours) (5)	0.4242	0.3942	0.8484	0.7884	1.2726	1.1826
Zone 2 (2) (AM Peak Hours) (5)	0.4242	0.4092	0.8484	0.8184	1.2726	1.2276
Zone 3 (2) (AM Peak Hours) (5)	0.3942	0.4242	0.7884	0.8484	1.1826	1.2726
Zone 1 (2) (PM Peak Hours) (6)	0.4085	0.4474	0.8170	0.8948	1.2255	1.3422
Zone 2 (2) (PM Peak Hours) (6)	0.4474	0.4240	0.8948	0.8480	1.3422	1.2720
Zone 3 (2) (PM Peak Hours) (6)	0.4474	0.4085	0.8948	0.8170	1.3422	1.2255
Midday - Weekdays (7)	0.3088		0.6176		0.9264	
Midday - Weekends & Holidays (8)	0.2829		0.5658		0.8487	
Off Peak Period (9)	0.2248		0.4496		0.6744	
Camera Charge per trip	4.10		50.00		50.00	
Trip Toll Charge per trip	1.00		2.00		3.00	
Flat Toll Charge (up to) (Peak Period and Peak Hours) (3 to 6)	4.50		19.85		36.95	
Flat Toll Charge (up to) (All other times of the day) (7 to 9)	3.20		12.80		23.85	

Note 1: Toll rates are effective from February 1, 2017.
Note 2: Effective February 1, 2017, Zone 1 means the area of the Highway between QEW to highway 401. Zone 2 means the area of the highway between highway 401 to highway 404. Zone 3 means the area of the Highway between highway 404 to Brock Road.
Note 3: AM Peak Period means weekdays between 6am-7am, 9am-10am.
Note 4: PM Peak Period means weekdays between 2:30pm-4pm, 6pm-7pm.
Note 5: AM Peak Hours means weekdays between 7am-9am.
Note 6: PM Peak Hours means weekdays between 4pm-6pm.
Note 7: Midday - Weekdays means between 10am-2:30pm.
Note 8: Midday - Weekends/Holidays means between 11am-7pm.
Note 9: Off-Peak Period means weekdays between 7pm-6am, weekends and holidays between 7pm-11am.

Operating Expenses



Operating Expenses (in $Millions)	2016	% of revenues	2015	% of revenues
Systems Operations Expenses	19.9	1.8%	15.5	1.6%
Customer Operations Expenses	65.0	5.7%	76.5	7.6%
Highway Operations Expenses	33.0	2.9%	29.9	3.0%
General and Administration Expenses	22.7	2.0%	23.3	2.3%
Contract Expenses	9.1	0.8%	17.0	1.7%
Total	149.7	13.2%	162.2	16.2%

Systems Operations Expenses

This category includes staff salaries and subcontractor costs for operating and maintaining the tolling system, salaries and the costs for operating and maintaining the Company's office computer network and salaries and other costs for developing, operating and maintaining the Company's integrated automation systems.

2016 vs 2015

Systems operations expenses amounted to $19.9 million in 2016, an increase of $4.4 million when compared to $15.5 million in 2015, mainly due to higher hardware and software support and licence costs, coupled with higher staffing costs.

Outlook

Systems operations expenses for 2017 are expected to be higher than 2016 expenses mainly due to higher consulting and support costs.

Customer Operations Expenses

This category includes costs incurred to operate the customer service centre and service existing customer relationships as well as general inquiries. These costs include the call centre, customer service centre, account management salaries, transponder distribution channels, billing, customer address system access fees, ombudsman services, collection of overdue accounts, customer litigation expense and the provision for doubtful accounts.

2016 vs 2015

Customer operations expenses amounted to $65.0 million in 2016, a decrease of $11.5 million when compared to $76.5 million in 2015. The decrease was mainly due to lower customer litigation expense, offset by higher billing costs due to increased postage rates and higher bank charges related to higher customer payments.

The Company's customer service approach is focused on enhancing customer satisfaction as the needs and expectations of customers continue to develop. This customer-focused approach is reflected in the service results of the call centre. During 2016, the Company's call centre received 641 thousand telephone calls compared to 604 thousand calls received in 2015. The increase in calls was mainly due to the opening of Phase I of Highway 407 (east of Brock Road), coupled with inquiries on the new customer invoice billing details. As a result of the increase in call volumes, the average wait time required for a customer to speak with a customer service representative was 63 seconds in 2016, and was higher than the wait time of 32 seconds in 2015. Correspondingly, the level of service in 2016 temporarily decreased to 63%. The target level of service for customers calling into the 407 ETR call centre is 80% of all calls being answered within 30 seconds. To address the customer call wait times, additional customer service representatives have been added to the call centre. Customers continue to have the ability to access the various self-service options through the Company's interactive voice recognition system and website, allowing customers to perform a number of transactions without having to speak with a customer service representative.

The Company continues to use bill inserts, promotions and targeted advertising to communicate to customers about the benefits of using Highway 407 ETR, as well as educating drivers about environmentally and customer-friendly options, such as 407 ETR paperless billing, annual transponder leases and pre-authorized payment services. The Company continues to see growth in customers registering for 407 ETR paperless billing on the 407 ETR website, pre-authorization and other services which benefit customers and also result in lower costs for the Company.

Outlook

Customer operations costs for 2017 are expected to be higher than 2016 mainly due to higher provision for doubtful accounts resulting from higher revenues.

Highway Operations Expenses

This category of expenses includes costs relating to operating activities such as maintenance of the major system elements of roadway surfaces, bridges and culverts, drainage and lighting systems, together with seasonal maintenance, highway patrol operations, road safety enforcement and police enforcement. Highway operations expenses are seasonal in nature mainly as winter maintenance expenses relating to snow plowing and salt application occur in the first and fourth quarters of the year, whereas most other repairs and maintenance take place in the second and third quarters of the year.

2016 vs 2015

Highway operations expenses amounted to $33.0 million in 2016, an increase of $3.1 million as compared to $29.9 million in 2015. The increase was due to higher winter maintenance fixed contract costs and higher enforcement costs due to increased rates.

Highway maintenance cost per lane kilometre in 2016 increased to $27.9 thousand from $25.3 thousand in 2015 mainly due to the same reasons as mentioned above.

Outlook

Management anticipates higher highway operations expenses in 2017 mainly due to the increased cost of various highway maintenance initiatives.

General and Administration Expenses

General and administration expenses include costs of public relations, finance, administration, facilities, human resources, business processes, legal, audit and executive.

2016 vs 2015

General and administration expenses amounted to $22.7 million for 2016, a decrease of $0.6 million when compared to $23.3 million for 2015 due to lower consultants' costs.

Outlook

General and administration expenses for 2017 are expected to be in line with 2016 costs.

Contract Expenses

The Company's contract expenses relate to costs incurred for work performed in completing its contract obligations under the Tolling Services Contract.

2016 vs 2015

Contract expenses amounted to $9.1 million in 2016 compared to $17.0 million in 2015. The decrease was mainly due to higher volume of tolling equipment and back-office initiatives work completed in 2015.

Outlook

Contract expenses are expected to be lower in 2017 as the majority of the work related to Phase 1 of the Tolling Services Contract was completed by end of 2016.

Depreciation and Amortization

2016 vs 2015

Depreciation and amortization expenses amounted to $104.9 million in 2016, an increase of $18.9 million when compared to 2015. The increase was primarily due to the change in the method of amortizing concession rights from revenue-based to straight-line method over the remaining term of the Concession Agreement, coupled with higher additions. As a result of this change, the amortization expense of concession rights for 2016 increased by $13.6 million when compared to 2015.

Outlook

Management expects overall depreciation and amortization expenses in 2017 to be in line with 2016.

Interest and Other Expenses

Interest and Other Expenses (in $ Millions)	**2016**	**2015**
Interest expense	$ 350.1	$ 335.8
Non-cash inflation component of:		
Interest expense, RRBs	19.6	13.5
Interest recovery, Senior Bond, Series 04-A2	(0.9)	(2.8)
Fair value adjustment, Senior Bond, Series 04-A2	15.2	(9.6)
Capitalized interest	(0.6)	(0.6)
Total interest expense on long-term debt	383.4	336.3
Interest income on financial assets designated as FVTPL	(10.6)	(9.3)
Other expense	0.8	0.6
Other interest income		
Reclassification of gains and losses on cash flow hedges	(0.8)	(0.7)
	$ 372.8	$ 326.9

Interest and other expenses include interest expense on long-term debt and obligations under finance leases, reclassification of gains and losses on cash flow hedges from accumulated other comprehensive income, interest income on fair value through profit or loss ("FVTPL") of financial assets, and fair value adjustment of derivative financial instruments.

2016 vs 2015

Interest and other expenses amounted to $372.8 million in 2016 compared to $326.9 million in 2015. Interest expense on long-term debt increased to $383.4 million compared to $336.3 million in 2015, primarily due to the unfavourable non-cash fair value adjustment on Senior Bonds, Series 04-A2 of $24.8 million. During 2016, the non-cash fair value adjustment expense on Senior Bonds, Series 04-A2 of $15.2 million was primarily due to an increase in the Break Even Inflation Rate ("BEIR") coupled with a decrease in the nominal discount rate as compared to a non-cash fair value adjustment recovery on Senior Bonds, Series 04-A2 of $9.6 million for the same period in 2015 primarily due to a decrease in the BEIR coupled with an increase in the nominal discount rate. Interest expense on senior bonds was higher by $14.3 million primarily due to the issuance of $500.0 million of Senior Bonds, Series 16-A1 on May 19, 2016, the issuance of $350.0 million of Senior Bonds, Series 16-A2 on November 4, 2016 to refinance Senior Bonds, Series 99-A4, the full year interest expense impact on the issuance of $150.0 million of Senior Bonds, Series 15-A1 on March 27, 2015 and a higher interest expense on the Senior Bank Credit Facilities mainly due to a higher average outstanding balance, offset by the prior year overlapping of interest resulting from the refinancing of Senior Bonds, Series 10-A1 with Senior Bonds, Series 15-A2. Adding to the unfavourable variance to interest expense on long-term debt was the unfavourable variance of the non-cash inflation interest expense on the RRBs of $6.1 million, and the unfavourable variance of the non-cash accretion on Senior Bonds, Series 04-A2 of $1.9 million due to a higher increase in the CPI level. Unfavourable variances to interest expense on long-term debt were offset by the higher interest income of $1.3 million primarily due to higher investment yields earned on investments and a higher average cash balance.

Outlook

With the exception of the non-cash inflation component of interest expense relating to the RRBs and Senior Bonds, Series 04-A2 and the non-cash fair value adjustment on Senior Bonds, Series 04-A2, the Company expects interest and other expenses for 2017 to be higher than 2016, primarily due to the expected issuance of additional debt, full-year impact of bonds issued in 2016 and a higher average outstanding balance on the Senior Bank Credit Facilities.

Income Taxes

Income Tax Expense (in $ Millions)	**2016**	**2015**
Current income tax expense	66.6	0.4
Deferred income tax expense	67.8	115.5
Total income tax expense	134.4	115.9

2016 vs. 2015

Current income tax expense amounted to $66.6 in 2016 compared to $0.4 million in 2015 primarily due to the full utilization of the Company's non-capital tax losses coupled with a higher earnings before tax. Correspondingly, deferred income tax expense reduced to $67.8 million in 2016 compared to $115.5 million in 2015. The total current and deferred annual effective tax rate was 26.5% of earnings before tax, lower than the 27.1% annual effective tax rate in 2015 primarily due to prior period adjustments being recorded in the prior year.

Outlook

With the exception of the non-cash inflation component of interest expense relating to the RRBs and Senior Bonds, Series 04-A2 and the non-cash fair value adjustment on Senior Bonds, Series 04-A2, the Company expects income tax expenses for 2017 to be higher than 2016 due to a higher income before tax expense.

Liquidity and Capital Resources

Cash Flow

Cash Flows for the year ended December 31

(In $ Millions)

	2016	2015
Cash from operating activities	551.2	514.0
Cash used in investing activities	(141.6)	(107.3)
Cash used in financing activities	(228.9)	(423.9)
(Decrease)/Increase in cash	180.7	(17.2)
Cash in the beginning of the period (1)	376.9	394.1
Cash end of period (1)	557.6	376.9

(1) includes cash equivalents

Cash and cash equivalents at December 31, 2016 was $557.6 million, an increase of $180.7 million from December 31, 2015. The cash and cash equivalents amount includes a $10.0 million reserve required by the Master Trust Indenture dated as of July 20, 1999 and effective as of May 5, 1999 between the Company, 407 ETR and The Trust Company of Bank of Montreal (now BNY Trust Company of Canada) ("the Indenture").

2016 vs 2015

The cash increase of $180.7 million in 2016 was mainly due to proceeds from the issuance of long-term debt of $1,335.3 million and cash generated from operating activities of $551.2 million. These inflows were offset by dividends paid to shareholders of $790.0 million, repayment of long-term debt of $764.6 million, increase in restricted cash of $67.2 million, additions of property, plant and equipment and intangible assets of $71.9 million, payments of debt issue costs of $5.8 million, payments of obligations under finance leases of $3.8 million, advance payments to suppliers of $2.0 million and net increase in non-trade receivables of $0.5 million.

Cash generated from operating activities was $551.2 million in 2016 compared with $514.0 million in 2015. The increase in cash generated from operating activities of $37.2 million was mainly due to higher cash receipts of $121.3 million resulting from higher revenues. These increases to cash flow from operations were offset by higher payments for income taxes of $65.7

million, higher interest expense payments of $14.2 million, coupled with higher cash payments for operations of $4.6 million due to timing of payments.

Cash used in investing activities was $141.6 million 2016 compared with $107.3 million for the same period in 2015. The net increase in restricted cash was $67.2 million during 2016 compared to $33.3 million during the same period in 2015. The increase in restricted cash and investments of $67.2 million was due to the contributions to the debt service fund of $348.4 million, the establishment of a refunding bond fund of $289.0 million used to repay Senior Bonds, Series 99-A4, contribution towards additional reserve requirements for the Operating and Maintenance and Renewal and Replacement fund of $30.0 million, the establishment of a debt service reserve fund for Senior Bonds, Series 16-A1 of $27.4 million, the establishment of a debt service reserve fund for Senior Bonds, Series 16-A2 of $16.5 million and interest received from restricted cash and investments of $6.4 million. These increases to restricted cash were offset by the repayment of Senior Bonds, Series 99-A4 of $289.0 million, partial repayment of Senior Bonds, Series 99-A3 of $4.7 million, partial repayment of Senior Bonds, Series 00-A2 of $5.9 million, coupon payments of $335.5 million, release of the debt service reserve fund for Senior Bonds, Series 99-A4 of $11.0 million which matured on December 1, 2016, and transfers of $4.4 million to the general fund. During the same period in 2015, the increase in restricted cash and investments of $33.3 million was due to the establishment of a refunding bond fund of $500.0 million used to repay Senior Bonds, Series 10-A1, contributions to the debt service fund of $335.9 million, the establishment of a debt service reserve fund for Senior Bonds, Series 15-A2 of $28.2 million, the establishment of a debt service reserve fund for Senior Bonds, Series 15-A1 of $7.9 million, contribution towards additional reserve requirements for the Operating and Maintenance and Renewal and Replacement fund of $22.0 million and interest received from restricted cash and investments of $6.5 million. These net increases to restricted cash were offset by the repayment of Senior Bonds, Series 10-A1 of $500.0 million, partial repayment of Senior Bonds, Series 00-A2 of $5.7 million, partial repayment of Senior Bonds, Series 99-A3 of $4.3 million, interest payments of $323.1 million, release of the debt service reserve fund for Senior Bonds, Series 10-A1 of $28.9 million and transfers of $5.2 million to the general fund. Additions to property, plant and equipment and intangible assets amounted to $71.9 million for 2016 compared with $71.2 million for the same period in 2015.

Cash used in financing activities was $228.9 million in 2016 compared with $423.9 million for the same period in 2015. Proceeds from the issuance of long-term debt in 2016 amounted to $1,335.3 million representing issuance of $499.4 million of Senior Bonds, Series 16-A1 on May 19, 2016, issuance of $349.9 million of Senior Bonds, Series 16-A2 on November 4, 2016 and advances under the Senior Bank Credit Facilities of $486.0 million compared to proceeds from the issuance of long-term debt in the same period in 2015 of $986.7 million representing issuance of $149.7 million of Senior Bonds, Series 15-A1 on March 27, 2015, issuance of $499.2 million of Senior Bonds, Series 15-A2 on May 11, 2015 and advances under the Senior Bank Credit Facilities of $337.8 million. Repayments of long-term debt of $764.6 million during 2016 represented repayments of advances under the Senior Bank Credit Facilities of $465.0 million, repayment of Senior Bonds, Series 99-A4 of $289.0 million, partial repayment of Senior Bonds, Series 00-A2 of $5.9 million and partial repayment of Senior Bonds, Series 99-A3 of $4.7 million compared to repayments of long-term debt amount of $650.0 million during the same period in 2015 representing repayment of Senior Bonds, Series 10-A1 of $500.0 million, repayments of advances under the Senior Bank Credit Facilities of $140.0 million, partial repayment of Senior Bonds, Series 00-A2 of $5.7 million and partial repayment of Senior Bonds, Series 99-A2 of

$4.3 million. Dividend payments to shareholders amounted to $790.0 million in 2016 compared to $750.0 million in the same period in 2015.

The supplemental indenture for RRBs Series 99-A5, 99-A6 and 99-A7 requires the Company to fund a series excess inflation reserve should the principal outstanding multiplied by the difference between the applicable CPI at the time of measurement divided by the applicable CPI at the time of issue exceed a pre-established threshold level. As at December 31, 2016 and December 31, 2015, CPI had not reached the levels to require funding of the excess inflation reserve and Management does not anticipate CPI to reach these levels. Sufficient cash from operations will be generated in the event that funding of the reserve becomes necessary.

Certain Events of Default under the Indenture would allow bondholders to declare the bonds to be immediately payable. These Events of Default are described in the Company's AIF available at www.sedar.com. As at December 31, 2016 and December 31, 2015, the Company is in compliance with the terms of the Indenture.

Outlook

The Company is committed to maintaining its current credit ratings on all debt obligations. The Company expects to maintain sufficient liquidity and to generate cash from operations to meet all of its ongoing obligations and to pay dividends to its shareholders. The Company expects to gradually increase its financial leverage to fund operating and capital expenditures, to pay interest to debtholders, and to pay income tax while maintaining healthy debt service coverage and earnings coverage ratios.

Fourth Quarter 2016 Financial Performance

(In $ Millions)	Q4 2016	Q4 2015
Revenues	297.3	253.4
Operating Expenses	42.2	48.6
EBITDA	255.1	204.8
Depreciation and Amortization	25.2	21.7
Interest and Other Expenses	97.0	81.3
Income Tax Expense	34.9	27.8
Net Income	98.0	74.0

Revenues were $297.3 million in the fourth quarter of 2016, an increase of $43.9 million or 17.3% compared to the same period of 2015 primarily attributed to higher toll rates coupled with higher trips and VKTs.

Operating expenses were $42.2 million in the fourth quarter of 2016, $6.4 million lower than the same period in 2015. The decrease was mainly due to lower customer litigation expense, offset by higher system operations expense relating to maintenance and support costs.

Depreciation and amortization expenses were $25.2 million in the fourth quarter of 2016, $3.5 million higher than the same period in 2015 mainly due to the change in the method of amortizing concession rights.

Interest and other expenses were $97.0 million in the fourth quarter of 2016 compared with $81.3 million for the same period in 2015. Interest expense on long-term debt during the fourth quarter of 2016 increased to $99.6 million from $83.6 million during the fourth quarter of 2015 primarily due to the unfavourable non-cash fair value adjustment on Senior Bonds, Series 04-A2 of $7.3 million. Adding to the unfavourable variance was higher interest expense on senior bonds of $5.2 million resulting from the issuance of $500.0 million of Senior Bonds, Series 16-A1 on May 19, 2016, higher cash interest expenses on the RRBs and Senior Bonds, Series 04-A2 due to higher inflation and higher interest expense on the Senior Bank Credit Facilities due to higher average outstanding balances. The non-cash interest expense variance on the RRBs of $2.6 million and the non-cash accretion expense variance on Senior Bonds, Series 04-A2 of $1.1 million were unfavourable due to a higher increase in the CPI during the fourth quarter of 2016 as compared to the decrease in CPI in the fourth quarter of 2015.

The 2016 combined current and deferred annual effective tax rate of 26.3% was lower than the 2015 combined current and deferred annual effective tax rate of 27.3% due to adjustments relating to prior periods being recorded in 2015.

The Company recorded current income tax expense of $18.0 in the fourth quarter of 2016 compared to $0.4 million in the same period in 2015 primarily due to the full utilization of the Company's non-capital tax losses. Correspondingly, deferred income tax expense reduced to $16.9 million in fourth quarter of 2016 compared to $27.4 million in same period in 2015.

Cash Flow

Cash Flow for the fourth quarter ended December 31

(In $ Millions)

	Q4 2016	Q4 2015
Cash from operating activities	87.0	132.7
Cash used in investing activities	(20.0)	(10.9)
Cash from/(used in) financing activities	41.4	(111.8)
Increase in cash	108.4	10.0
Cash in the beginning of the period (1)	449.2	366.9
Cash end of period (1)	557.6	376.9

(1) includes cash equivalents

Cash generated from operating activities was $87.0 million for the fourth quarter of 2016 compared with $132.7 million for the fourth quarter of 2015. The decrease in cash generated from operating activities of $45.7 million was a result of cash payments for income taxes of $64.6 million, higher interest payments of $10.0 million and higher cash payments for operating expenses of $5.3 million primarily due to timing of payments, offset by higher cash receipts of $33.4 million due to higher revenues.

Cash used in investing activities was $20.0 million for the fourth quarter of 2016 compared with cash used in investing activities of $10.9 million for the fourth quarter of 2015. The net increase in restricted cash was higher by $11.3 million, coupled with higher purchases of property, plant and equipment and intangible assets by $5.3 million when compared to the same period in 2015. Non-trade receivables and other decreased by $6.7 million primarily due to timing of payments from third party vendors.

Cash generated from financing activities was $41.4 million in the fourth quarter of 2016 compared with cash used in financing activities of $111.8 million in the fourth quarter of 2015. Proceeds from long-term debt in the fourth quarter of 2016 amounted to $543.9 million, representing issuance of $349.9 million of Senior Bonds, Series 16-A2 on November 4, 2016 and draws under the Senior Bank Credit Facilities of $194.0 million compared to $81.0 million draws under the Senior Bank Credit Facilities in the fourth quarter of 2015.

Quarterly Financial Information

Net Income and Net Income per Share
(in $Millions, except per share amounts)

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Revenues	297.3	321.3	290.8	225.3	253.4	277.6	257.2	214.0
Operating expenses	42.2	36.4	33.4	37.7	48.6	40.8	31.3	41.5
Depreciation and amortization	25.2	26.9	27.0	25.8	21.7	22.2	21.7	20.4
Interest and other expenses	97.0	100.4	101.6	73.8	81.3	80.3	98.5	66.8
Income tax expenses	34.9	41.7	34.4	23.4	27.8	36.4	29.1	22.6
Net income	98.0	115.9	94.4	64.6	74.0	97.9	76.6	62.7
Net income per share (basic and diluted)	0.126	0.150	0.122	0.083	0.095	0.126	0.099	0.081

Toll and fee revenues are subject to seasonal fluctuations that may materially impact quarter-to-quarter financial results; therefore one quarter's revenues are not necessarily indicative of another quarter's revenues. Seasonal and other trends affecting the Company's revenues include factors such as economic activity, recreational travel, weather conditions, pricing structure, fuel prices and traffic volumes on neighbouring infrastructure. In particular, this seasonality generally results in relatively lower revenues during the first quarter, relatively higher levels of toll and fee revenues in the second and fourth quarters and the highest revenue in the third quarter. Contract revenues may fluctuate depending on the amount of contract work awarded, completed and accepted by the customer. Interest expense on RRBs and Senior Bonds, Series 04-A2 is calculated based on changes in CPI; as such, interest expense in respect of RRBs and Senior Bonds, Series 04-A2 will fluctuate due to the volatility of CPI.

Net income of $76.6 million in the second quarter of 2015 was $13.9 million higher than the first quarter of 2015, mainly due to higher revenues and lower operating expenses, offset by higher interest and other expenses resulting from unfavourable non-cash inflation compensation of RRBs and an unfavourable non-cash fair value adjustment on Senior Bonds Series 04-A2, coupled with higher deferred income tax expense and higher depreciation and amortization expenses. Net income of $97.9 million in the third quarter of 2015 was $21.3 million higher than the second quarter of 2015, mainly due to higher revenues and lower interest and other expenses resulting from a favourable non-cash fair value adjustment on Senior Bonds Series 04-A2, offset by an unfavourable non-cash inflation compensation of RRBs, coupled with higher deferred income tax expense, higher operating expenses, and higher depreciation and amortization expenses. Net income of $74.0 million in the fourth quarter of 2015 was $23.9 million lower than the third quarter of 2015, mainly due to seasonally-lower revenues coupled with higher operating expenses and higher interest and other expenses due to a favourable non-cash fair value adjustment on Senior Bonds Series 04-A2, offset by an unfavourable non-cash inflation compensation of RRBs, partially offset by lower deferred income tax expense and lower depreciation and amortization expenses. Net income of $64.6 million in the first quarter of 2016 was $9.4 million lower than the fourth quarter of 2015, mainly due to seasonally-lower revenues and higher depreciation and amortization expenses primarily due to the change in the method of amortizing concession rights, offset by lower operating expenses, lower interest and other expenses due to a favourable non-cash inflation compensation of RRBs and Senior Bonds Series 04-A2, coupled with non-cash fair value adjustment on Senior Bonds Series 04-A2 and lower income tax expense due to lower earnings before tax. Net income of $94.4 million in the second quarter of 2016 was $29.8 million higher than the first quarter of 2016, mainly due to seasonally-higher revenues and lower operating expenses, offset by higher income tax expense due to higher earnings before tax, coupled with higher depreciation and amortization expenses primarily due to the change in the method of amortizing concession rights and higher interest and other expenses due to an unfavourable non-cash inflation compensation of RRBs and Senior Bonds Series 04-A2 and additional debt issued during the quarter. Net income of $115.9 million in the third quarter of 2016 was $21.5 million higher than the second quarter of 2016, mainly due to seasonally-higher revenues, offset by higher income tax expense due to higher earnings before tax and higher operating expenses.

The Company recorded net income of $98.0 million in the fourth quarter of 2016, $17.9 million lower than the third quarter of 2016, mainly due to seasonally-lower revenues coupled with higher operating expenses, partially offset by lower income tax expenses due to lower earnings before tax and lower interest and other expenses due to a favourable non-cash inflation compensation of RRBs and Senior Bonds Series 04-A2.

Earnings Coverage

Earnings Coverage (in $Millions)	**2016**	**2015**
Income before income tax expenses and interest expense on long-term debt	891.4	764.0
Interest expense on long-term debt	384.1	336.9
Earnings coverage	**507.3**	**427.1**

The Company experienced earnings coverage ratios of 2.32 times and 2.27 times for the years ended December 30, 2016 and 2015, respectively. The Company expects income before income tax expenses and interest expense on long-term debt to continue to be sufficient to cover interest expense on long-term debt. The earnings coverage ratio is different from the Company's debt service coverage ratio as such is defined in the Indenture. See "Non-IFRS Financial Measures".

Financial Instruments and Other Instruments

Financial instruments used by the Company consist of cash and cash equivalents, restricted cash and investments, trade receivables and other, contract receivables, amounts due from customers for contract, trade and other payables, long-term debt and derivative financial instruments.

Cash and cash equivalents

Cash and cash equivalents of $557.6 million as of December 31, 2016 consist of cash, government treasury bills and provincial promissory notes with maturities of three months or less. Cash and cash equivalents are used for working capital and other general corporate purposes.

Restricted cash and investments

Restricted cash and investments are required to be maintained in reserve accounts under the Indenture and various supplemental indentures for the benefit of the bondholders and a segregated funds account under an agreement between Cantoll and the Province to implement and maintain the road-side tolling technology and back-office systems relating to the Tolling Services Contract. Restricted cash and investments consist of cash, bankers' acceptances, floating rate notes, government treasury bills, provincial promissory notes and federal notes with, from time to time, both short-term and long-term maturities.

Long-term debt

Long-term debt was used to finance the acquisition of 407 ETR from the Province and to finance the construction of the extensions of Highway 407 ETR, highway widening projects, deferred interchanges, operating and capital expenditures, interest to bondholders and other general corporate purposes.

Senior Bank Credit Facilities

In 2012, the Company entered into a credit agreement with respect to a revolving credit facility with a Canadian chartered bank in the principal amount of up to $50.0 million. On March 26, 2013, the credit agreement was amended and the Company entered into two additional credit agreements with respect to two additional revolving credit facilities with two other Canadian chartered banks. The aggregate principal amount of the three revolving credit facilities was up to $300.0 million. The credit agreements were amended on November 28, 2014 and on December 1, 2015. The aggregate principal amount of the three revolving credit facilities is currently up to $1.0 billion and will be used to refinance existing debt, fund future operating and capital expenditures, interest payments and for general corporate purposes. The obligations under the credit facilities rank pari passu with the senior debt of the Company. The Company issued to the Canadian chartered banks senior pledged bonds with an aggregate principal amount of $1.2 billion, resulting in the indebtedness arising from the credit facilities being secured under the Indenture.

The credit facilities bear interest at floating rates based, at the option of the Company, on the prime rate for Canadian dollar loans, and the interbank bid rate for Canadian dollar bankers' acceptances, plus an applicable fixed margin. The Company paid an upfront fee and is also obligated to pay a commitment fee to the banks, calculated on the undrawn portion of the credit facilities.

The Company may draw on these credit facilities until the maturity date. The maturity date is December 1, 2020. The Company may also repay a portion or all of the obligations owing under the credit facilities at any time during the term. As at December 31, 2016, the Company has drawn $602.0 million (2015 - $581.0 million) under the credit facilities and has classified the drawn amount under current liabilities.

Derivative financial instrument

The Senior Bonds, Series 04-A2 is a derivative financial instrument and is reported at fair value. The Company is obligated to make semi-annual cash payments to the holders of Senior Bonds, Series 04-A2, (consisting of principal and interest) determined by the product of $13.0 million and the applicable CPI at the time of payment divided by the applicable CPI at time of issue.

Accounting and Control Matters

Accounting Policies

The Financial Statements are prepared in accordance with IFRS. The Company has identified the accounting policies and estimates that are critical to the understanding of the Company's operations and financial results which have been disclosed in the Financial Statements. The following new accounting pronouncements have been adopted on January 1, 2016, IFRS 7 *Financial Instruments: Disclosures*, IAS 1 *Presentation of Financial Statements, Disclosure Initiatives*, IAS 16 *Property, Plant and Equipment, Clarification of Acceptable Methods of Depreciation and Amortization*, IAS 34 *Interim Financial Reporting*, and IAS 38 *Intangible Assets, Clarification of Acceptable Methods of Depreciation and Amortization*. There was no impact to the Financial Statements as a result of adopting these accounting pronouncements, except for IAS 38, which resulted in a change in the method of amortizing the concession rights from revenue-based to straight-line method.

Critical Accounting Estimates

The preparation of the Financial Statements in conformity with IFRS requires Management to make certain judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities as at the date of the Financial Statements, the reported amounts of revenues and expenses of the reporting period, as well as disclosures made in the accompanying notes to the Financial Statements. Judgement is commonly used in determining whether a balance or transaction should be recognized in the Financial Statements, and estimates and assumptions are more commonly used in determining the measurement of recognized transactions and balances. However, judgements and estimates are often interrelated. These estimates and associated assumptions are based on past experience and other factors that are considered relevant. Actual results could differ materially from these estimates.

Allowance for Doubtful Accounts

The Company provides for doubtful accounts based principally on historical collection rates and Management's expectation of success rates for collection of overdue accounts by the Registrar through the Licence Plate Denial process as well as Management's expectation of success rates for collection through legal proceedings. The Company's provision for overdue accounts could materially change and may result in significant changes to trade receivable balances as Management continues to monitor the collection of outstanding 407 ETR charges and gains further experience with the Licence Plate Denial and litigation processes.

Deferred Tax

Deferred tax assets arising from the carryforward of unused tax losses and unused tax credits are recognized to the extent that it is probable that future taxable income will be available against which the unused tax losses and unused tax credits can be utilized. The Company's projected taxable income is based on reasonable and prudent operating projections, assumptions and hypotheses. Taxable income is primarily impacted by traffic volume, toll rates, operating and maintenance expenses, interest income and interest expense on long-term debt. Based on these projections, the Company anticipates that it will generate sufficient taxable income to utilize existing tax losses and tax credits prior to their expiration dates. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the assets to be utilized in the future.

407 ETR Rewards Program

The 407 ETR Rewards Program has been designed to reward eligible frequent customers with free weekend kilometres on Highway 407 ETR in conjunction with discounts on gas purchases. When rewards are earned by such customers, the Company defers the revenues relating to the future free kilometres and records an expense for the gas discounts, thereby establishing a liability for future redemption. The deferred revenue is determined by multiplying the number of free weekend kilometres offered by the estimated price per kilometer and expected future redemption. The expense for gas discounts is determined by multiplying the number of litres offered by the estimated cost per litre and expected usage. The actual revenue and discounts on gas purchase redemptions are charged against the liability for the 407 ETR Rewards Program, which is included in trade and other payables on the Financial Statements.

Toll Revenues

Toll revenues are recognized on the date trips are taken on the Highway. Certain exit and entrance transactions which are unbilled remain in queues to create the best match to form a complete trip. The Company estimates the unrated toll revenue in the queue using certain attributes of recently-rated trips which are applied to the traffic transactions in the queue.

Contract Revenues

When the outcome of a construction contract can be reliably estimated, contract revenues are recognized using the percentage of completion method, based on the ratio of cumulative costs at the end of the reporting period over the total anticipated costs to perform the contract. In the event that the total anticipated costs to perform the contract exceed the total anticipated revenues on a contract, such contract losses are recognized in full in the period when such losses become probable.

Long-Term Debt

The Company accounts for the Senior Bonds, Series 04-A2 as a derivative financial instrument and is reported at its fair value. Given that the market for this financial instrument is not active, the Company establishes fair value by using a valuation technique that employs the BEIR as a market proxy for future inflation and discounted cash flow analysis. BEIR is highly volatile and may lead to significant non-cash changes in the fair value of Senior Bonds, Series 04-A2 that may not be representative of actual inflation paid or to be paid to the holders of Senior Bonds, Series 04-A2.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and amortization and net of any impairment loss. Property, plant and equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Impairment loss is measured as the amount by which the carrying amount of an asset exceeds the higher of: (i) its fair value less costs to sell; and (ii) its value in use. On an annual basis, the Company reviews the useful lives, depreciation methods and depreciation rates of its property, plant and equipment.

Future changes in accounting policies

IFRS 9 *Financial Instruments* ("IFRS 9"): This standard replaces the current IAS 39 Financial Instruments Recognition and Measurement. This standard introduces new requirements for classifying and measuring financial assets and liabilities. The latest date of mandatory implementation of IFRS 9 is January 1, 2018. The Company has not yet evaluated the impact on the financial statements.

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"): This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. This standard outlines a single comprehensive model for entities to account for revenue arising from contracts with customers. The latest date of mandatory implementation of IFRS 15 is January 1, 2018. The Company has not yet evaluated the impact on the financial statements.

IFRS 16 *Leases* ("IFRS 16"): This standard replaces IAS 17 Leases. This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is that lessees and lessors provide relevant information in a manner that faithfully represents lease transactions and gives a basis for users of financial statements to assess its effect on the financial position, financial performance and cash flows of an entity. The latest date of mandatory implementation of IFRS 16 is January 1, 2019. The Company is currently evaluating the impact on the financial statements.

IAS 7 *Statement of Cash Flows* ("IAS 7"): This amendment requires that an entity provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes. The latest date of mandatory implementation of IAS 7 is January 1, 2017. The Company will provide additional disclosuresto the financial statements as a result of adopting this standard.

IAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses ("IAS 12")*: This amendment sets out restrictions on how an entity assesses whether taxable profits will be available against which it can utilize deductible temporary differences. The latest date of mandatory implementation of IAS 12 is January 1, 2017. There is no impact on the financial statements as a result of adopting this standard.

Key Performance Metrics

Key metrics used by Management to monitor the Company's performance include such measurements as: the total number of trips, vehicle kilometres travelled ("VKTs"), average trip length ("ATL"), revenue trips, average workday trips, average toll and fees revenue per trip, unbillable traffic rate, transponder penetration rate, transponders in circulation, maintenance cost per lane kilometer, as well as call volumes and service levels in the customer service call centre.

Risks and Uncertainties

Litigation

Proposed Class Action Regarding Bankruptcy and Consumer Proposals

In April 2012, 407 ETR was served with a statement of claim for a proposed class action commenced in the Ontario Superior Court of Justice. The proposed class of plaintiffs include all 407 ETR customers that have been placed or kept in Licence Plate Denial, pursuant to the Highway 407 Act (Ontario), for Highway 407 ETR tolls and related fees incurred prior to their bankruptcies or consumer proposals.

The class action plaintiffs are seeking damages of $20.0 million for general and special damages, $5.0 million for aggravated, exemplary and punitive damages, the granting of a $20.0 million constructive trust in favour of class members, and disgorgement of pre-bankruptcy tolls and fees paid by the plaintiffs.

In October 2011, in the separate legal proceeding of Matthew Moore v. 407 ETR, Justice Newbould of the Ontario Superior Court of Justice ruled that Licence Plate Denial survives bankruptcy, which is a central issue in the proposed class action. This decision of Justice Newbould was appealed by the Superintendent of Bankruptcy to the Ontario Court of Appeal. In December 2013, the Ontario Court of Appeal set aside the lower court's decision. The Court of Appeal decision was appealed by 407 ETR and upheld by the Supreme Court of Canada which released its decision on November 13, 2015. The result was that pre-bankruptcy amounts can no longer be collected by 407 ETR through Licence Plate Denial. The decision by the Supreme Court of Canada in the Matthew Moore case has had no material effect on the Company's financial position.

A settlement was reached with class counsel at a mediation concluded in August 2016, and approved at a settlement hearing before the Ontario Superior Court on November 15, 2016. The settlement provides for a voluntary settlement payment by

407 ETR of $8.0 million on an all-inclusive basis. Subject to the opt-out process, which will conclude in March 2017, the settlement amounts will be distributed to eligible class members, net of proposed class counsel fees of $2.9 million (inclusive of disbursements and taxes) and class administration fees of $0.6 million. The settlement also includes refinements to 407 ETR's business practices for bankruptcies and consumer proposals. The amount available per eligible class member will be determined by eligibility and compensation criteria to be applied by class counsel, with accountability to the Court. Distribution of settlement funds will be undertaken by class counsel and is expected to be concluded by July 2017.

Management believes that the final determination of the proposed class action, whether by the settlement described above or otherwise, will not materially affect the Company's financial position.

407 ETR v. Ira Day : Clarification of Limitation Period Applicable to 407 ETR

In November 2014 (with supplementary reasons in July 2015), the Ontario Superior Court of Justice decided a question of law in the case of 407 ETR v. Ira Day, regarding the applicable limitation period for 407 ETR to commence civil proceedings for recovery of 407 ETR debts owed by customers to 407 ETR. The Court determined that under the Ontario Limitations Act, 407 ETR has two years from the earliest possible date of Licence Plate Denial notification prescribed by the Highway 407 Act to commence such legal proceedings. 407 ETR appealed this decision to the Ontario Court of Appeal.

On September 28, 2016, the Ontario Court of Appeal released its unanimous decision reversing the lower court decision of Justice Edwards. The decision confirms that the applicable limitation period under the Ontario Limitations Act for 407 ETR to commence civil proceedings is two years from the expiry of a person's licence plate permit after Licence Plate Denial notification. The Court also found that 407 ETR has the right under the Ontario Limitations Act to contractually extend the limitation period through its transponder lease agreement with either business or individual customers. In November 2016, Mr. Day filed an application for leave to appeal this decision to the Supreme Court of Canada. A decision granting or denying leave to appeal is expected in 2017.

Management does not believe that the ultimate decision in the 407 ETR v. Ira Day case will materially affect the Company's financial position.

Toll Revenues

The Company's ability to derive revenue depends on a wide variety of factors, many of which are not within the control of the Company. These factors include the growth in the population and volatility of the economy of the GTA and southern Ontario, fuel prices, weather conditions and the construction of competing infrastructure. In addition, toll rate increases are subject to economic, price elasticity and political risks. To mitigate these risks, Management prepares a detailed operating budget consistent with the Company's strategic objectives, which includes revenue projections based on traffic growth and price elasticity assumptions supported, from time to time, by studies performed by third party expert traffic consultants. The operating budget and actual price setting is approved by the Company's board of directors (the "Board"). Actual results are monitored against the revenue projections on a monthly basis, giving Management adequate time to analyze and respond to variances.

Capital Structure

The Company has a complex capital structure that may give rise to unforeseen challenges by tax authorities of the Company's interpretation of certain tax legislation. To mitigate such risks, Management seeks the advice of external tax experts.

Operations and Maintenance

The Company's operating and maintenance expenses for the future operation of Highway 407 ETR are impacted by uncertainties related to costs of services, materials and equipment, changes in regulatory requirements, useful lives of productive assets, critical accounting estimates, weather conditions and other matters that are not certain. To address these risks, Management prepares a detailed operating budget in the third quarter of each year. This budget is approved by the Board. Management monitors the level of operating expenditures each month in comparison to the budget. Department heads are accountable for cost over-runs, and Management compensation is based, in part, on adherence to the approved spending limits. In addition, the Company follows a periodic maintenance and rehabilitation program for Highway 407 ETR and tolling system to avoid unexpected significant repairs.

Information Technology

The Company's operations for Highway 407 ETR and Highway 407 (east of Brock Road) are substantially dependent on the information technology employed in its tolling and billing systems, including the roadside tolling equipment and the back-office systems used for account processing and collections. The Company continues to monitor and enhance the core system capabiltiies to mitigate risk. The Company successfully implemented the system enhancements necessary to accommodate the tolling and back office services related to Highway 407 (east of Brock Road) which commenced tolling operations on February 1, 2017.

Debt Rating

The Company seeks to maintain an appropriate debt rating to ensure access to capital, on commercially reasonable terms, to finance its operating and capital expenditures and interest to bondholders, provide an appropriate investment return to its shareholders and refinance its existing indebtedness without, in each case, exceeding its debt capacity or resulting in a downgrade to the credit ratings assigned to its existing indebtedness. The Company's ability to do so will depend upon a number of factors, including, among other things, market conditions, rating agencies' criteria and the Company's debt structure. To control this risk, Management is focused on maintaining an optimal level of liquidity through maximizing cash flows by actively pursuing the collection of its trade receivables and by controlling the level of operating and capital expenditures.

Risks Arising from Financial Instruments

Credit risk

Financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, trade receivables and other, contract receivables, amounts due from customer for contract and restricted cash and investments.

The Company is exposed to credit loss in the event of non-performance by counterparties to derivative instruments that have a positive fair value, cash and cash equivalents, short-term investments and restricted cash and investments. The Company manages this risk by dealing with reputable organizations having high-quality credit ratings from independent credit rating agencies. The Board sets exposure limits and these are monitored on an on-going basis.

Concentration of credit risk with respect to trade receivables is minimized due to the millions of accounts comprising the Company's customer base. The amounts disclosed in the statements of financial position are net of the allowance for doubtful accounts and certain amounts that are billed to customers but excluded from revenues in accordance with the Company's revenue recognition policy for toll and fee revenues. The amounts are estimated based on prior experience, anticipated collection strategies and ultimate recovery of balances for which collection is uncertain.

Trade receivables and other are aged as follows:

($ Millions)	**As at December 31, 2016**	**As at December 31, 2015**
Unbilled	$ 64.0	$ 55.8
0-60 days	64.7	56.2
61-90 days	7.0	7.0
91-120 days	4.9	4.8
121-150 days	4.3	4.2
151+ days	25.9	10.9
Sub total [1]	170.8	138.9
Other [2]	16.0	14.9
	$ 186.8	$ 153.8

1. Amounts are net of allowance for doubtful accounts and certain amounts that were billed to cutomers but excluded from revenues in accordance with the revenue recognition policy for toll and fee revenues.
2. Other consists of salt inventory, prepaids, contract retention receivable, other non-trade related receivables and an advance payment to supplier.

In accordance with the revenue recognition policy, toll revenues are recognized on the date trips are taken on Highway 407 ETR. Tolls and other charges are recorded in trade receivables as "Unbilled" until invoiced. The provision for doubtful accounts is based principally on historical collection rates and Management's expectation of success rates for collection of overdue accounts by the Registrar through Licence Plate Denial as well as Management's expectation of success rates for collection through legal proceedings. When a licence plate associated with a customer's unpaid 407 ETR account becomes unattached from the vehicle or expired, the Registrar is required to refuse to renew another single vehicle permit issued to the same customer or issue a new vehicle permit to that customer. The legislation affording 407 ETR the right to Licence Plate Denial requires a series of notices to be sent to customers with delinquent accounts. This process takes a minimum of 150 days from the date an invoice is sent until a customer is subject to Licence Plate Denial, followed by up to two years before a customer's licence plate is subject to renewal. The Licence Plate Denial process, together with other collection strategies, is expected to result in the successful collection of net trade receivables that are more than 151 days past due. The Company's provision for doubtful accounts could materially change and may result in significant changes to trade receivables balances as Management continues to monitor the collection of outstanding 407 ETR charges through the Licence Plate Denial process with the MTO, as well as collections through legal proceedings.

In addition to the collection of 407 ETR customers' overdue accounts through the Licence Plate Denial process, Management continues to assign certain delinquent accounts to third party collection agencies utilizing various programs, and to employ internal collections staff as well as taking legal action. In conducting collections litigation, from time to time, 407 ETR may receive judicial decisions that impact the Company's ability to recover delinquent amounts through civil proceedings and could result in a material change to the provision of overdue accounts.

Management continuously monitors the collection of overdue accounts including the allowance for doubtful accounts. In determining the allowance for doubtful accounts, the Company considers a number of factors affecting the likelihood of collection. In determining the collectability of customer accounts, the Company does not obtain information about the credit quality of customers whose accounts are not overdue or not impaired.
An increase of 1% in the weighted-average provision rate would have increased the provision for doubtful accounts by approximately $11.3 million (2015 - $10.0 million) and decreased equity by approximately $8.5 million (2015 - $7.3 million) for the year ended December 31, 2016.

The Company is exposed to credit risk with respect to contract receivables in the event of non-payment by customers. The Company manages this risk by dealing with reputable customers with good credit ratings.

Interest rate risk

As at December 31, 2016, all long-term debt is fixed rate debt (except for the drawn portion of the Senior Bank Credit Facilities and the inflation-linked bonds as described below); therefore, changes in interest rates do not impact interest payments on its current bonds but may impact the fair value of such long-term debt.

The Company also manages this risk by investing its cash and cash equivalents and restricted cash and investments in debt instruments with credit ratings equal to or higher than those required by the Indenture. A decrease of 25 basis points in interest rates would have decreased interest income by approximately $2.5 million (2015 - $2.3 million) and equity by approximately $1.8 million (2015 - $1.7 million).

Inflation risk

The Company is exposed to inflation risk as interest expense and debt service payments relating to Senior Bonds, Series 99-A5, Series 99-A6, Series 99-A7, Series 00-A2 and Series 04-A2 (collectively, the "RRBs") are linked to the Consumer Price Index (the "CPI"). An increase of 50 basis points in the CPI would have increased interest expense by approximately $8.6 million for 2016 (2015 - $10.0 million), decreased equity by approximately $6.3 million for 2016 (2015 - $7.4 million) and increased debt service payments by approximately $0.8 million for 2016 (2015 - $0.5million). BEIR is highly volatile and may lead to significant changes in the fair value of Senior Bonds, Series 04-A2 that may not be representative of actual inflation paid or to be paid to the Senior Bonds, Series 04-A2 noteholders. An increase of 10 basis points in the BEIR would have increased interest expense by approximately $6.3 million for 2016 (2015 - $6.5 million) and decreased equity by approximately $4.6 million for 2016 (2015 - $4.7 million). A decrease of 10 basis points in the BEIR would have reduced interest expense by approximately $6.2 million for 2016

(2015 - $6.4 million) and increased equity by approximately $4.5 million for 2016 (2015 - $4.7 million). This inflation risk is partially mitigated by the Company's right to increase toll rates.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Quarterly cash flow projections are prepared by Management and reviewed by the Board to ensure sufficient continuity of funding. The Company manages its liquidity risk by dispersing the contractual maturity dates of its financial liabilities, thereby ensuring the Company is not exposed to excessive refinancing risk during any given year. Further, the Company maintains an optimal level of liquidity through maximizing cash flows by actively pursuing the collection of its trade receivables and contract receivables, and by controlling the level of operating and capital expenditures. Cash and cash equivalents and restricted cash and investments are invested in highly-liquid interest-bearing investments.

The following are the commitments, contractual maturities and related interest obligations as at December 31, 2016:

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Beyond 5 years
Trade and other payables	$ 86.1	$ -	$ -	$ -	$ -	$ -
Obligation under finance leases	3.1	1.6	1.0	0.6	1.3	-
Interest payments on finance leases	0.4	0.3	0.2	-	-	-
Long-term debt	915.6	14.4	15.2	316.1	706.8	5,621.6
Derivative financial liability	6.0	6.0	6.0	6.0	6.0	107.5
Interest payments on long-term debt	340.1	318.5	317.6	309.1	290.6	4,261.4
	$ 1,351.3	$ 340.8	$ 340.0	$ 631.8	$ 1,004.7	$ 9,990.5

Interest payments on long-term debt and obligations under finance leases are funded by proceeds from long-term debt and the Company's cash generated from operations.

Additional Information

Related Party Transactions

The Company entered into the following transactions with related parties:

Related Party	Relationship	Classification in the Financial Statements	Nature of transaction with the related party	($ millions) 2016	($ millions) 2015
SNC-Lavalin Inc.	Parent of shareholder	Property, plant and equipment	Payment for design costs	$ 2.3	$ 0.2
SNC-Lavalin Inc.	Parent of shareholder	Operating expenses	Payment for administration costs	$ -	$ 0.2
Cintra	Parent of shareholder	Operating expenses	Payment for administration costs	$ 1.0	$ 1.1
407 East Development Group	Subsidiary of shareholder	Operating expenses	Reimbursement of administration costs	$ (0.3)	$ (0.6)
Blackbird Infrastructure Group	Subsidiary of shareholder	Operating expenses	Reimbursement of administration costs	$ (0.5)	$ -

Transactions with related parties are measured at their exchange amounts, which is the consideration agreed to by the parties.

Amounts owed to (by) related parties were as follows:

Related Party	Relationship	Classification in the Financial Statements	As at December 31, 2016	As at December 31, 2015
SNC-Lavalin Inc.	Parent of shareholder	Trade and other payables	$ 0.8	$ 0.2
Cintra	Parent of shareholder	Trade and other payables	$ 0.2	$ 0.3
Cintra	Parent of shareholder	Trade and other receivables	$ -	$ (0.1)
407 East Development Group	Subsidiary of shareholder	Trade and other receivables	$ -	$ (0.1)
Blackbird Infrastructure Group	Subsidiary of shareholder	Trade and other receivables	$ (0.1)	$ -

Overall Outlook

The outlook for 2017 is positive with revenue growth primarily due to higher toll rates, higher traffic volumes and additional revenues from the operations of Highway 407 (east of Brock Road) and the Tolling Services Contract. Management's goals and objectives are focused on driving business growth while containing expenses, maintaining a high level of customer satisfaction, and achieving efficiencies throughout the organization, as well as strengthening Highway 407 ETR's presence in the GTA. As a result, 2017 income before income tax expenses and interest expense is expected to be higher than in 2016.