

407 INTERNATIONAL INC.

Annual Information Form

For the Year Ended December 31, 2018

As at February 7, 2019

**ANNUAL INFORMATION FORM
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FORWARD-LOOKING STATEMENTS

This Annual Information Form includes statements about expected future events 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 reflect the internal projections, expectations, future growth, performance and business prospects and opportunities of 407 International Inc. (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 in this Annual Information Form. In developing these forward-looking statements, certain material assumptions were made, including assumptions as to the timing of highway development activities. 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 expected consequences to, or effects on, the Company. These forward-looking statements are subject to change as a result of new information, future events or other circumstances, as discussed above, in which case they will only be updated by the Company where required by law.

CORPORATE STRUCTURE

1. Name, Address, Incorporation and Ownership

The Company has its head and registered office at 6300 Steeles Avenue West, Woodbridge, Ontario L4H 1J1. It was incorporated under the *Business Corporations Act* (Ontario) (“**OBCA**”) on March 17, 1999 and was continued under the *Canada Business Corporations Act* (“**CBCA**”) on October 10, 2003. The Company is a majority-owned Canadian company, whose shares are beneficially owned, directed or controlled, by Cintra Global S.E. (“**Cintra Global**”) (43.23%), the Canada Pension Plan Investment Board (“**CPPIB**”) (40.00%)¹, and SNC-Lavalin Inc. (“**SNC-Lavalin**”) (16.77%) (see “Description of Capital Structure - Voting Securities and Principal Holders of Voting Securities”).

2. Intercorporate Relationships

The subsidiaries of the Company are as follows:

1. 407 ETR Concession Company Limited (“**407 ETR**”) was initially known as the Ontario Transportation Capital Corporation (“**OTCC**”). It was established by the Province of Ontario (the “**Province**”) as a Crown agency in 1999 and was continued as a share capital corporation under the OBCA under the name 407 ETR Concession Company Limited. Following the acquisition of all the issued and outstanding shares of 407 ETR by the Company, 407 ETR was continued under the CBCA on October 10, 2003.
2. Canadian Tolling Company International Inc. (“**Cantoll**”) was initially incorporated under the OBCA on December 6, 2001 under the numbered company 2007466 Ontario Inc. It was continued under the CBCA under the Cantoll name on October 10, 2003.
3. 9665641 Canada Inc. was incorporated under the CBCA on March 11, 2016.

407 ETR is responsible for the operation, maintenance, management and expansion of Highway 407 ETR². Cantoll owns the integrated computerized accounting, billing and customer management system, and transponders, and is responsible for the development of its integrated automation systems. 9665641 Canada Inc. assists in the implementation of tax planning strategies of the Company. The Company wholly owns all the above-mentioned subsidiaries.

¹ CPPIB’s ownership is comprised of shares beneficially owned through 7577702 Canada Inc., and shares over which control or direction is exercised through MICI Inc. (the parent company of which CPPIB holds a majority economic interest). For more details, please see “Description of Capital Structure – Voting Securities and Principal Holders of Voting Securities”.

² For a description of Highway 407 ETR, please see “Description of the Business – General Summary”.

GENERAL DEVELOPMENT OF BUSINESS

The following is a general description of the development of the Company's business and conditions that have influenced it over the last three completed financial years:

1. Traffic

In 2018, year-over-year vehicle kilometres travelled ("VKT") grew by 1.4% (2.6% in 2017 and 4.9% in 2016) with total annual trip growth of 0.7% (1.0% in 2017 and 2.7% in 2016). Traffic growth in 2018 was supported by economic growth and higher construction activity on alternative roads. A minor traffic increase was also observed in 2018 due to the opening of Phase 2a of Highway 407 in January 2018 totalling 9.6 kilometers in length. Stronger traffic increases observed in 2016 and 2017 due to the opening of Phase 1 of Highway 407¹ in June 19, 2016, totalling 32 kilometres in length. Transponder usage was 82.1% of trips in 2018 (82.1% in 2017 and 82.5% in 2016). 407 ETR continues to see stable traffic demand owing to the strong value proposition of its highway, a mature commuter route in one of the key transportation corridors of the GTA², well-integrated within the regional road network.

2. Construction

407 ETR 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 the highway. 407 ETR also regularly undertakes various highway rehabilitation initiatives designed to improve and replace existing elements of the infrastructure, such as resurfacing the asphalt pavement in certain sections of the highway, replacing concrete pavement, replacing and relining culverts under and along the highway and rehabilitating various bridge structures in order to continue to provide customers with fast, safe and reliable travel.

During 2016, 407 ETR closed the tender and commenced construction of both the Highway 407 ETR Segment C3 widening work between Highway 410 and Highway 427 ("**Segment C3**") and widening of the northbound and southbound Highway 427 bridge structures at the Highway 407 ETR interchange. This work was completed and the new lanes opened to traffic in August 2017.

In 2016, 407 ETR entered into an agreement with the Province for the design and construction of the Highway 7 / Whites Road intersection, for which 407 ETR acts as agent and construction manager on behalf of the Province. The agreement resulted from the Ministry revising the location of the Highway 407 East Partial Extension³ deferred interchange from Sideline 24 to Whites Road, and provided that the Ministry would be responsible for the cost of construction of Whites Road while, in accordance with the Concession Agreement, 407 ETR would be responsible for the cost of the ramps for the deferred interchange at Whites Road. The agreement also clarified that, following the widening of Segment C3, Segment E2 (defined below) will be expanded next followed by Segment E1 (defined below).

During 2016, 407 ETR substantially completed the design of the widening of Highway 407 ETR between Markham Road and the York Durham Line ("**Segment E1**") and between the York Durham Line to west of Brock Road ("**Segment E2**"), Whites Road, and the Highway 407 East Partial Extension deferred interchange at Whites Road.

During 2017, 407 ETR commenced the widening of Segment E2, the construction of Whites Road and the Whites Road intersection. This construction work is expected to be completed, with the new lanes opened to traffic in the second half of 2018.

During 2018, 407 ETR commissioned and opened the widening of Segment E2 and commenced the construction of the widening of Segment E1. This construction work is expected to be completed, with the new lanes opened to traffic, in the second half of 2019.

During 2018, 407 ETR substantially completed the design of the widening of Highway 407 ETR between Markham Road and Highway 404 ("**Segment C7**"), between Highway 410 and Highway 401 ("**Segment C2**"), and between Highway 401 and Derry Road ("**Part of Segment C1**").

¹ For a description of Highway 407, please see "Description of the Business – Highway 407".

² "GTA" means the Greater Toronto and Hamilton Area (comprised of the City of Toronto, the City of Hamilton, and the four regional municipalities of Durham, Halton, Peel and York).

³ "Highway 407 East Partial Extension" is defined in the Concession Agreement.

During 2018, 407 ETR issued a tender for the construction of the widening of Segment C2 and Part of Segment C1. This construction work is expected to be completed, with the new lanes opened to traffic, in the second half of 2020.

3. Information Technology

407 ETR continues to work with suppliers to develop new products to replace roadside tolling cameras, antennas and transponder technology, thereby enhancing its trip capture and toll evasion enforcement capabilities. In 2014, all components of the roadside tolling equipment-monitoring system were replaced with next-generation systems, which have further improved trip capture capabilities and reduced operating expenses related to system maintenance. In 2018, work continued on the upgrade of hardware and software components of the integrated automation system. The upgrades included further enhancements to collections processing, business process management, advanced traffic management solution, asset management, data management and analytics, customer relationship management, trip transactions matching and the rating of trips, as well as self-service capabilities such as the 407 ETR website.

Work also continued on a significant project that will ultimately result in the implementation of a new Enterprise Resource Planning (“**ERP**”) and Customer Relationship Management (“**CRM**”) solutions. This initiative will take several years to complete and will ultimately involve the majority of 407 ETR back-office processes and systems. During 2018, a wide variety of requirements gathering and initial design work for CRM and ERP implementation were identified and confirmed. Implementation efforts will continue throughout 2019. A phased approach has been undertaken to manage implementation risks and 407 ETR is developing a release strategy that will balance the demands of introducing functionality while assuring quality and stability of business operations.

Cantoll also continued with modifications to the tolling services for Highway 407 (See “Description of the Business – Highway 407”). In 2016, enhancements were required to accommodate the construction of Phase 2a of Highway 407, which opened to traffic on January 2, 2018. These enhancements were developed, tested, and demonstrated to the Ontario Ministry of Transportation (“**MTO**”).

In 2018, the Business Continuity Planning and Disaster Recovery Planning (“**BCP/DRP**”) activities such as, plan updates, table top exercises, and a system failover exercise were executed in accordance with 407 ETR standards.

407 ETR complies with the Payment Card Industry Data Security Standards (“**PCI-DSS**”) for a level-two merchant. Ongoing PCI-DSS compliance remains a focus for 407 ETR.

4. Customer Service

Results of annual customer service and research and attitudes surveys conducted throughout 2018 continue to show strong levels of customer satisfaction with 407 ETR services and Highway 407 ETR. In particular, customers positively identified with the time and money savings and more predictable commute that come as a result of using the highway.

Customers continued to enjoy 407 ETR’s multi-tier loyalty program for frequent light vehicle transponder users (the “**ETR Rewards Program**”). The ETR Rewards Program, now in its twelfth year, has offered customers over \$180.5 million in fuel savings and free weekend kilometres on Highway 407 ETR.

407 ETR aims to provide an enhanced customer service experience. In recognition of its commitment to providing customers with a world-class highway and outstanding customer service, in 2018, 69 of 407 ETR’s customer service representatives (“**CSRs**”) became certified as “World Class CSRs” based on specific criteria established by Service Quality Measurement Group Inc. (“**SQM**”). SQM is an independent organization that measures both call centre and customer satisfaction rates, surveying hundreds of 407 ETR customers each month. SQM benchmarks call centre customer service for over 500 call centres globally, and provides call centres with feedback on how best to improve their services.

In 2018, 407 ETR received from SQM the “Call Centre World Class Call Certification”, in which SQM certified 407 ETR’s call centre as a World Class Call Centre for the fifth time, placing the call centre among a select group of less than 20 call centres certified with this award (out of 500 leading call centres benchmarked globally by SQM). The criteria used by SQM for the World Class Call Centre certification includes the requirement that at least 80% of the calls from a call centre must be at the world class level for three months or more.

5. Other Developments

5.1. International Organization for Standardization (“ISO”)

407 ETR has established an objective of implementing and maintaining a quality management system for the activities involved in operating, managing, tolling, maintaining and rehabilitating Highway 407 ETR. In December 2018, having previously been certified to the ISO 9001:2008 standard, 407 ETR was re-certified to the new ISO 9001:2015 standard until December 2020.

5.2. 407 ETR Team Charter

407 ETR corporate values are highlighted in a Team Charter that is well established and communicated within the organization. The Team Charter defines the core values and principles of the work conducted by 407 ETR employees, calling on employees to work safely, engage each other, work together proactively, act decisively, continually improve, and focus on the team’s best interests; both within and across departments. The Team Charter applies to all 407 ETR employees, and is championed by both Management and employees.

5.3. 407 ETR in the Community

In 2018, 407 ETR continued its commitment to the communities it serves by directly supporting major health and wellness initiatives, driver safety programs, and sponsorship of youth sports in communities along the Highway 407 ETR corridor. 407 ETR demonstrated this commitment through both direct financial support and a contribution of time and effort by 407 ETR employees to community service through the “407 for our Communities” program.

407 ETR’s commitment to supporting communities includes:

- financial contributions to over 10 hospitals and rehabilitation centres;
- support to research into cures for childhood cancers;
- funding of community safety initiatives such as young drivers’ education;
- sponsorship of youth and amateur sports;
- sponsorship of the Rogers Cup Tennis tournament in Toronto;
- support of the True Patriot Love Foundation - which supports members of the Canadian military and their families;
- participation in, and financial support of, environmental initiatives through a partnership with Evergreen, a national not-for-profit environmental organization which supports and promotes community tree planting;
- support of the Credit Valley Conservation Project and, in particular the development of a riverside walking trail extending from Brampton to Lake Ontario;
- scholarships for post-graduate studies and support of the York University Lassonde School of Engineering;
- support to the United Way of Greater Toronto & York Region; and
- ongoing participation with stakeholders and partners, which includes discussions on how best to address the traffic, challenges facing the GTA.
- the continuation of the “407 for our Communities” program, a Company-wide volunteering initiative. In 2018, over 235 employees participated in 22 volunteering events at 13 organizations in the GTA, with a year-end financial contribution made by 407 ETR to each qualifying organization. The 407 for our Communities program also included “One Big Day”, 407 ETR’s largest volunteering event which occurred on July 11, 2018 when 108 volunteers contributed their time and effort at ten different community agencies.

5.4 Data Theft Incident

On May 10, 2018, 407 ETR publicly disclosed a suspected inside theft of information relating to approximately 60,000 customers. The stolen customer information was low sensitivity in nature consisting of customer name, address, and in some cases, telephone numbers. Nonetheless, 407 ETR immediately notified the appropriate authorities and also individually contacted all affected customers. The company conducted a thorough internal investigation in relation to this incident and has assisted with an investigation by York Regional Police. The protection of customer information remains of utmost importance to 407 ETR.

DESCRIPTION OF THE BUSINESS

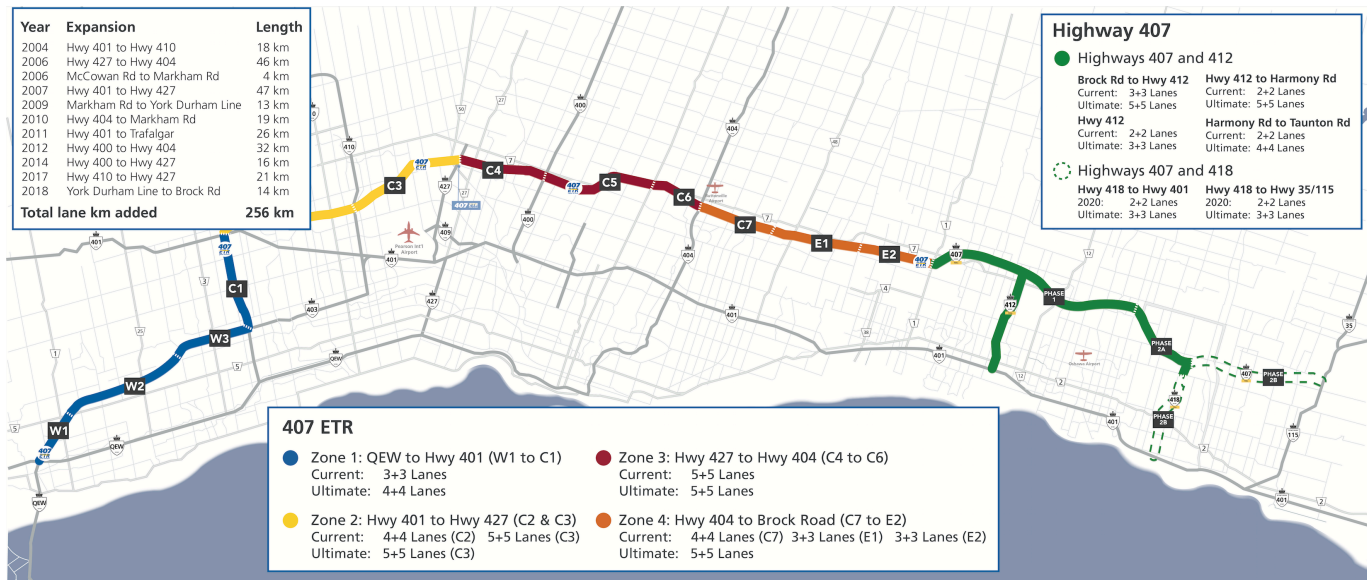
1. General Summary

Highway 407 ETR is the first all-electronic open-access toll highway in the world. It traverses the GTA, the largest urban centre in Canada. As an integral part of the GTA transportation network, Highway 407 ETR runs 108 kilometres from Burlington in the west to Pickering in the east along the top of the GTA and directly connects to eight major highways – Queen Elizabeth Way (“**QEW**”), highways 403, 401, 410, 427, 400 and 404 and the new Highway 407, which is owned by the Province and currently runs from Brock Road in Pickering, the eastern terminus of Highway 407 ETR, to Highway 418 in Oshawa.

The Province enacted the Ontario *Highway 407 Act, 1998* (the “**407 Act**”) to authorize and facilitate the sale of OTCC and privatize Highway 407 ETR. Under the provisions of the 407 Act, 407 ETR and the Province entered into the Highway 407 Concession and Ground Lease Agreement dated April 6, 1999 (the “**Concession Agreement**”). The Concession Agreement is a 99-year contract which, in combination with the 407 Act, authorizes 407 ETR to establish, collect and enforce payment of tolls, and obliges 407 ETR to manage, maintain, repair and toll Highway 407 ETR. A copy of the Concession Agreement is available at www.407etr.com, and a summary of some of the principal provisions contained in the Concession Agreement is set out in Schedule B hereto.

The Company was established for the purpose of submitting a bid to the Province to acquire all the issued and outstanding shares of 407 ETR. Following the selection of the Company as the successful bidder, the Company, the Province, SNC-Lavalin, Ferrovial, S.A., Concesiones de Infraestructuras de Transporte, S.A. (“**Cintra**”), and Capital d’Amérique CDPQ Inc. entered into a share purchase agreement on April 12, 1999. On May 5, 1999, the Company completed the acquisition of all the issued and outstanding shares of 407 ETR for a purchase price of \$3.113 billion.

The mission of 407 ETR is to make Highway 407 ETR the route of choice for drivers in the GTA. 407 ETR aims to maximize customer satisfaction and shareholder value through the delivery of a superior travel experience providing a fast, safe and reliable alternative transportation route in the GTA. Since 1999, 407 ETR has extended and widened Highway 407 ETR, as required under the Concession Agreement, to meet increasing demand and to maintain a free-flow of traffic. Since completing eastward to Brock Road (15km) and westward to the QEW (25km) in 2001, 407 ETR has subsequently widened Highway 407 ETR by adding over 250 additional lane-kilometres. 47% of the current capacity on Highway 407 ETR has been added since privatization in 1999. Total lane kilometers have increased from 643 km in 1999 to 1217 km in 2018. Illustrated below are the additional lane kilometres added by 407 ETR since 2004, as well as the current ultimate expected lane capacity. The current and ultimate expected lane capacity is also provided below for the provincially-owned tolled Highways 407, 412 and 418.



2. Production and Services

Highway 407 ETR was designed to provide open and unimpeded access to the public.

The toll system was designed based on the following concepts:

1. All-Electronic Toll Collection: Toll transactions are registered electronically under an open road system. There are no barriers, cash or token/ticket toll booths or coin machines. Motorists are not required to stop or slow down to pay tolls when entering or exiting the highway, nor are they lane-restricted.
2. Open-Access Highway: All vehicles are able to travel on Highway 407 ETR. Users are either identified for billing purposes through video-based licence plate identification or by a transponder.
3. Revenue Maximization: Fully flexible toll rates allow 407 ETR to manage congestion and maximize revenue by charging based on usage, by time of day, by vehicle type, direction and zone of the highway.

As a vehicle enters or exits Highway 407 ETR, vehicle information is gathered, either by reading a vehicle-mounted transponder or by photographing the licence plate. This information is transmitted to the back-office computer systems, where the vehicle's entry and exit are matched to generate a complete trip. Tolls are calculated and billed to the account of the user.

A transponder is a small electronic radio-frequency-identification device that works in tandem with the electronic sensors on overhead gantries located at entry and exit points on Highway 407 ETR and which log a vehicle's trip on the highway. Mounted correctly, the transponder is attached to the interior of the windshield of the vehicle, behind the rear-view mirror. Installation requires no tools and can be done in less than two minutes. By law, transponders are mandatory for heavy vehicles using Highway 407 ETR, which have a Registered Gross Vehicle Weight (RGVW) or gross weight of over 5,000 kilograms (five tonnes).

If the user does not use a properly functioning transponder, trips are logged by using a state-of-the-art licence plate recognition system. The camera system is located on each overhead gantry, capturing up to three images when a vehicle enters and exits Highway 407 ETR, which are sent to a central processing computer.

In the case of a first-time non-transponder user, name and address information for Ontario residents are obtained from the MTO licence plate database. For non-Ontario residents, 407 ETR has established agreements with service providers in respect of certain other jurisdictions to obtain name and address information for first-time non-transponder users with out-of-province vehicle registrations. Tolls are accumulated and invoices are prepared and sent on a monthly basis.

The toll structure includes a charge based on distance travelled, class of vehicle, direction, time of day and zone of Highway 407 ETR travelled. The Tolling, Congestion Relief and Expansion Agreement ("**Tolling Agreement**") between the Province and 407 ETR, the principal provisions of which are summarized in Schedule C, allows significant flexibility for 407 ETR in setting tolls, rates and structure. 407 ETR's toll structure includes different pricing during the peak hours for the busiest zones of Highway 407 ETR. Highway 407 ETR is segmented into four zones to reflect the unique travel demand profiles of the highway corridor. In addition to per kilometre toll charges, a Trip Toll Charge (defined below) is applied to each trip. For vehicles without a transponder, a camera charge (previously referred to as a video toll charge) is also applied, as described on the following page.

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The following are the Highway 407 ETR published toll rates (in cents per kilometre) effective as of February 1, 2018:

HIGHWAY 407 ETR TOLL RATES EFFECTIVE FEBRUARY 1, 2018								
	EASTBOUND				WESTBOUND			
	Zone 1 QEW-401	Zone 2 401-427	Zone 3 427-404	Zone 4 404-Brock	Zone 1 QEW-401	Zone 2 401-427	Zone 3 427-404	Zone 4 404-Brock
AM Peak Hours (7:00-9:00 AM)	0.4709	0.4666	0.4624	0.4139	0.4218	0.4378	0.4460	0.4624
AM Peak Periods (6:00-7:00 and 9:00-10:00 AM)	0.3933	0.3957	0.3921	0.3638	0.3708	0.3849	0.3921	0.3921
Workday Midday (10:00 AM – 2:30 PM)	0.3381	0.3381	0.3381	0.3381	0.3381	0.3381	0.3381	0.3381
PM Peak Hours (3:30-6:00 PM)	0.4330	0.4921	0.5055	0.4876	0.5100	0.4834	0.4791	0.4289
PM Peak Periods (2:30-3:30 and 6:00-7:00 PM)	0.3811	0.4105	0.4217	0.4068	0.4255	0.4255	0.4217	0.3775
Weekdays (7:00PM – 6:00 AM)	0.2338	0.2338	0.2338	0.2338	0.2338	0.2338	0.2338	0.2338
Weekends and Holidays (11:00 AM – 7:00 PM)	0.3083	0.3083	0.3083	0.3083	0.3083	0.3083	0.3083	0.3083
Weekends and Holidays (7:00PM – 11:00 AM)	0.2338	0.2338	0.2338	0.2338	0.2338	0.2338	0.2338	0.2338

[Remainder of page intentionally left blank.]

The following are the Highway 407 ETR published toll rates effective as of February 1, 2019:

HIGHWAY 407 ETR TOLL RATES EFFECTIVE FEBRUARY 1, 2019 [\$/KM] LIGHT VEHICLE RATES FOR VEHICLES 5,000 kg or less (cars, minivans and SUVs)*								
	EASTBOUND				WESTBOUND			
	Zone 1 QEW- 401	Zone 2 401-427	Zone 3 427-404	Zone 4 404- Brock	Zone 1 QEW- 401	Zone 2 401-427	Zone 3 427-404	Zone 4 404- Brock
AM Peak Hours (7:00-9:30 AM)	0.5105	0.5226	0.5225	0.4429	0.4513	0.4712	0.5040	0.5086
AM Peak Periods (6:00-7:00 and 9:30-10:30 AM)	0.4208	0.4471	0.4392	0.3893	0.3968	0.4118	0.4313	0.4313
PM Peak Hours (3:30-6:00 PM)	0.4639	0.5463	0.5763	0.5415	0.5661	0.5134	0.5462	0.4589
PM Peak Periods (2:30-3:30 and 6:00-7:00 PM)	0.4078	0.4535	0.4807	0.4501	0.4808	0.4681	0.4723	0.4039
Workday Midday (10:30 AM – 2:30 PM)	0.3618	0.3719	0.3787	0.3618	0.3618	0.3618	0.3719	0.3618
Weekend Midday and Holidays (11:00 AM – 7:00 PM)	0.3330	0.3330	0.3330	0.3330	0.3330	0.3330	0.3330	0.3330
Off Peak (7:00 PM – 6:00 AM)	0.2432	0.2432	0.2432	0.2432	0.2432	0.2432	0.2432	0.2432

*The Heavy Vehicle Rate for vehicles over 5,000 kg (e.g. large trucks and buses) is two times the Light Vehicle Rate.

The Heavy Multiple Unit Vehicle Rate (e.g. tractor trailers) is three times the Light Vehicle Rate.

A Trip Toll Charge is charged for each trip (Light Vehicles \$1.00, Heavy Single-Unit Vehicles \$2.00, and Heavy Multi-Unit Vehicles \$3.00). This is in addition to the per kilometre charge. The camera charge for non-transponder trips by light vehicles is \$4.20 per trip, and \$50.00 per trip for heavy vehicles.

For a complete list of current charges, visit www.407etr.com.

The 407 Act authorizes electronic tolling on Highway 407 ETR. Ontario's *Highway Traffic Act* makes it an offence to:

- evade a toll, by any means;
- obstruct or alter a licence plate;
- sell a device to assist in the evasion of a toll; or
- operate a vehicle over 5,000 kilograms RGVM on Highway 407 ETR without a properly affixed transponder.

The 407 Act sets out a toll collection procedure with requirements for notice and dispute settlement procedures. These procedures are in addition to other standard remedies at law. Under Ontario law, licence plate holders must renew the plates either every year or every two years, except trailer plates. The 407 Act provides that if tolls remain

unpaid for longer than 90 days after notice of non-payment is given, 407 ETR may notify the Ontario Registrar of Motor Vehicles (the “**Registrar**”) of non-payment and the Registrar will deny the renewal of Ontario licence plate permit(s) and the issuance of a plate permit to the person in question (“**Licence Plate Denial**”). The Registrar will also transfer unpaid 407 ETR charges that are in Licence Plate Denial from unattached or attached plates that have expired for more than six months, to an attached valid plate for that person.

3. Specialized Skill and Knowledge

The toll system for Highway 407 ETR was initially developed by a group of companies led by Hughes Aircraft Canada Limited (“**Hughes**”), including Bell Canada, Bell Sygma Inc. and Mark IV Industries Corp. (“**Mark IV**”) (collectively, the “**Developers**”). Hughes was subsequently acquired by Raytheon Canada Ltd. (“**Raytheon**”). In October 1999, 407 ETR and Raytheon entered into agreement (the “**Extension Toll Supply Agreement**”) for the supply of the electronic tolling system for Highway 407 ETR. The business arrangement has since been renewed and enhanced, including the grant to 407 ETR of a perpetual licence in the Strata Transaction Processor Software, which supports the capture and communication of trip data between all gantries on Highway 407 ETR, Highway 407 and 407 ETR’s back office, as well as escrow agreements covering source code and other intellectual property described in the Extension Toll Supply Agreement and the respective Developers’ licences. Cantoll, on behalf of 407 ETR, and Raytheon are currently governed by a Master Supply and Services Agreement (the “**MSSA**”) which extends to December 31, 2023 and governs the supply of certain products and services for Highway 407 ETR, as well as licensing for the continued use of toll system technology across the Province. .

407 ETR personnel perform all maintenance activities on toll device technology supplied by Kapsch TrafficCom AG (“**Kapsch**”) (see “Economic Dependence” – “Transponder Supply and Leasing/Toll System Licensing”).

Cantoll is the owner and developer of the back-office computer systems necessary for the operation of the tolling and billing system that supports Highway 407 ETR and Highway 407. Pursuant to certain intercompany agreements, Cantoll provides 407 ETR with the right to use and access the tolling and billing system, and leases transponders to 407 ETR, which sublease the devices to users of the toll highways as prescribed under Ontario’s *Highway Traffic Act* (see “Description of Business – Transponders and Toll System Technology”).

Where the intellectual property or designs of toll system elements are owned by one or more Developers other than Cantoll, Cantoll has been granted non-exclusive, non-transferable, fully paid-up licences to use the software for Highway 407 ETR and Highway 407. The licences may terminate pursuant to the terms of the respective agreements, including due to a breach by Cantoll.

4. Competitive Conditions

Ontario is the most industrialized province in Canada and is the country’s business and financial centre. The population of Ontario currently exceeds 14 million, representing more than one-third of the total population of Canada, and is concentrated in the area served by Highway 407 ETR. Based on Government of Ontario reports, the population of the GTA exceeds seven million and is projected to exceed nine million by the year 2031. Future growth in the GTA is expected to continue further north, north-west and north-east in areas proximate to the highway corridor.

Since the beginning of the concession in 1999, average workday trips have steadily increased from 237,326 trips per day to 415,429 trips per day in 2018. Increases in average workday trips are attributable to general economic and population growth in the vicinity of Highway 407 ETR, increased capacity of the highway, increasing congestion on the alternative highways, and the growing acceptance of the toll road concept by the travelling public within the GTA and surrounding regions.

As of December 31, 2018, 1,525,396 transponders were in circulation and the transponder penetration rate remains high, reflecting continuing growth in the number of transponder users and customer preference for this lower cost option when using Highway 407 ETR. The steady improvement in transponder penetration is also due to the success of ongoing promotions, which encourage customers to register for initial or additional transponders, resulting in less video trips taken.

In many instances, 407 ETR has designed, constructed, completed, commissioned and opened to traffic additional lanes on Highway 407 ETR before it was required to under the Concession Agreement. This has brought congestion relief to some heavily travelled portions of the highway.

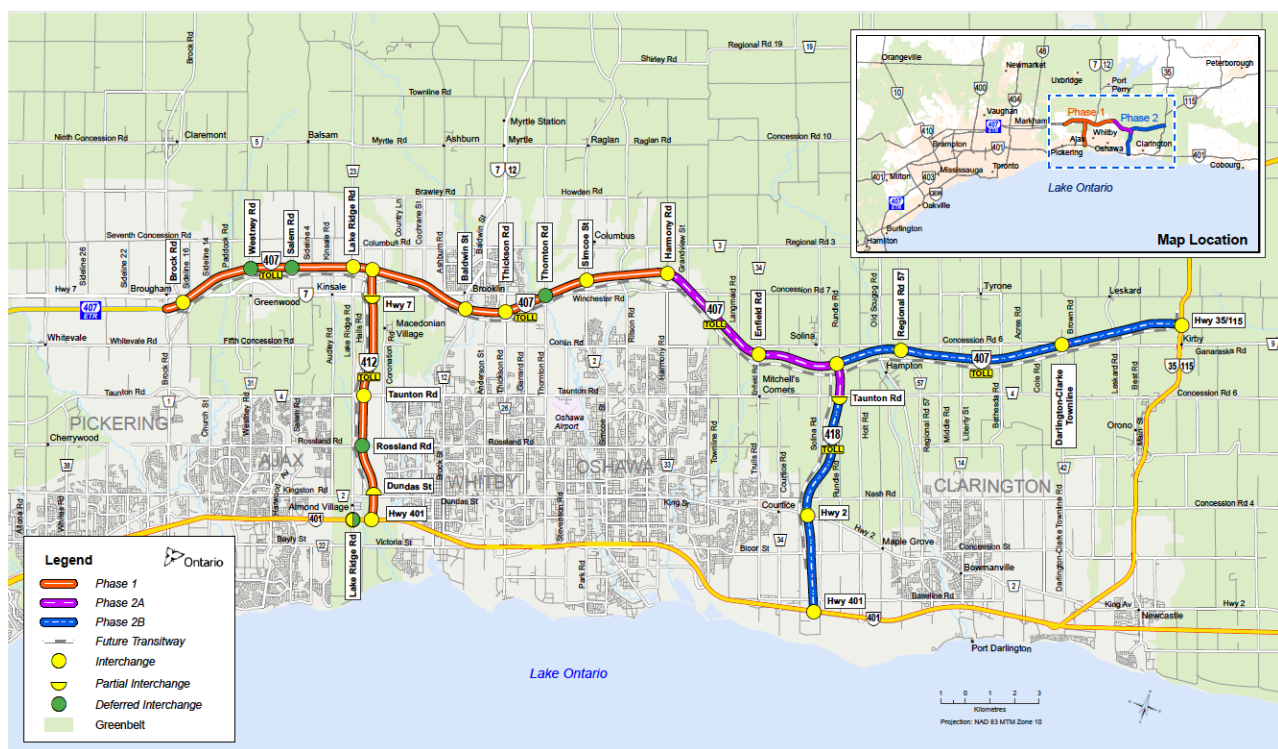
5. Highway 407

In 2009, the Province announced the construction of Highway 407, to be extended east from Brock Road/Highway 7, the eastern terminus of Highway 407 ETR, to Highways 35/115 (Clarington) which runs north-south connecting Peterborough to Highway 401. The Province confirmed that it would maintain public ownership of Highway 407, set tolls and receive toll revenues for its use. Highway 407 would be constructed in two phases (“Phase 1” and “Phase 2”, respectively), described further below.

5.1. Construction Activities

In 2012, Ontario Infrastructure and Lands Corporation (“IO”) and MTO contracted with 407 East Development Group, a consortium which includes Cintra Global and SNC-Lavalin Group Inc., to design, build, finance and maintain Phase 1 of Highway 407. Construction for Phase 1 of Highway 407 was completed in spring 2016, running 31 kilometres from Brock Road/Highway 7 to Harmony Road (Oshawa), as well as Highway 412, which runs north-south and connects Highway 407 to Highway 401. Highway 407 was opened to traffic by the Province on a toll-free basis from June 20, 2016, until tolling commenced on February 1, 2017.

In 2015, IO and MTO announced the selection of the Blackbird Infrastructure Group, a consortium led by Cintra Global and Cement Roadstone Holdings plc, to design, build, finance and maintain Phase 2 of Highway 407. Phase 2 of construction will complete the extension of Highway 407 from Harmony Road (Oshawa) to Highway 35/115 (Clarington), a total of 35 kilometres. Phase 2 is comprised of two phases (Phase 2a and Phase 2b). Phase 2a was completed in December 2017 with tolling commencing on January 2, 2018. Phase 2a extended Highway 407 eastward from Harmony Road to an interchange at Taunton Road in Oshawa. Phase 2b will further extend Highway 407 eastward to Highway 35/115 and complete Highway 418, which will run north-south and connect Highway 407 to Highway 401. Phase 2b is expected to be completed by 2020.



5.2. Tolling and Back Office Activities

Cantoll provides tolling, billing and back-office services to customers of Highway 407 in a transparent and seamless way. In December 2011, Cantoll entered into an agreement (the “Highway 407 East Agreement”) with the Province to implement and maintain the roadside tolling technology and back-office systems relating to Phase 1 of Highway 407. In October 2015, Cantoll and the Province amended and restated the Highway 407 East Agreement to include Phase 2 of Highway 407. The Province will reimburse Cantoll for the cost of implementing both phases of the highway. Cantoll achieved Phase 1 substantial completion on November 30, 2016, satisfying all material back-office deliverables in accordance with the Highway 407 East Agreement. The

initial term of the operating agreement is 10 years from December 2015, and is renewable by 10-year increments, for up to 30 years in total. The incremental revenues associated with this agreement are not expected to have a material impact on the Company’s financial results.

6. New Products

Enhancements were completed in 2018 for processes by which a vehicle or transponder is identified through data obtained at entry and exit points on Highway 407 ETR, as well as invoicing and collection. Upgrades to the supporting infrastructure of vehicle capture technology continue to be made with hardware and software investments in roadside network equipment and camera technology using Complementary Metal-Oxide-Semiconductor (“**CMOS**”) technology that was introduced in 2010. In 2018, 407 ETR completed upgrades to all 198 tolling sites with the new CMOS camera technology as well as the Seeker Tracking System, which enhances the transponder capture rate. Continued system enhancements have further decreased the number of unbillable transactions and improved the operational efficiencies of automated licence plate recognition. As of December 31, 2018, 407 ETR had deployed new front capture technology at 27 tolling sites on Highway 407 ETR (out of 198 total potential sites).

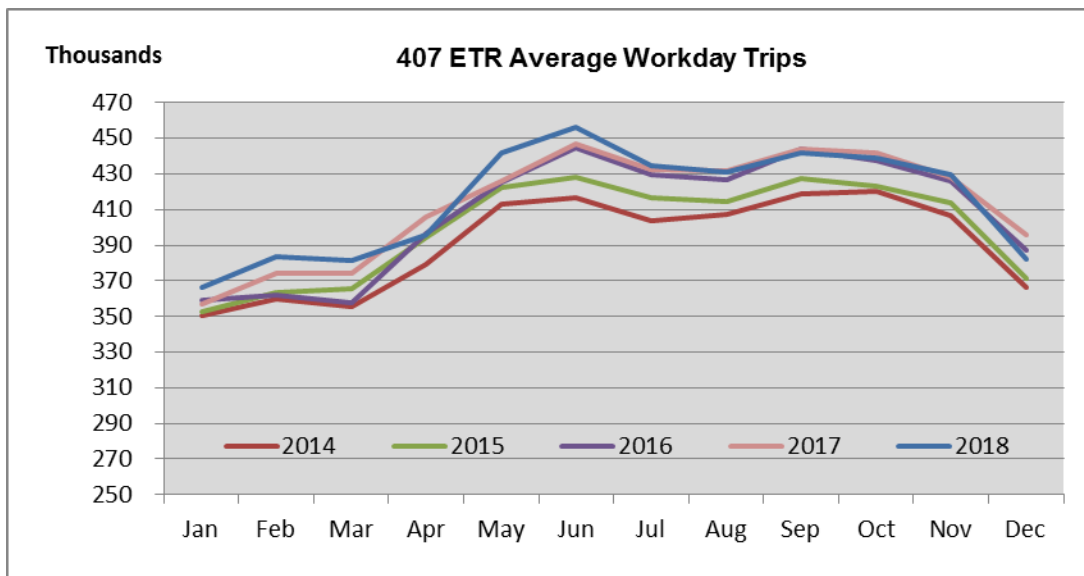
The Information Technology Department continued progress on a long-term technology vision and plan. This strategic initiative provides a roadmap to ensure that 407 ETR leverages acceptable technologies. In 2018, important business and technological functionality was further developed in the areas of advanced traffic management systems, highway asset management, data analytics, invoicing, self-service, collections, trip matching and rating, and automated workflows. Strategic roadmaps are in place for all of 407 ETR’s technical domain areas directing the exploration of new technologies and/or modifying existing technologies in order to achieve and maintain technical agility, optimized technical infrastructure, and intelligent information management.

7. Intangible Properties

Pursuant to a trade-mark licence agreement dated April 6, 1999, the Province granted to 407 ETR the right and licence to use the trade-mark “407 Express Toll Route” and design in association with the services and promotion of services by 407 ETR in its business of operating, maintaining, managing, expanding and tolling Highway 407 ETR, and to use the trade-mark “ETR” in its corporate name. 407 ETR maintains a corporate standards guide to ensure the consistent and appropriate usage of the licenced trade-mark and the updated marks, designs and logos that 407 ETR currently uses for corporate identity, special projects and the ETR Rewards program.

8. Seasonal Variations

407 ETR revenues are subject to seasonal variations in traffic volumes. Trends show a higher volume of usage on Highway 407 ETR in the second and third quarters as a result of increased usage by leisure and recreational travellers.



9. Economic Dependence

The Company's business is dependent on the following agreements:

9.1. Authorized Requester Electronic Data Services Agreement

In connection with the Concession Agreement, the Province and 407 ETR entered into an Authorized Requester Electronic Data Transfer Agreement dated April 6, 1999 (the "**407 ETR Requester Agreement**"). A copy of the 407 ETR Requester Agreement is available at www.407etr.com. The Province, through MTO, maintains a computer database containing information pertaining to driver and vehicle records (the "**Information Products**"). The 407 ETR Requester Agreement provides 407 ETR with a non-exclusive, non-assignable and non-transferable licence to access and use the Information Products. The information obtained by 407 ETR remains confidential and may only be used: (i) in connection with the collection and enforcement of tolls, fees and other charges owing with respect to Highway 407 ETR; (ii) to assist in traffic planning and revenue management with respect to Highway 407 ETR; (iii) to assist in communicating with users of Highway 407 ETR; or (iv) to assist the government of a province of Canada or a state of the United States of America with which 407 ETR has an agreement relating to the collection and enforcement of tolls in that jurisdiction. In April 2018, the 407 ETR Requester Agreement was amended to allow for Information Products to be requested, handled, retained and processed within Canada, instead of only within Ontario. The amendment also provides that 407 ETR may store, retain or process Information Products using Internet-based or cloud technology, subject to MTO's written approval.

Under the 407 ETR Requester Agreement, 407 ETR is required to pay a base fee of \$5 million per annum in 1999 dollars, which is adjusted annually in accordance with a formula based upon the Consumer Price Index. The Province may elect every five years to not be paid the base fee and to instead proceed on a cost recovery basis. In 2018, the Province charged the base fee of **\$7,416,481** for overnight access to the Information Products (\$7,267,803 in 2017 and \$7,119,124 in 2016). In addition, 407 ETR paid the Province **\$691,994** in 2018 for access to on-line Information Products (\$678,062 in 2017 and \$664,180 in 2016).

To facilitate toll collection from non-Ontario registered vehicles, 407 ETR requests licence plate information from other Canadian and U.S. jurisdictions. 407 ETR has negotiated information sharing arrangements with certain Canadian jurisdictions. In addition, 407 ETR has entered into an agreement with a service provider in the United States to obtain information needed to bill users resident in, or using licence plates from, that country. In 2018, approximately **0.56%** of Highway 407 ETR trips were unbillable out-of-province vehicles (0.49% in 2017 and 0.46% in 2016). Similar agreements have been reached to facilitate invoicing for out-of-province vehicles using Highway 407.

In connection with the Highway 407 East Agreement (See "Description of the Business – Tolling and Back-Office Services for Highway 407"), the Province and Cantoll entered into an Authorized Requester Agreement dated December 1, 2015 (the "**East Requester Agreement**"), which became effective on November 30, 2016. The East Requester Agreement allows Cantoll and 407 ETR to use the Information Products to provide tolling and back-office services for Highway 407, on the same terms and conditions as the 407 ETR Requester Agreement, described above. Access to the Information Products provided under the East Requester Agreement will be at no further cost to Cantoll or 407 ETR.

9.2. MTO Enforcement Services

Pursuant to the Concession Agreement, both the Province and 407 ETR have obligations with respect to enforcing vehicle licensing and vehicle safety standards on Highway 407 ETR as if it were a provincially-run highway. The Province has agreed under the Enforcement Services Agreement to provide officers to enforce vehicle licensing and safety standards as well as heavy vehicle toll enforcement on Highway 407 ETR. 407 ETR provides the Province with all information necessary to complete these duties, and is responsible for both the staff and vehicle costs incurred by the Province relating to the enforcement activities. The enforcement duties undertaken by the Province are the same as those for comparable controlled access highways in Ontario, unless 407 ETR and the Province agree to a higher level of enforcement.

Under the 407 Act, the Province is permitted to charge 407 ETR for the reasonable costs of providing enforcement services on a full cost recovery basis. Under the Enforcement Services Agreement, MTO provides 407 ETR every year with an estimate of total enforcement services cost for the upcoming year and invoices 407 ETR 1/12th of such costs each month. An annual cost reconciliation and true-up occurs based on actual costs incurred by MTO

in the applicable year. For 2018, the total cost to 407 ETR was \$1,031,027, which will be reconciled against actual costs as described above. For 2017, the total actual enforcement services cost to 407 ETR, after reconciliation, was \$889,669.

9.3. Police Services Agreement

As contemplated by the Concession Agreement, the Province and 407 ETR entered into an updated agreement (the "**Police Services Agreement**"), currently, with a term commencing on January 1, 2018 until December 31, 2023. Under the agreement, the OPP is solely responsible for determining the minimum level of police services to be provided, as well as for all operational policing decisions, including any matters relating to the application of any policing policy or procedure on Highway 407 ETR. 407 ETR is responsible for the payment to the Province for the police services provided under the agreement on a cost recovery basis. An annual budget for police services that estimates the total cost for the upcoming year is provided by the Province to 407 ETR, and 407 ETR is invoiced 1/12th of such costs each month. An annual cost reconciliation and true-up occurs based on actual police services costs incurred by the Province in the applicable year. All vehicles and equipment reasonably necessary and appropriate for use by the OPP are provided by the Province, with the costs borne by 407 ETR. For 2018, the total estimated police services cost to 407 ETR was \$7,724,280, which will be reconciled against actual costs as described above. For 2017, the total actual police services cost to 407 ETR, after reconciliation, was \$6,749,789.

The Police Services Agreement describes the new Highway 407 ETR police detachment located at Bathurst Street and Highway 407 ETR that was constructed, and opened to the public, on April 17, 2018. 407 ETR licenses the occupancy and use of the detachment to the OPP pursuant to a licence agreement dated January 1, 2018.

The Police Services Agreement may be terminated by the Province or 407 ETR on 60 days' prior notice to the other party in the event that either party is in default of its obligations under the Police Services Agreement and such default is not cured within the prescribed time period. In the event of the termination of the Police Services Agreement, the OPP continues to be responsible to provide police services, and 407 ETR remains obligated to pay for the cost of providing those services, all in accordance with the 407 Act.

9.4. Transponder Supply and Leasing/Toll System Technology and Licensing

Cantoll orders transponders from Kapsch pursuant to an agreement dated May 9, 2013 (the "**Transponder Supply Agreement**") (see "Specialized Skill and Knowledge"). Kapsch provides a limited warranty for each transponder for one year after delivery. In May 2018, Cantoll exercised its option to extend the Transponder Supply Agreement for an additional two years on the same terms and pricing. Under the agreement, Kapsch continues to supply to Cantoll the redesigned, lower-cost transponder introduced in 2015, the reliability and performance of which continues to meet Management's expectations.

OSI Optoelectronics Inc. ("**OSI**") is the primary supplier for the vehicle detection and classification units (the "**Vehicle Detection Units**") for Highway 407 ETR's toll collection system. Failure to have access to or support of the Vehicle Detection Units could significantly affect the ability of 407 ETR to record traffic usage on the highway. As a result, in August 2006, 407 ETR and OSI Defense Systems, LLC ("**OSI Defense**") entered into a services agreement for support of the Vehicle Detection Units, and an escrow agreement to allow 407 ETR to continue supporting the Vehicle Detection Units by itself if necessary (collectively, the "**OSI Agreements**"). OSI Defense subsequently transferred its responsibilities for the supply and support of Vehicle Detection Units to its affiliate, OSI. In March 2014, 407 ETR and OSI Defense amended the escrow agreement to assign the agreement from OSI Defense to OSI. In April 2014, Cantoll, on behalf of 407 ETR, extended its existing arrangement with OSI through a five-year equipment purchase agreement. In April 2016, 407 ETR and OSI renewed the warranty and repair services agreement for another three-year term, under which OSI will continue to support the Vehicle Detection Units.

Cantoll's billing, accounting and customer service computer system is supported by various hardware and system software agreements made with, among others, Oracle, SAP, Salesforce and IBM Canada Limited. In particular, the IBM Customer Agreement and the IBM Agreement for Acquisition of Software Maintenance continue to govern Cantoll's procurement of hardware, software and technology-related services from IBM Canada Limited (collectively, "**IBM Canada Limited Agreements**").

10. Employees

As at December 31, 2018, 407 ETR had 447 full-time employees and 31 part-time employees, of which 108 full-time employees and 15 part-time employees were members of Union for Canada (“**Unifor**”), the successor to the Canadian Auto Workers. The Unifor employees comprise the customer service and video exception processing staff. On February 13, 2018, a new three-year collective agreement was reached and ratified by the union membership, effective February 1, 2018 and expiring January 31, 2021.

11. Social and Environmental Policies

The Environmental Policy (the “**Policy**”) recognizes the nature, scale, and potential environmental impacts of the activities of 407 ETR in the design, construction, operation, maintenance and rehabilitation of Highway 407 ETR. The Policy applies to those who work for or on behalf of 407 ETR, and conveys the message that environmental protection is a shared responsibility. The Policy is based on the following principles:

11.1. Environmental Pollution Prevention & Climate Change Risk

407 ETR strives to avoid significant adverse effects from its activities on individuals, communities and the natural environment within which Highway 407 ETR is located or, where this is not possible, to minimize such effects. To ensure regulatory compliance, 407 ETR stays abreast of new and evolving environmental laws and regulations and incorporates relevant changes into its Environmental Management Plan (“**EMP**”). Periodically, with the assistance of an external advisor, 407 ETR conducts a review of the EMP, including a review of environmental laws and regulations relevant to 407 ETR.

In addition, 407 ETR recognizes the effects of the increased frequency and potential impacts of extreme weather events due to climate change, such as heavy rainfall resulting in flooding and more extreme winter conditions. These effects may lead to more frequent or extensive damage to infrastructure or roadside tolling equipment, localized disruptions to highway operations and traffic levels. Increasingly severe weather events could lead to additional costs, including those for managing response times, maintaining service levels, and addressing actual or potential impacts to infrastructure or equipment. 407 ETR follows a preventative maintenance plan that takes into account the effects of climate change in the design, rehabilitation and construction of highway infrastructure and roadside tolling equipment. 407 ETR will continue to assess and mitigate the impact of climate change on its longer-term operations and will adjust its preventative maintenance, infrastructure, rehabilitation and construction plans accordingly.

11.2. Management Commitment

The Policy has been acknowledged and agreed to by Management and approved and adopted by the Board¹. Management is responsible for actively communicating the Policy to all personnel. The Policy and overall environmental performance is reviewed periodically by Management.

11.3. Corporate Awareness

407 ETR’s contractors, consultants, and suppliers are made aware of 407 ETR’s environmental commitments and are required to act co-operatively in achieving these goals and objectives. 407 ETR retains qualified service providers to assist in meeting its environmental obligations and statutory requirements. 407 ETR employees receive training that is relevant to, and consistent with, their environmental responsibilities.

11.4. Stakeholder Awareness and Participation

407 ETR is fully cognizant of the degree to which stakeholder involvement can affect the implementation of its plans for improvement of Highway 407 ETR, particularly in relation to securing government approvals, permits and authorizations. 407 ETR is committed to working with regulatory agencies and the public to ensure that established environmental commitments are carried through to relevant facets of its operation. This involves appropriate information transfer at stakeholders’ reasonable requests and strategic engagement of regulatory agency representatives to facilitate project approvals and achieve Highway 407 ETR improvement objectives (e.g., involvement in the development of environmental protection, mitigation and compensatory strategies, plans and designs).

¹ “**Board**” means the Board of Directors of 407 International Inc.

11.5. Performance Monitoring and Reporting

The EMP is designed to ensure that environmental objectives and targets are being met through regular inspection, monitoring, review, tracking, and reporting, and that non-conformities are addressed in an effective and timely manner. Reporting may also be used by Management in conducting internal reviews of the Policy and the EMP.

Pursuant to the Policy, the Board will be notified, as appropriate, upon the occurrence of any material environmental incident on, or in relation to, Highway 407 ETR; provided quarterly with a report on the implementation and operation of the Policy; and provided annually with certification of compliance with the Policy.

407 ETR also integrates advanced environmental management systems into its operations. These systems include (i) water management facilities designed to minimize the quantity of water run-off and naturally improve the water quality; (ii) fencing along the entire corridor to protect animals and pedestrians by restricting access to Highway 407 ETR; and (iii) the use of state-of-the-art electronic ground speed-controlled spreader equipment to carry out “anti-icing” using a combination of salt brine and road salt, increasing the effectiveness of road-salt while reducing the use of sodium chloride.

For snow melt and rainstorms, 407 ETR has 79 storm water management ponds to capture water run-off, which allows time for most suspended solids to settle out and prevents silt-laden flood waters from rapidly discharging into rivers and storm drains. The storm water management ponds help maintain healthy streams for fish and protect water quality.

In order to develop, implement and monitor environmental management systems, 407 ETR meets with stakeholders, including environmental groups such as regional conservation authorities. In addition, 407 ETR retains environmental consultants to assess the impact of construction and operations activities to provide mitigation, compensation and monitoring recommendations.

12. Risk Factors

12.1. Construction of Extensions and Deferred Interchanges

The completion of the construction of Highway 407 West Extension, Highway 407 East Partial Extension and the Highway 407 Central Deferred Interchanges¹ is the responsibility of 407 ETR under the terms of the Concession Agreement. 407 ETR has performed substantially all of its obligations under the Concession Agreement in connection with the design and construction of the Highway 407 Central Deferred Interchanges, Highway 407 West Extension and Highway 407 East Partial Extension, with the exception of: (i) a proposed partial interchange at Kipling Avenue, which has been deferred as per the recommendations of the 407 ETR Interchange Study conducted by MTO in 2018; (ii) the interchange at North Road, the design and construction of which has been deferred to 2024, and which is expected to be moved to Sideline 24; and (iii) the interchange at Sideline 24, which was moved to Sideline 26 and completed in the second half of 2019. 407 ETR remains liable to the Province for any breach of the terms of the Concession Agreement with respect to the construction.

12.2. Toll Exempt Vehicles and Unbillable Transactions

Toll revenues are not collected for transactions that are unbillable. The majority of unbillable trips are: (a) trips that are recorded by the tolling system by a vehicle registered in a jurisdiction with which there is no agreement to provide vehicle registration information, so the owner cannot be billed; (b) unreadable trips, which are video transactions for which a licence plate image was not captured, either due to weather conditions or because the licence plate was either missing, obstructed, dirty or damaged, or in a location on the vehicle beyond the field of view of cameras and (c) trips made on Highway 407 ETR by toll-exempt vehicles, such as police cars, emergency and firefighting units, cars with diplomatic licence plates, as well as 407 ETR employee and service vehicles. In 2018, unbillable trips represented approximately 2.36% of total trips (2.26% in 2017 and 2.30% in 2016). Unbillable trips remained low as a result of strategies to identify and bill users of Highway 407 ETR. These trips represent lost potential revenue and 407 ETR continues to invest in strategies to identify and bill previously unbillable trips.

¹ “Highway 407 West Extension”, “Highway 407 East Partial Extension” and the “Highway 407 Central Deferred Interchanges” are each defined in the Concession Agreement.

12.3. Traffic Volumes and Toll Revenue

The Company's ability to derive sufficient toll revenues from 407 ETR's operation of Highway 407 ETR to fund debt obligations and operating and maintenance expenses depends on a wide variety of factors, many of which are not within the control of the Company. Future traffic on Highway 407 ETR will be affected by, among other things, the population growth and changes in the economy of the GTA, fuel prices, weather conditions, and the construction of competing transportation infrastructure. In addition, toll rate increases are subject to economic, price elasticity and political risks. While no assurance can be given as to what future traffic levels on Highway 407 ETR or related revenues will be, based on current data, Management expects that travel demand will continue to support healthy traffic volumes and higher toll revenues despite expected future toll rate increases.

12.4. Possible Transportation Improvement

407 ETR is exposed to changes in traffic volumes as a result of the development, construction or enhancements to competing modes of transportation, including other highways. For example:

- Beginning in 2011, MTO commenced widening Highway 401 from six to ten lanes between Highway 410 (Mississauga) and Regional Road 25 (Milton). This construction project is being completed in phases and is anticipated to be fully completed by the end of 2026. When completed, it may provide an improved alternative and competitive route to certain sections of Highway 407 ETR, which could adversely impact traffic volumes and related toll revenues for the corresponding segments of Highway 407 ETR.
- MTO's current five-year development plan does not contemplate the development or construction of a new competing highway; however, it is possible the plan could be revised or amended to include new highway or transportation infrastructure in the future.

Under the Concession Agreement, property for the future development of an exclusive transit-way has been identified by the Province within the Highway 407 ETR corridor. Metrolinx, a provincial transportation agency, had proposed a Regional Express Rail ("**RER**") project to enhance GO train transit service to Union Station in downtown Toronto. A concept under consideration was the re-routing of freight rail traffic to a new proposed rail line adjacent to Highway 407 ETR, along a 16 kilometre segment west of Toronto. However, the Province announced in December 2018 that this aspect of the RER project is no longer considered necessary by the provincial government to achieve the objective of the RER project.

12.5. Operating and Maintenance Expenses

407 ETR's operating and maintenance expenses for the future operation of Highway 407 ETR are impacted by uncertainties related to, for example, cost of services, materials and equipment, changes in regulatory requirements, useful life of productive assets, and critical accounting estimates. Actual costs and expenses may vary from those projected by the Company and such variances may be material.

12.6. Technology Infrastructure

407 ETR's operations 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. As a result, 407 ETR faces a risk of loss if these systems were to fail, despite efforts to maintain these systems in good working order. 407 ETR is also exposed to risk associated with operational or human error in the design and use of these systems, including unauthorized or incorrectly recorded transactions. Some of 407 ETR's other operations, such as web-based customer service, may face the risk of interruption or other security risks that are inherent in internet-based systems, which may impact 407 ETR's customers and infrastructure. Shortcomings or failures of 407 ETR's systems or internal processes, or those provided by third parties, including any of the tolling, billing and accounting systems, could lead to financial loss and damage 407 ETR's reputation, particularly if there was a data security breach resulting in a significant loss or misappropriation of confidential, proprietary or customer information. In addition, despite the contingency plans that are in place, 407 ETR's ability to conduct business may be adversely affected by a disruption in its technology infrastructure. Mitigation of these risks include, but are not limited to, the following: multiple data center locations, disaster recovery and business continuity plans, network and technology solution redundancy, support agreements, policies and procedures governing change control processes, security, and quality control. 407 ETR has internal experts to maintain these controls and also relies upon external partners to monitor and augment these controls. In 2018, 407 ETR also focused on advancing capabilities as it related to data breach response procedures.

Formal relationships are in place with a variety of external partners to expedite a data breach response as required.

12.7. Cybersecurity

407 ETR's cybersecurity program is based on an iterative approach designed to continuously monitor, identify and address high priority security risk areas. In 2018, 407 ETR focused on vulnerability management, identity and access management, as well as security event and incident management. In recognition of the importance of managing employee-related risk, notable efforts were directed to enhance 407 ETR's Employee Security Awareness program. Examples of 2018 activities designed to increase employee awareness include ongoing email phishing test campaigns, IT-specific sessions focused on key security standards and practices and company-wide awareness sessions focused on data sensitivity, and security event identification and reporting.

12.8. Ownership of Intellectual Property and Reliance on Certain Suppliers

Portions of the electronic toll system and related software currently used were developed under contract with the Developers and their predecessors. Although Cantoll has been granted a licence to use the system, it does not have ownership of the source code and other associated intellectual property (see "Specialized Skill and Knowledge"). The source code and other intellectual property have been deposited with an escrow agent to ensure that Cantoll has access to such codes; however, such escrow agreements will continue only for so long as the agreements relating to Raytheon's maintenance support obligations remain in effect (other than a termination of such obligations by reason of default by a Developer). Mark IV, and its successor, Kapsch, agreed to extend the escrow agreements underlying Cantoll's licences to use the intellectual property relating to the toll system, and they will remain in effect until the parties agree otherwise.

12.9. Liquidity

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company expects to maintain sufficient liquidity to finance its operating and capital expenditures as well as refinancing its existing indebtedness without exceeding its debt capacity. 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 in any one year. Further, the Company focuses on maintaining an optimal level of liquidity through maximizing cash flows by actively pursuing collecting of its accounts receivable, and by controlling the level of operating and capital expenditures. The Company's cash and cash equivalents, and restricted cash and investments are invested in highly-liquid interest bearing investments.

12.10. Inflation

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 are linked to the All-Items Consumer Price Index for Canada ("CPI"). Break even inflation rate ("BEIR") bonds are 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 Senior Bonds, Series 04-A2 noteholders. This inflation risk is partially mitigated by 407 ETR's right to increase toll rates relative to inflation (see "Description of Capital Structure - Existing Indebtedness").

12.11. Adequate Insurance/Risk Management

The Concession Agreement requires 407 ETR to maintain certain insurance in respect of, and dedicated to, Highway 407 ETR. No assurance can be given that such insurance coverage will continue to be adequate or available on normal commercial terms (see "Insurance").

12.12. Changes in Laws

No assurance can be given that changes to the laws currently in force affecting the Company or its subsidiaries, or that tolls and fees paid by users of Highway 407 ETR will not have a material and adverse consequence to the Company or its subsidiaries in the future. No assurance can be given that proposed amendments to laws will be enacted into law in the form proposed or otherwise.

12.13. Market for Securities

There is currently no secondary market through which any securities of the Company may be sold and the Company can give no assurances that such a secondary market will develop or, if developed, will continue to exist.

13. Insurance

407 ETR is obligated under the Concession Agreement and the Company is obligated under the Indenture (as hereinafter defined) to provide and maintain insurance in commercially reasonable amounts having regard to the protection of the assets and to its liability as a road owner and operator. This obligation requires that the assets be insured in amounts sufficient to ensure their replacement in case of damage or loss and that revenues be insured by way of business interruption coverage.

407 ETR is also obligated to insure its liability to third parties in general and to motorists. In compliance with this obligation, various comprehensive general liability insurance policies with up to \$50 million coverage are maintained.

407 ETR maintains a number of other insurance policies normally required from a prudent operator, on terms and in amounts which the Company believes are sufficient to protect 407 ETR from any adverse losses.

Where possible, the insurance policies maintained by 407 ETR provide coverage for Cantoll assets and activities not directly related to Highway 407 ETR, such as coverage for the implementation and maintenance of roadside tolling technology and back-office systems related to Highway 407.

DIVIDENDS

Neither the Company nor its subsidiaries may declare or pay any dividend or other distribution on its outstanding shares except pursuant to and in accordance with the provisions of the Indenture, and the then-existing credit facilities of the Company and its subsidiaries (see "Description of Capital Structure" – "Additional Covenants").

The Company declared the dividends indicated below on its outstanding common shares in each of the three most recently completed financial years:

Year	Date	Dividend per Common Share
2016	February 11	\$0.242
	April 21	\$0.242
	July 14	\$0.268
	October 20	\$0.268
2017	February 9	\$0.268
	April 20	\$0.268
	July 13	\$0.277
	October 19	\$0.277
2018	February 15	\$0.292
	April 26	\$0.292
	July 12	\$0.302
	October 18	\$0.302
2019	February 7	\$0.323

DESCRIPTION OF CAPITAL STRUCTURE

1. General Description of Capital Structure

The Company's acquisition of 407 ETR in May 1999 was, and the development of Highway 407 ETR is, partially financed with debt. In conjunction with its financial advisors, the Company developed a financing plan referred to

from time to time in this Annual Information Form as the “Capital Markets Platform”. This financing plan encompasses an ongoing program capable of accommodating a variety of corporate debt instruments and borrowings, including term bank debt, revolving bank lines of credit, publicly issued and privately placed debt securities, commercial paper, medium-term notes, interest rate and currency swaps and other hedging instruments.

On May 5, 1999, the Company, 407 ETR and The Trust Company of Bank of Montreal (now BNY Trust Company of Canada), as trustee (the “**Trustee**”), entered into a master trust indenture, which was amended and restated on July 20, 1999 (the “**Indenture**”), which establishes common security and a set of common covenants given by the Company and 407 ETR for the benefit of all of their creditors under the Capital Markets Platform. A summary of the principal provisions contained in the Indenture is set out in Schedule D hereto.

2. Ratings

Standard & Poor’s Ratings Services (“**S&P**”) has assigned “A”, “A-” and “BBB” ratings to the Company’s Senior Debt, Junior Debt and Subordinated Debt, respectively. DBRS Limited (“**DBRS**”) has assigned “A”, “A-low” and “BBB” ratings to the Company’s Senior Debt, Junior Debt and Subordinated Debt, respectively.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities and are indicators of the likelihood of the payment capacity and willingness of an issuer to meet its financial commitment on an obligation in accordance with the terms of the obligation. S&P and DBRS classify debt instruments into ten rating categories ranging from a high of “AAA” to a low of “D”.

S&P uses “+” and “-” designations to indicate the relative standing of the securities being rated within a particular rating category. According to information made publicly available by S&P, under the S&P rating system, debt securities rated “A” or “A-” indicate that the debt instrument is considered somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor’s capacity to meet its financial commitment on the obligation is still strong. Debt securities rated “BBB” indicate that the debt instrument exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

DBRS uses “high” and “low” designations to indicate the relative standing of the securities being rated within a particular rating category. The absence of either a “high” or “low” designation indicates the rating is in the “middle” of the category. According to information made publicly available by DBRS, under the DBRS rating system, debt securities rated “A” or “A-low” indicate that the obligor of the debt instrument is of good credit quality. The capacity for the payment of its financial obligations is substantial, but of lesser credit quality than “AA”. Entities with securities rated “A” and “A-low” may be vulnerable to future events, but qualifying negative factors are considered manageable. Debt securities rated “BBB” indicate that the obligor of the debt instrument is of adequate credit quality. The capacity for the payment of financial obligations is considered acceptable. Entities with securities rated “BBB” may be vulnerable to future events.

The credit ratings assigned to the Company’s debt are not recommendations to purchase, hold or sell such securities nor are they a comment upon the market price of the securities or their suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

The Company has paid customary rating fees to S&P and DBRS in connection with the assignment of ratings to the Company’s medium-term notes and will pay customary rating fees to S&P and DBRS in connection with the confirmation of such ratings for purposes of the Company’s shelf prospectus and any offering of medium-term notes thereunder. In addition, the Company has made customary payments in respect of certain other services provided to the Company by each of S&P and DBRS during the last two years.

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3. Existing Indebtedness

The Company currently has the following indebtedness outstanding under the Indenture. A description of the principal terms of this indebtedness is set out following the chart.

Series	Issue Date	Maturity	Issued (\$000s)	Face Value (\$000s)	Coupon
Senior Notes					
99-A2	27-Jul-1999	27-Jul-2029	400,000	400,000	6.470%
99-A3	27-Jul-1999	27-Jul-2039	215,226	300,000	6.750%
99-A5	20-Aug-1999	01-Dec-2021	126,370	208,300	5.328%
99-A6	20-Aug-1999	01-Dec-2026	126,370	208,300	5.328%
99-A7	20-Aug-1999	01-Dec-2031	126,370	208,300	5.328%
00-A2	09-Mar-2000	01-Dec-2039	252,574	325,000	5.290%
04-A2	03-Dec-2004	27-Jul-2039	162,274	162,274	3.276%
04-A3	03-Dec-2004	03-Dec-2035	340,000	340,000	5.960%
10-A2	16-Jun-2010	16-Jun-2020	300,000	300,000	4.990%
10-A3	26-Nov-2010	26-May-2021	400,000	400,000	4.300%
11-A1	17-Nov-2011	15-Nov-2041	350,000	350,000	4.450%
12-A1	25-Apr-2012	25-Apr-2042	400,000	400,000	4.190%
12-A2	11-Sep-2012	11-Sep-2052	200,000	200,000	3.980%
12-A2	10-Jun-2013	11-Sep-2052	200,000	200,000	3.980%
13-A1	7-Oct-2013	7-Oct-2053	200,000	200,000	4.680%
Series	Issue Date	Maturity	Issued (\$000s)	Face Value (\$000s)	Coupon
14-A1	16-May-2014	16-May-2024	250,000	250,000	3.350%
15-A1	27-March-2015	27-March-2045	150,000	150,000	3.300%
15-A2	11-May-2015	11-May-2046	500,000	500,000	3.830%
16-A1	19-May-2016	21-May-2047	500,000	500,000	3.60%
16-A2	4-Nov-2016	4-May-2027	350,000	350,000	2.43%
17-A1	24-March-2017	1-June-2033	250,000	250,000	3.43%
17-A2	8-Sep-2017	8-Sep-2044	500,000	500,000	3.65%
18-A1	9-May-2018	11-May-2048	500,000	500,000	3.72%
Junior Notes					
00-B1	26-Jul-2000	26-Jul-2040	165,000	164,954	7.125%
Subordinated Notes					
06-D1	14-Feb-2006	14-Feb-2036	480,000	480,000	5.750%
17-D1	8-Sep-2017	8-Sep-2022	300,000	300,000	2.47%
Sub-Total			7,774,184	8,147,128	
Senior Bank Credit Facilities		1-Dec-2020	-	-	
Total			7,744,184	8,147,128	

3.1. July 1999 Bonds

In July 1999, the Company issued \$400,000,000 principal amount of 6.05% Senior Bonds, Series 99-A1, due July 27, 2009, \$400,000,000 principal amount of 6.47% Senior Bonds, Series 99-A2, due July 27, 2029, and \$300,000,000 principal amount of 6.75% Senior Bonds, Series 99-A3, due July 27, 2039 (collectively, the “**July 1999 Bonds**”) pursuant to the Indenture and a supplemental indenture (the “**Fifth Supplemental Indenture**”) dated July 20, 1999 among the Company, 407 ETR and the Trustee. The aggregate cash proceeds from the sale of the July 1999 Bonds (after underwriting and issue costs) were \$583.7 million, which approximately \$52.8 million were used to fund the initial deposits required to be made under the Series Reserve Accounts for the July 1999 Bonds and approximately \$530.9 million were used to repay indebtedness under the Senior Bridge Credit Agreement. The July 1999 Bonds are Obligation Bonds and each Series thereof is redeemable in whole or in part at the option of the Company.

The Series 99-A1 Bonds matured in 2009. The Series 99-A2 Bonds were issued at a discount to their principal amount and bear interest at an annual rate of 6.05% and 6.47%, respectively, payable semi-annually on January 27 and July 27 of each year until maturity, commencing January 27, 2000. The Series 99-A3 Bonds were issued at a discount to their principal amount. Cash interest was paid on the Series 99-A3 Bonds commencing January 27, 2005. Thereafter, the Series 99-A3 Bonds will bear interest at an annual rate of 6.75%, payable semi-annually in arrears on January 27 and July 27 of each year, commencing January 27, 2005. The Series 99-A3 Bonds are amortizing bonds, repayable in scheduled instalments of principal payable on January 27 and July 27 of each year until maturity, commencing January 27, 2005.

The foregoing summary describes certain provisions of the Fifth Supplemental Indenture but does not purport to be complete and is subject to and is qualified by reference to the Fifth Supplemental Indenture and the July 1999 Bonds.

3.2. August 1999 Bonds

In August 1999, the Company completed a private placement of \$162,500,000 principal amount of 5.328% Real Return Bonds, Series 99-A5, due December 1, 2021, \$162,500,000 principal amount of 5.328% Real Return Senior Bonds, Series 99-A6, due December 1, 2026 and \$162,500,000 principal amount of 5.328% Real Return Senior Bonds, Series 99-A7, due December 1, 2031 (collectively, the “**Real Return Bonds**”), pursuant to the Indenture and a supplemental indenture (the “**Sixth Supplemental Indenture**”) dated August 20, 1999 among the Company, 407 ETR and the Trustee. The aggregate cash proceeds from the sale of the Real Return Bonds, which were issued to a single purchaser, were \$499.4 million (after payment of agency fees and issue costs), which approximately \$43.6 million were used to fund the initial deposits required to be made under the Series Reserve Accounts for the Real Return Bonds and approximately \$455.8 million were used to repay indebtedness. The Real Return Bonds are Obligation Bonds and each Series thereof is redeemable in whole or in part at the option of the Company.

The Real Return Bonds were issued at a discount to their principal amount and at the time of issuance, interest was not payable on the Real Return Bonds prior to June 1, 2004 and thereafter, the Real Return Bonds would bear interest at an annual rate of 5.328%, subject to adjustment, calculated and payable semi-annually on June 1 and December 1 of each year, commencing December 1, 2004.

On March 25, 2002, the Company and the holders of each series of Real Return Bonds agreed (i) to extend the period of time during which interest would not be paid on each such series of Real Return Bonds for an additional five year period to June 1, 2009, and thereafter, each such series of Real Return Bonds will bear interest at an annual rate of 5.328%, subject to adjustment, calculated and payable semi-annually on June 1 and December 1 of each year, commencing December 1, 2009; and (ii) to increase the principal and face amount of each such series of Real Return Bonds by an aggregate amount of \$45,800,000. Such amendments to the Real Return Bonds were effected pursuant to the Indenture and a supplemental indenture (the “**Amended and Restated Sixth Supplemental Indenture**”) dated for reference as of August 20, 1999 between the Company, 407 ETR and the Trustee, which amended and restated the Sixth Supplemental Indenture. The interest payable on the Real Return Bonds will be adjusted for inflation or deflation based on changes in the CPI for Canada in the manner described in the Amended and Restated Sixth Supplemental Indenture.

The Company has established a special Series Reserve Fund for the Real Return Bonds referred to as the “Excess Inflation Reserve Account”. This Reserve Account is in addition to the Series Reserve Accounts which were established and funded at the time of issue of the Real Return Bonds. The Company will be required to fund the Excess Inflation Reserve Account by the aggregate amount, if such amount is a positive amount, of the

Series Excess Inflation Reserve Amount for each Series of the Real Return Bonds. The Series Excess Inflation Reserve Amount for each Series of the Real Return Bonds on any date is the amount (which may be positive or negative) equal to (i) the aggregate outstanding principal amount of such Series on such date multiplied by a fraction, the numerator of which is equal to the reference CPI on such date and the denominator of which is the reference CPI on the date of issue of such Series, minus (ii) the Threshold Level for such Series on such date. The Threshold Level for each Series is an initial amount (which is greater than the principal amount for each Series of Real Return Bonds) which increases by the amount equal to the product of such initial amount and a "Threshold Growth Rate" for inflation applicable to such Series. Therefore, funding of the Excess Inflation Reserve Account generally occurs if inflation exceeds such Threshold Growth Rate as reflected in the then applicable CPI. Amounts in the Excess Inflation Reserve Account will be paid to the holders of the Series of the Real Return Bonds on the redemption or maturity date thereof, in each case in accordance with the provisions of the Amended and Restated Sixth Supplemental Indenture.

The foregoing summary describes certain provisions of the Amended and Restated Sixth Supplemental Indenture but does not purport to be complete and is subject to and is qualified by reference to the Amended and Restated Sixth Supplemental Indenture and the Real Return Bonds.

3.3. March 2000 Bonds

In March 2000, the Company issued \$325,000,000 principal amount of 5.29% Amortizing Real Return Replacement Senior Bonds, Series 00-A2, due December 1, 2039 (the "**Replacement Bonds**"). The Replacement Bonds were issued to replace 5.29% Amortizing Real Return Replaceable Senior Bonds, Series 00-A1, due December 1, 2039 of the Company in the aggregate principal amount of \$325,000,000 (the "**Replaceable Bonds**"). The Replaceable Bonds were issued by the Company on a private placement basis in February 2000.

Both the Replacement Bonds and the Replaceable Bonds were issued pursuant to the Indenture and a supplemental indenture dated February 2, 2000 among the Company, 407 ETR and the Trustee (the "**Ninth Supplemental Indenture**"). The Replaceable Bonds were issued at a discount to the principal amount. The aggregate cash proceeds from the sale of the Replaceable Bonds, which were issued to twelve initial purchasers, were approximately \$248.7 million (after payment of underwriters' fees and issue costs), which approximately \$20.5 million were used to fund the initial deposits required to be made under the Series Reserve Account for the Replaceable Bonds and approximately \$228.2 million were used to repay indebtedness. The Replaceable Bonds were, and the Replacement Bonds are, Obligation Bonds, and the Replacement Bonds are redeemable in whole or in part at the option of the Company.

No cash interest will accrue on the Replacement Bonds prior to December 1, 2004. Thereafter, interest will accrue at a rate of 5.29% per annum subject to adjustment and will be payable semi-annually in arrears on June 1 and December 1 of each year until maturity, commencing June 1, 2005. These bonds are amortizing bonds repayable in scheduled payments consisting of instalments of principal and, if applicable, Inflation Compensation (defined below), with the initial payment due June 1, 2005 and subsequent payments being payable on June 1 and December 1 of each year until maturity. "Inflation Compensation" means the amount equal to the difference between (a) the principal outstanding on the bonds, multiplied by the Index Ratio, and (b) the principal outstanding on the bonds. The Index Ratio for any date is defined as the ratio of the reference CPI applicable to such date divided by the reference CPI applicable to the original date of issue of the Replaceable Bonds. During this period, bondholders will receive a blended payment consisting of principal, Inflation Compensation and interest payments payable on the bonds. The blended payment is subject to adjustment in certain circumstances and is calculated by multiplying a semi-annual payment amount of \$31.5191, subject to adjustment per \$1,000 bond (representing principal and interest) by the Index Ratio at the relevant payment date. The Index Ratio for any date is defined as the ratio of the reference CPI applicable to such date divided by the reference CPI applicable to the original date of issue of the Replaceable Bonds.

The foregoing summary describes certain provisions of the Ninth Supplemental Indenture but does not purport to be complete and is subject to and is qualified by reference to the Ninth Supplemental Indenture and the Replacement Bonds.

3.4. July 2000 Bonds

In July 2000, the Company issued \$165,000,000 principal amount of 7.00% Junior Bonds, Series 00-B1, due July 26, 2010 (the "**July 2000 Bonds**") extendible at the option (the "**Extension Option**") of the holder to July 26, 2040 (the "**Final Maturity Date**") with the July 2000 Bonds bearing interest at an increased annual rate of 7.125% pursuant to the Indenture and a supplemental indenture dated July 26, 2000 among the Company, 407 ETR and

the Trustee (the “**Fourteenth Supplemental Indenture**”). The aggregate cash proceeds from the sale of the July 2000 Bonds (after underwriting and issue costs) were \$162.7 million, which were used as to approximately \$149.5 million to repay the remaining outstanding indebtedness under the Junior Term Credit Agreement and as to approximately \$13.2 million to fund the initial deposits required to be made to the Series Reserve Account for the July 2000 Bonds with any excess proceeds applied in accordance with the terms and conditions of the Indenture. The July 2000 Bonds are Obligation Bonds and are redeemable in whole or in part at the option of the Company at any time after July 26, 2010 (the “**Initial Maturity Date**”).

With the exception of one bond holder who elected to be paid \$46,000 at the Initial Maturity Date, holders of the July 2000 Bonds exercised the Extension Option. As such, \$164,954,000 principal amount of 7.125% Junior Bonds, Series 00-B1 were extended to the Final Maturity Date.

The holders of the July 2000 Bonds will have the right to exercise remedies pursuant to the provisions of the Indenture following the occurrence of an Event of Default or an Acceleration Event of Default regardless of whether holders of the Senior Bonds have taken any action to enforce their rights and remedies provided that (i) the Company has failed or refused to make or defaulted in the payment of principal and interest due and owing on the July 2000 Bonds and such default has continued for 18 months; and (ii) the Event of Default or Acceleration Event of Default (other than an Event of Default arising solely as a result of a payment default with respect to principal or interest due and owing on the July 2000 Bonds) shall not have been waived by the holders of Senior Bonds. In addition to the covenants in the Indenture, the Fourteenth Supplemental Indenture prohibits the issue of any additional Junior Debt by the Company prior to the Initial Maturity Date.

The July 2000 Bonds were issued at a discount to their principal amount and bear interest at an annual rate of 7.00% from the date of issue until the Initial Maturity Date and at an annual rate of 7.125% from the Initial Maturity Date until the Final Maturity Date in respect of those July 2000 Bonds that have been extended, payable semi-annually on January 26 and July 26 of each year until maturity, commencing January 26, 2001.

The foregoing summary describes certain provisions of the Fourteenth Supplemental Indenture but does not purport to be complete and is subject to and is qualified by reference to the Fourteenth Supplemental Indenture and the July 2000 Bonds.

3.5. December 2004 Notes

In December 2004, the Company issued \$162,274,002 principal amount of Senior Medium-Term Notes, Series 04-A2 due July 27, 2039 (the “**December 2004 Indexed Notes**”) pursuant to the Indenture and the Nineteenth Supplemental Indenture. The aggregate cash proceeds from the sale of the December 2004 Indexed Notes (after agency commissions and issue costs) were approximately \$160.5 million, and approximately \$5.3 million of such proceeds were used as to fund the initial deposits required to be made under the Series Reserve Account for the December 2004 Indexed Notes in the Debt Service Reserve Fund and approximately \$155.2 million were used to fund the redemption of the Company’s Series 99 A-8 Senior Bonds on December 30, 2004. The December 2004 Indexed Notes are direct obligations of the Company and are redeemable in whole or in part at the option of the Company.

The December 2004 Indexed Notes were issued at par and bear interest at an annual rate of 3.276%, subject to adjustment as determined by an increase, if any, in the CPI. The Company will make semi-annual payments to the holders of the December 2004 Indexed Notes (the “**Payment**”) on January 27 and July 27 of each year (the “**Payment Date**”) until maturity, commencing January 27, 2005. The Payment will be the product of \$13 million and the percentage increase, if any, in the CPI from December 3, 2004 until the Payment Date. The Payment on each Payment Date will be applied in respect of interest and principal together with all other amounts owing in respect of the December 2004 Indexed Notes as follows provided that no payment of any such amount in respect of the December 2004 Indexed Notes shall be made by the Company in the event that the Payment on any Payment Date is equal to \$0.00:

1. firstly, as a compensation payment to the holders of the December 2004 Indexed Notes, the amount, if any, that the Payment exceeds the sum of: (i) all interest payable in respect of the December 2004 Indexed Notes as described in clauses (2) and (3) immediately below; and (ii) the amount equal to the aggregate amount of principal repaid in respect of the December 2004 Indexed Notes as set forth in clause (4) immediately below;
2. secondly, to the payment of interest in respect of the December 2004 Indexed Notes due for the period from and including the previous Payment Date to, but excluding, the Payment Date in respect of which the Payment is being made;

3. thirdly, to the payment of interest accrued and unpaid in respect of the December 2004 Indexed Notes for the period(s) from and including the previous Payment Date(s) to, but excluding, the Payment Date in respect of which the Payment is being made; and
4. fourthly, to the repayment of principal in respect of the December 2004 Indexed Notes provided that, at any time, the aggregate amount of principal repaid in respect of the December 2004 Indexed Notes pursuant to the application of Payments shall not exceed the aggregate amount of the scheduled repayments of principal in respect of the December 2004 Indexed Notes for all Payment Dates prior to the subject Payment Date after giving effect to the Payment on such Payment Date.

In December 2004, the Company issued \$340,000,000 principal amount of 5.96% Senior Medium-Term Notes, Series 04-A3 due December 3, 2035 (the “**December 2004 Nominal Notes**”) pursuant to the Indenture and the Nineteenth Supplemental Indenture. The aggregate cash proceeds from the sale of the December 2004 Nominal Notes (after agency commissions and issue costs) were approximately \$338.1 million, and approximately \$40.5 million of such proceeds were used to fund four semi-annual interest payments on the December 2004 Nominal Notes through the Prepaid Interest Reserve Account for the December 2004 Nominal Notes, approximately \$24.5 million were used to fund the initial deposits required to be made under the Series Reserve Account for the December 2004 Nominal Notes, approximately \$268.7 million were used to fund the redemption of the October 1999 Bonds on December 30, 2004 and approximately \$4.4 million were used to finance the Company’s general operating, capital and funding requirements. The December 2004 Nominal Notes are direct obligations of the Company and are redeemable in whole or in part at the option of the Company.

The December 2004 Nominal Notes were issued at a discount to their principal amount and bear interest at an annual rate of 5.96%, payable semi-annually on June 3 and December 3 of each year until maturity, commencing June 3, 2005.

3.6. February 2006 Notes

In February 2006, the Company issued \$480,000,000 principal amount of 5.75% Subordinated Medium-Term Notes, Series 06-D1 due February 14, 2036 (the “**February 2006 Subordinated Notes**”) pursuant to the Indenture and the Twentieth Supplemental Indenture. The aggregate cash proceeds from the sale of the February 2006 Subordinated Notes (after agency commissions and issue costs) were approximately \$477.0 million, and such proceeds were used as to approximately \$475.0 million to repay the indebtedness represented by the Company’s Series 03-D1 Subordinated Medium-Term Notes, and as to approximately \$2.0 million to the Company’s General Fund to finance the Company’s general operating, capital and funding requirements. The February 2006 Subordinated Notes are direct obligations of the Company and are redeemable in whole or in part at the option of the Company.

The February 2006 Subordinated Notes were issued at a discount to their principal amount and bear interest at an annual rate of 5.75%, payable semi-annually on February 14 and August 14 of each year until maturity, commencing August 14, 2006.

3.7. June 2010 Notes

In June 2010, the Company issued \$300,000,000 principal amount of 4.99% Senior Medium-Term Notes, Series 10-A2 due June 16, 2020 (the “**June 2010 Notes**”) pursuant to the Indenture and a Supplemental Indenture dated as at June 8, 2010 among the Company, 407 ETR and the Trustee (the “**Twenty Fifth Supplemental Indenture**”). The aggregate cash proceeds from the sale of the June 2010 Notes (after agency commissions) were approximately \$298.6 million, and such proceeds, were used (i) to repay, in part, \$625,000,000 principal amount of 4.90% Senior Bonds, Series 07-A2 on July 16, 2010, (ii) to fund the initial deposit of \$19,389,931 required to be made to the Series Reserve Account in the Debt Service Fund for the June 2010 Notes, and (iii) for general corporate purposes. The June 2010 Notes are direct obligations of the Company and are redeemable in whole or in part at the option of the Company at any time.

The June 2010 Notes were issued at a discount to their principal amount and bear interest at an annual rate of 4.99%, payable semi-annually on June 16 and December 16 of each year until maturity, commencing December 16, 2010.

3.8. November 2010 Notes

In November 2010, the Company issued \$400,000,000 principal amount of 4.30% Senior Medium-Term Notes, Series 10-A3 due May 26, 2021 (the “**November 2010 Senior Notes**”) pursuant to the Indenture and the Twenty

Fifth Supplemental Indenture. The aggregate cash proceeds from the sale of the November 2010 Senior Notes (after agency commissions) were approximately \$398.3 million, and such proceeds, were used (i) to repay \$250,000,000 principal amount of the Company's January 2008 Senior Notes on December 29, 2010, (ii) to fund the initial deposit of \$23,857,745 required to be made to the Series Reserve Account in the Debt Service Fund for the November 2010 Senior Notes, and (iii) for general corporate purposes. The November 2010 Senior Series 10-A3 Notes are direct obligations of the Company and are redeemable in whole or in part at the option of the Company at any time.

The November 2010 Senior Notes were issued at a discount to their principal amount and bear interest at an annual rate of 4.30%, payable semi-annually on May 26 and November 26 of each year until maturity, commencing May 26, 2011.

3.9. November 2011 Notes

In November 2011, the Company issued \$350,000,000 principal amount of 4.45% Senior Medium-Term Notes, Series 11-A1 due November 15, 2041 (the "**November 2011 Notes**") pursuant to the Indenture and the Twenty Seventh Supplemental Indenture. The aggregate cash proceeds from the sale of the November 2011 Notes (after agency commissions) were approximately \$347.8 million, and such proceeds, were used (i) to repay \$300,000,000 principal amount of the Company's Senior Series 09-A1 Notes on December 19, 2011, (ii) to fund the initial deposit of \$21,249,392 required to be made to the Series Reserve Account in the Debt Service Fund for the November 2011 Notes, and (iii) for general corporate purposes. The November 2011 Notes are direct obligations of the Company and are redeemable in whole or in part at the option of the Company at any time.

The November 2011 Notes were issued at a discount to their principal amount and bear interest at an annual rate of 4.45%, payable semi-annually on May 15 and November 15 of each year until maturity, commencing May 15, 2012.

3.10. April 2012 Notes

In April 2012, the Company issued \$400,000,000 principal amount of 4.19% Senior Medium-Term Notes, Series 12-A1 due April 25, 2042 (the "**April 2012 Notes**") pursuant to the Indenture and the Twenty Seventh Supplemental Indenture. The aggregate cash proceeds from the sale of the April 2012 Notes (after agency commissions) were approximately \$397.5 million, and such proceeds, were used (i) to repay \$200,000,000 principal amount of the Company's Senior Series 09-A2 Notes on May 25, 2012, (ii) to fund the initial deposit of \$23,546,766 required to be made to the Series Reserve Account in the Debt Service Fund for the April 2012 Notes, and (iii) for general corporate purposes, including to fund operating and capital expenditures, and to pay interest to bondholders. The April 2012 Notes are direct obligations of the Company and are redeemable in whole or in part at the option of the Company at any time.

The April 2012 Notes were issued at a discount to their principal amount and bear interest at an annual rate of 4.19%, payable semi-annually on October 25 and April 25 of each year until maturity, commencing October 25, 2012.

3.11. September 2012 Notes

In September 2012, the Company issued \$200,000,000 principal amount of 3.98% Senior Medium-Term Notes, Series 12-A2 due September 11, 2052 (the "**September 2012 Notes**") pursuant to the Indenture and a Supplemental Indenture dated as at August 3, 2012 among the Company, 407 ETR and the Trustee (the "**Twenty Eighth Supplemental Indenture**"). The aggregate cash proceeds from the sale of the September 2012 Notes (after agency commissions) were approximately \$198.7 million, and such proceeds, were used (i) to fund the initial deposit of \$11,479,342 required to be made to the Series Reserve Account in the Debt Service Fund for the September 2012 Notes, and (ii) for general corporate purposes, including to fund operating and capital expenditures, and to pay interest to bondholders. The September 2012 Notes are direct obligations of the Company and are redeemable in whole or in part at the option of the Company at any time.

In June 2013, the Company issued an additional \$200,000,000 principal amount of the September 2012 Notes. The aggregate cash proceeds from the sale of the additional September 2012 Notes (after agency commissions) were approximately \$197.3 million, and such proceeds, were used (i) to fund the initial deposit of \$11,479,342 required to be made to the Series Reserve Account in the Debt Service Fund for the additional September 2012 Notes, (ii) to repay \$106.3 million of the Company's Senior Bank Credit Facilities, and (iii) for general corporate purposes, including to fund operating and capital expenditures, and to pay interest to bondholders.

The September 2012 Notes are direct obligations of the Company and are redeemable in whole or in part at the option of the Company at any time.

The September 2012 Notes were issued at a discount to their principal amount and bear interest at an annual rate of 3.98%, payable semi-annually on March 11 and September 11 of each year until maturity, commencing March 11, 2013.

3.12. October 2013 Notes

In October 2013, the Company issued \$200,000,000 principal amount of 4.68% Senior Medium-Term Notes, Series 13-A1 due October 7, 2053 (the “**October 2013 Notes**”) pursuant to the Indenture and the Twenty Eighth Supplemental Indenture. The aggregate cash proceeds from the sale of the October 2013 Notes (after agency commissions) were approximately \$199.0 million, and such proceeds, were used (i) to fund the initial deposit of \$12,473,640 required to be made to the Series Reserve Account in the Debt Service Fund for the October 2013 Notes, (ii) to repay \$118.1 million of the Company’s Senior Bank Credit Facilities, and (iii) for general corporate purposes, including to fund operating and capital expenditures, and to pay interest to bondholders.

The October 2013 Notes are direct obligations of the Company and are redeemable in whole or in part at the option of the Company at any time.

The October 2013 Notes were issued at a discount to their principal amount and bear interest at an annual rate of 4.68%, payable semi-annually on April 7 and October 7 of each year until maturity, commencing April 7, 2014.

3.13. May 2014 Notes

In May 2014, the Company issued \$250,000,000 principal amount of 3.35% Senior Medium-Term Notes, Series 14-A1 due May 16, 2024 (the “**May 2014 Notes**”) pursuant to the Indenture and the Twenty Eighth Supplemental Indenture. The aggregate cash proceeds from the sale of the May 2014 Notes (after agency commissions) were approximately \$248.8 million, and such proceeds, were used (i) to fund the initial deposit of \$13,274,778 required to be made to the Series Reserve Account in the Debt Service Fund for the May 2014 Notes, (ii) to repay \$235.2 million of the Company’s Senior Bank Credit Facilities, and (iii) for general corporate purposes, including to fund operating and capital expenditures, and to pay interest to bondholders.

The May 2014 Notes are direct obligations of the Company and are redeemable in whole or in part at the option of the Company at any time.

The May 2014 Notes were issued at a discount to their principal amount and bear interest at an annual rate of 3.35%, payable semi-annually on May 16 and November 16 of each year, commencing November 16, 2014 until maturity.

3.14. March 2015 Notes

In March 2015, the Company issued \$150,000,000 principal amount of 3.30% Senior Medium-Term Notes, Series 15-A1 due March 27, 2045 (the “**March 2015 Notes**”) pursuant to the Indenture and a Supplemental Indenture dated as at March 18, 2015 among the Company, 407 ETR and the Trustee (the “**Thirty Sixth Supplemental Indenture**”). The aggregate cash proceeds from the sale of the March 2015 Notes (after agency commissions) were approximately \$149.7 million, and such proceeds, were used (i) to fund the initial deposit of \$7,914,817 required to be made to the Series Reserve Account in the Debt Service Fund for the March 2015 Notes, (ii) to repay \$140.0 million of the Company’s Senior Bank Credit Facilities, and (iii) for general corporate purposes, including to fund operating and capital expenditures, and to pay interest to bondholders.

The March 2015 Notes are direct obligations of the Company and are redeemable in whole or in part at the option of the Company at any time.

The March 2015 Notes were issued at a discount to their principal amount and bear interest at an annual rate of 3.30%, payable semi-annually, on March 27 and September 27 of each year, commencing September 27, 2015 until maturity.

3.15. May 2015 Notes

In May 2015, the Company issued \$500,000,000 principal amount of 3.83% Senior Medium-Term Notes, Series 15-A2 due May 11, 2046 (the “**May 2015 Notes**”) pursuant to the Indenture and the Thirty Sixth Supplemental

Indenture. The aggregate cash proceeds from the sale of the May 2015 Notes (after agency commissions) were approximately \$499.2 million, and such proceeds, were used (i) to fund the initial deposit of \$28,178,982 required to be made to the Series Reserve Account in the Debt Service Fund for the May 2015 Notes, (ii) to repay, in part, \$500,000,000 principal amount of 3.88% Senior Bonds, Series 10-A1 on June 16, 2015, and (iii) for general corporate purposes, including to fund operating and capital expenditures, and to pay interest to bondholders.

The May 2015 Notes are direct obligations of the Company and are redeemable in whole or in part at the option of the Company at any time.

The May 2015 Notes were issued at a discount to their principal amount and bear interest at an annual rate of 3.83%, payable semi-annually, on May 11 and November 11 of each year, commencing November 11, 2015 until maturity

3.16. May 2016 Notes

In May 2016, the Company issued \$500,000,000 principal amount of 3.60% Senior Medium-Term Notes, Series 16-A1 due May 21, 2047 (the "May 2016 Notes") pursuant to the Indenture and the Thirty Sixth Supplemental Indenture. The aggregate cash proceeds from the sale of the May 2016 Notes (after agency commissions) were approximately \$499.4 million, and such proceeds, were used (i) to fund the initial deposit of \$27,391,966 required to be made to the Series Reserve Account in the Debt Service Fund for the May 2016 Notes, (ii) to repay, in part, \$465,000,000 principal amount of the Company's Senior Bank Credit Facilities, and (iii) for general corporate purposes, including to fund operating and capital expenditures, and to pay interest to bondholders.

The May 2016 Notes are direct obligations of the Company and are redeemable in whole or in part at the option of the Company at any time.

The May 2016 Notes were issued at a discount to their principal amount and bear interest at an annual rate of 3.60%, payable semi-annually, on May 21 and November 21 of each year, commencing November 21, 2016 until maturity.

3.17. November 2016 Notes

In November 2016, the Company issued \$350,000,000 principal amount of 2.43% Senior Medium-Term Notes, Series 16-A2 due May 4, 2027 (the "November 2016 Notes") pursuant to the Indenture and the Thirty Sixth Supplemental Indenture. The aggregate cash proceeds from the sale of the November 2016 Notes (after agency commissions) were approximately \$348.5 million, and such proceeds, were used (i) to fund the initial deposit of \$16,499,025 required to be made to the Series Reserve Account in the Debt Service Fund for the November 2016 Notes, (ii) to repay approximately \$289,000,000 Real Return Senior Bonds, Series 99-A4 on December 1, 2016, and (iii) for general corporate purposes, including to fund operating and capital expenditures, and to pay interest to bondholders.

The November 2016 Notes are direct obligations of the Company and are redeemable in whole or in part at the option of the Company at any time.

The November 2016 Notes were issued at a discount to their principal amount and bear interest at an annual rate of 2.43%, payable semi-annually, on May 4 and November 4 of each year, commencing May 4, 2017 until maturity.

3.18 March 2017 Notes

In March 2017, the Company issued \$250,000,000 principal amount of 3.43% Senior Medium-Term Notes, Series 17-A1 due June 1, 2033 (the "March 2017 Notes") pursuant to the Indenture and the Forty First Supplemental Indenture. The aggregate cash proceeds from the sale of the March 2017 Notes (after agency commissions) were approximately \$248.5 million, and such proceeds, were used (i) to fund the initial deposit of \$13,408,818 required to be made to the Series Reserve Account in the Debt Service Fund for the March 2017 Notes, (ii) to repay, in part, \$235,000,000 principal amount of the Company's Senior Bank Credit Facilities, and (iii) for general corporate purposes, including to fund operating and capital expenditures, and to pay interest to bondholders.

The March 2017 Notes are direct obligations of the Company and are redeemable in whole or in part at the option of the Company at any time.

The March 2017 Notes were issued at a discount to their principal amount and bear interest at an annual rate of 3.43%, payable semi-annually, on June 1 and December 1 of each year, commencing June 1, 2017 (short first coupon) until maturity.

3.19 September 2017 Notes

In September 2017, the Company issued \$500,000,000 principal amount of 3.65% Senior Medium-Term Notes, Series 17-A2 due September 8, 2044 (the “**September 2017 Senior Notes**”) pursuant to the Indenture and the Forty First Supplemental Indenture. The aggregate cash proceeds from the sale of the September 2017 Senior Notes (after agency commissions) were approximately \$496.3 million, and such proceeds, were used (i) to repay, in part, \$430,000,000 principal amount of the Company’s Senior Bank Credit Facilities, (ii) to fund the initial deposit of \$27,562,085 required to be made to the Series Reserve Account in the Debt Service Fund for the September 2017 Senior Notes, and (iii) for general corporate purposes, including to fund operating and capital expenditures, and to pay interest to bondholders. The September 2017 Senior Notes are direct obligations of the Company and are redeemable in whole or in part at the option of the Company at any time.

The September 2017 Senior Notes were issued at a discount to their principal amount and bear interest at an annual rate of 3.65%, payable semi-annually on March 8 and September 8 of each year until maturity, commencing March 8, 2018.

In September 2017, the Company issued \$300,000,000 principal amount of 2.47% Subordinated Medium-Term Notes, Series 17-D1 due September 8, 2022 (the “**September 2017 Subordinated Notes**”) pursuant to the Indenture and the Forty First Supplemental Indenture. The aggregate cash proceeds from the sale of the September 2017 Subordinated Notes (after agency commissions) were approximately, \$298.9 million, and such proceeds, together with other available funds, were used to repay \$300,000,000 principal amount of the Company’s November 2010 Subordinated Notes on October 5, 2017. The September 2017 Subordinated Notes are direct obligations of the Company and are redeemable in whole or in part at the option of the Company at any time.

The September 2017 Subordinated Notes were issued at a discount to their principal amount and bear interest at an annual rate of 2.47%, payable semi-annually on March 8 and September 8 of each year until maturity, commencing March 8, 2018.

3.20 May 2018 Notes

In May 2018, the Company issued \$500,000,000 principal amount of 3.72% Senior Medium-Term Notes, Series 18-A1 due May 11, 2048 (the “**May 2018 Notes**”) pursuant to the Indenture and the Forty First Supplemental Indenture. The aggregate cash proceeds from the sale of the May 2018 Notes (after agency commissions) were approximately \$497.5 million, and such proceeds were used (i) to repay \$422,000,000 principal amount of the Company’s Senior Bank Credit Facilities, (ii) to fund the initial deposit of \$27,801,161 required to the Series Reserve Account in the Debt Service Fund for the May 2018 Notes, and (iii) for general corporate purposes, including to fund operating and capital expenditures, and to pay interest to bondholders. The May 2018 Notes are direct obligations of the Company and are redeemable in whole or in part at the option of the Company at any time.

The May 2018 Notes were issued at par and bear interest at an annual rate of 3.72%, payable semi-annually on May 11 and November 11 of each year until maturity, commencing November 11, 2018.

3.21 Senior Bank Credit Facilities

On December 1, 2015, the Company entered into three credit agreements with respect to three revolving credit facilities with Canadian Chartered banks in the aggregate principal amount of up to \$1.0 billion. The credit facilities 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 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. On September 21, 2017, the Company cancelled \$535.0 million of its \$1.0 billion revolving credit facilities and on May 28, 2018, the Company further cancelled \$165.0 million of its revolving credit facilities for an aggregate remaining principal amount of up to \$300.0 million. As at December 31, 2018, the Company has a nil drawn balance under the credit facilities.

4. Voting Securities and Principal Holders of Voting Securities

The Company is authorized to issue an unlimited number of common shares, of which 775,000,003 common shares are issued and outstanding as at the date hereof. Each common share of the Company entitles the holder thereof to one (1) vote at any meeting of shareholders of the Company, and to participate *pro rata* on any distribution on the liquidation, dissolution or winding-up of the Company. See also “Background” under “Corporate Governance” below.

The following table sets out the number of common shares of the Company beneficially owned, directed or controlled, directly or indirectly, by each person or company who is known to own beneficially or direct or control, directly or indirectly, more than 10% of the common shares as at the date hereof.

Name	Ownership/Control	Number of Shares	Percentage of Class
Cintra Global	Indirect Ownership ⁽¹⁾	335,000,001	43.23%
CPPIB	Indirect Ownership and Indirect Control ⁽²⁾	310,000,001	40.00%
SNC-Lavalin	Indirect Ownership ⁽³⁾	130,000,001	16.77%

- (1) Cintra Global’s shares are held indirectly through 4352238 Canada Inc., as registered shareholder.. On June 14, 2018, Cintra Global Ltd. was converted to a public limited company and registered as Cintra Global PLC. Subsequently, on December 17, 2018, Cintra Global PLC was converted to a Societas Europaea company and registered as Cintra Global S.E. As a result, the indirect interest in the Company was transferred from Cintra Global Limited to Cintra Global S.E., each a wholly-owned subsidiary of Ferrovial, S.A.
- (2) CPPIB’s 310,000,001 shares are comprised of 77,507,501 shares beneficially owned through 7577702 Canada Inc., as registered shareholder, and 232,492,500 shares over which control or direction is exercised through MICI Inc. as registered shareholder, the parent company of which CPPIB holds an approximate 62.46% economic interest.
- (3) SNC-Lavalin’s shares are held indirectly through SNC-Lavalin Highway Holdings Inc. / SNC-Lavalin Autoroute Holding Inc., as registered shareholder.

MARKET FOR SECURITIES

There is no exchange or quotation system on which any of the Company’s securities are listed and posted for trading or quoted.

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DIRECTORS AND OFFICERS

1. Name, Occupation and Security Holding

The following table sets forth the name, province or state, country of residence, office held with the Company (if any) and principal occupation of each of the directors and executive officers of the Company at February 7, 2019 and their years of service as directors (if applicable):

Name, Province or State, and Country of Residence ⁽¹⁾	Office Held	Date of Appointment ⁽²⁾	Principal Occupation
David McFadden, Q.C. ⁽³⁾⁽⁴⁾⁽⁷⁾ Ontario, Canada	Director and Chair of the Board	February 15, 2002	Corporate Director
Andrew Alley ⁽⁵⁾ Ontario, Canada	Director	July 17, 2013	Senior Principal, Real Assets (Infrastructure), CPPIB
Michael Bernasiewicz ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾⁽¹¹⁾ Ontario, Canada	Director	September 23, 2005	President, Northface Infrastructure Management Ltd. (Infrastructure Investments)
Francisco Clemente ⁽⁵⁾⁽⁸⁾⁽⁹⁾ Madrid, Spain	Director	February 17, 2005	Chief Financial Officer, Cintra and Cintra Global
George Davie Ontario, Canada	Director	February 15, 2012	Managing Director, The Hazelton Innovative Group
Enrique Díaz-Rato ⁽⁹⁾⁽¹⁰⁾ Madrid, Spain	Director	February 11, 2004	Chief Executive Officer, Cintra and Cintra Global ⁽¹⁵⁾
Laura Formusa Ontario, Canada	Director	July 14, 2016	Corporate Director
Andrew Hay ⁽⁶⁾⁽¹³⁾ Ontario, Canada	Director	April 1, 2018	Senior Principal, Real Assets (Infrastructure), CPPIB
Denis Jasmin ⁽³⁾⁽⁴⁾⁽⁶⁾⁽⁷⁾ Quebec, Canada	Director	April 22, 2016	Vice President, Investor Relations, SNC-Lavalin
Robert MacIsaac Ontario, Canada	Director	February 17, 2011	President & Chief Executive Officer, Hamilton Health Sciences Corporation
Jose Tamariz ⁽¹²⁾ Madrid, Spain	Director	February 1, 2019	Director for Europe and New Markets, Cintra Global
Ken Walker ⁽⁵⁾ Ontario, Canada	Director	November 4, 2010	Corporate Director
Andres Sacristan ⁽³⁾⁽⁴⁾⁽⁶⁾⁽⁷⁾⁽⁸⁾⁽¹⁰⁾ Ontario, Canada	Director and President & Chief Executive Officer	January 1, 2017	President & Chief Executive Officer: <ul style="list-style-type: none"> • 407 International Inc.; • 407 ETR; • Cantoll; and • 9665641 Canada Inc.
Geoffrey Liang Ontario, Canada	Chief Financial Officer	July 14, 2016	Chief Financial Officer: <ul style="list-style-type: none"> • 407 International Inc.; • 407 ETR; • Cantoll; and • 9665641 Canada Inc.

- (1) The members of the Board are nominees of Cintra Global, CPPIB, and SNC-Lavalin, as applicable.
- (2) The term of office for each person elected or appointed as director is until the next annual meeting of shareholders of the Company or until his or her successor is elected or appointed or until his or her resignation is received by the Company.
- (3) Denotes principal member of the Corporate Governance & Compensation Committee.
- (4) Denotes principal member of the Environmental, Health & Safety Committee.
- (5) Mr. Andrew Alley, Mr. Francisco Clemente and Mr. Ken Walker act as alternate members of the Executive, Audit, Corporate Governance & Compensation, and Environmental, Health & Safety Committees in the place and stead of the principal members, Mr. Michael Bernasiewicz, Mr. Andres Sacristan and Mr. Denis Jasmin, respectively, if the principal member is absent or unable to act at a meeting. Mr. Michael Bernasiewicz acts as an alternate member of the Executive Committee, if Mr. Hay is absent or unable to act at an Executive Committee meeting.
- (6) Denotes principal member of the Executive Committee.
- (7) Denotes principal member of the Audit Committee.

- (8) Mr. Francisco Clemente and Mr. Sacristan were appointed as directors of Autopista Madrid Levante C.E.S.A. on March 2004 and September 2010, respectively, and directors of Inversora de Autopistas de Levante S.L. since June 2004 and September 2010 respectively. Both companies, which are subsidiaries of Cintra, operated the AP-36 Ocana-La Roda toll road in Spain, and filed for insolvency with the courts in Madrid, Spain in October 2012. According to a resolution by the Court dated February 2015, that involved the opening of the Liquidation Phase of the insolvency proceeding, the Board of Directors were removed from the company, and Mr. Clemente and Mr. Sacristan ceased serving as directors as of September 2015. In December 2017, liquidation plans were submitted and approved and proceedings were commenced to terminate the concession agreement between the Ministry of Public Works and Autopista Madrid Levante, C.E.S.A. In July 2018, the termination of the concession agreement was confirmed by the Ministry of Public Works.
- (9) Mr. Francisco Clemente and Mr. Enrique Díaz-Rato were directors of Statewide Mobility Partners LLC ("Statewide"), which was the sole member of ITR Concession Company Holdings LLC (ITR-Holdings), which in turn was the sole member of ITR Concession Company LLC (ITR), a United States company, the private operator of the Indiana Toll Road. Mr. Diaz-Rato served as director of Statewide from July 2006 to October 2014. Mr. Clemente served as a Director of Statewide from July 2011 to October 2014. ITR filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Court on September 2014. Chapter 11 proceedings were concluded in May 2015, resulting in the sale of the Indiana Toll Road. In May 2015, a liquidator was appointed pursuant to a memorandum of understanding regarding the dissolution of Statewide and ITR to wind up the affairs of these entities and in February 2016, Statewide and ITR filed certificates of cancellation with the Secretary of State of the State of Delaware.
- (10) Mr. Enrique Díaz-Rato was a director of SH-130 Concession Company LLC from March 2007 to June 2010, the private operator of State Highway SH-130 Toll Road, which filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Court in March 2016. The plan objection deadline passed on January 11, 2017 and no objections were filed. The plan was approved in January 2017. The confirmation hearing was adjourned to February 2017. Following which, Chapter 11 proceedings were concluded on June 30, 2017, resulting in the sale of the equity of SH-130 Concession Company LLC to the lenders.
- (11) Mr. Andres Sacristan served as a director of Inverora de Autopistas del Sur, S.L. and Autopista Madrid Sur, C.E.S.A. from September, 2010 to September, 2015. Both companies, which are subsidiaries of Cintra, operated the R-4 motorway in Spain, and filed for insolvency with the courts in Madrid, Spain in September 2012. According to a resolution by the Court dated February 2015, that involved the opening of the Liquidation Phase of the insolvency proceeding, the Board of Directors were removed from both companies, and Mr. Sacristan ceased serving as a director as of September 2015.
- (12) Mr. Michael Bernasiewicz was appointed as Chair of the Executive Committee in October 2013.
- (13) Mr. Nicolas Rubio, a Director nominated by Cintra, resigned from the Board effective January 31, 2019 and was replaced with Mr. Jose Tamariz effective February 1, 2019.
- (14) Effective April 1, 2018, Mr. Andrew Hay was appointed replacing of Mr. Bruce Hogg who resigned as of the same date.
- (15) Mr. Diaz-Rato concluded his tenure as the Chief Executive Officer of Cintra and Cintra Global on December 21, 2018.

All of the current directors and officers of the Company have been engaged for more than five years in their current principal occupations, except as follows:

- Mr. Robert Maclsaac was President of Mohawk College from February 2009 to January 2014. In February 2014, he was appointed President & Chief Executive Officer of Hamilton Health Sciences Corporation.
- Mr. David McFadden was formerly a Partner of Gowling WLG LLP until his appointment as Counsel in January 2015. In December 2018, Mr. McFadden concluded his role as counsel at Gowling WLG LLP to continue his various corporate directorships.
- Mr. Geoffrey Liang was Managing Director, Finance and Treasurer from January 2011 to April 2015. Mr. Liang was appointed Interim Chief Financial Officer & Corporate Secretary of the Company in April 2015. In July 2016, Mr. Liang was appointed as Chief Financial Officer of the Company.
- Mr. Andres Sacristan was formerly Director for Europe and New Markets for Cintra Global from January 2012 until his appointment as President & Chief Executive Officer of the Company in January 2017.
- Mr. Jose Tamariz previously served as the President & CEO of the Company from October 2009 to December 2016. He was appointed as Director for Europe and New Markets for Cintra Global in January 2017.

Directors of the Company who were directors of an issuer that was a reporting issuer or the equivalent of a reporting issuer in a province or territory of Canada or in a foreign jurisdiction as at December 31, 2018, are as follows:

- Mr. David McFadden – Toronto Hydro Corp.

2. Conflicts of Interest

Certain of the directors or officers of the Company are also directors, officers and shareholders of other companies and conflicts of interest may arise between their duties as directors or officers of the Company and as directors, officers or shareholders of other companies. All such possible conflicts are required to be disclosed in accordance with the requirements of the CBCA and the directors or officers concerned are required to govern themselves in

accordance with the obligations imposed on them by law or pursuant to any contractual arrangements that are binding upon them.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

In the normal conduct of operations, there are pending claims by and against the Company and its subsidiaries, including 407 ETR. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. In the opinion of Management, final determination of these claims will not materially affect the consolidated financial position or operational results of the Company.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the knowledge of the Company, except as otherwise disclosed elsewhere in this Annual Information Form, no director or executive officer of the Company, no person or company that beneficially owns, controls or directs, directly or indirectly, more than 10% of the outstanding securities of the Company and no associate or affiliate of any of the foregoing persons or companies, has or has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years that has materially affected or is expected to materially affect the Company or its subsidiaries.

TRANSFER AGENTS AND REGISTRARS

BNY Trust Company of Canada is the Trustee under the Indenture. Registers for the registration and transfer of the Company's debt securities are kept at the principal office of the Trustee in the City of Toronto.

MATERIAL CONTRACTS

The following are the material contracts (as such term is defined in *National Instrument 51-102 – Continuous Disclosure Obligations* ("NI51-102")) entered into by the Company or its affiliates: (a) during the most recently completed financial year; or (b) before the most recently completed financial year that are still in effect:

1. Concession Agreement ⁽¹⁾
2. Tolling Agreement ⁽²⁾
3. The Indenture ⁽³⁾
4. The MSSA ⁽⁴⁾
5. 407 ETR Requester Agreement ⁽⁵⁾
6. Enforcement Services Agreement ⁽⁵⁾
7. Police Services Agreement ⁽⁵⁾
8. IBM Canada Limited Agreements ⁽⁵⁾
9. Trade-Mark Licence Agreement ⁽⁶⁾
10. The OSI Agreements ⁽⁵⁾

(1) See "General Summary" for a description of this agreement.

(2) See "Production and Services" for a description of this agreement.

(3) See "General Description of Capital Structure" for a description of this agreement.

(4) See "Specialized Skill and Knowledge" for a description of this agreement.

(5) See "Economic Dependence" for a description of this agreement.

(6) See "Intangible Properties" for a description of this agreement.

A copy of the above noted agreements, including any amendments, extensions and/or addendums related thereto, can be found under the Company's profile on SEDAR at www.sedar.com.

NAMES AND INTERESTS OF EXPERTS

The Company's auditor, Deloitte LLP, Chartered Accountants, Licensed Public Accountants, has prepared an independent auditor's report dated February 7, 2019 in respect of the Company's consolidated financial statements with accompanying notes as at and for the years ended December 31, 2018 and 2017.

Deloitte LLP has advised that it is independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

ADDITIONAL INFORMATION

1. Executive Compensation

The Company had two named executive officers during the year ended December 31, 2018: Mr. Andres Sacristan, President & Chief Executive Officer (“**CEO**”), and Mr. Geoffrey Liang, Chief Financial Officer (“**CFO**”). Mr. Sacristan was seconded from Cintra to the Company and its subsidiaries commencing January 1, 2017. Mr. Andres Sacristan is not a party to an employment agreement with the Company or any of its subsidiaries, and his compensation arrangements are structured as described below.

Mr. Sacristan’s compensation as CEO of the Company for the financial year ended December 31, 2018, was determined solely by Cintra. In establishing executive compensation for Mr. Sacristan, Cintra aims to achieve a balance between fixed and variable compensation, short-term and long-term incentives, and risk and reward. To that end, it consults with compensation experts and obtains market data to evaluate the competitiveness of compensation. Benchmarking is performed against comparator groups and executive compensation target market median (salary, benefits, and incentives). This pay-for-performance approach is designed to reward the achievement of individual and business unit performance. Compensation levels reflect the role of the incumbent and the responsibilities of the job, and are in line with market practices for equivalent positions in the industry.

The amount of the compensation so determined by Cintra is then considered by the Corporate Governance & Compensation Committee of the Board. In considering the compensation proposed by Cintra for Mr. Sacristan, the Corporate Governance & Compensation Committee:

- received and reviewed a report on the proposed annual compensation from Cintra;
- reviewed and discussed the components of the compensation and the basis on which those components were proposed by Cintra;
- considered the overall performance of Mr. Sacristan since the last annual review; and
- reviewed the proposed compensation for Mr. Sacristan by taking into account the compensation paid to other employees within the Company and its subsidiaries.

The Corporate Governance & Compensation Committee also consults with representatives of Cintra with respect to their compensation proposals for Mr. Sacristan, and discusses with those representatives any issues or concerns raised by the Corporate Governance & Compensation Committee.

In 2018, the Corporate Governance & Compensation Committee accepted, and recommended to the Board for approval, the compensation proposals made by Cintra for Mr. Sacristan. Following a review of such recommendation and the considerations related thereto, the compensation proposal for Mr. Sacristan was approved by the Board.

Mr. Geoffrey Liang, who had previously held the position of Managing Director, Finance and Treasurer, was appointed as the Interim CFO of the Company effective April 11, 2015, and entered into an employment agreement with the Company on April 29, 2015 (the “**CFO Employment Agreement**”). Mr. Liang served as Interim CFO of the Company until July 14, 2016, when he was appointed as CFO on a non-interim basis. Subsequent to this, Mr. Liang has negotiated changes to the CFO Employment Agreement which were approved by the Corporate Governance & Compensation Committee.

Mr. Liang’s compensation as CFO for the financial year ended December 31, 2018, was determined by the Corporate Governance & Compensation Committee and the Board, in consultation with Mr. Andres Sacristan. In establishing Mr. Liang’s compensation, the Corporate Governance & Compensation Committee aimed to achieve a balance between fixed and variable compensation, including short-term incentives. To that end, the Corporate Governance & Compensation Committee relies on information provided by compensation experts and market data to evaluate the competitiveness of compensation. Benchmarking is performed against comparator groups within SNC-Lavalin as the CFO position is filled by an SNC-Lavalin nominee approved by the Board.

Mr. Liang’s base salary for 2018 was established taking into account his prior compensation package in his previous roles for the Company, his role and duties as CFO, and his specific skill, knowledge, abilities and overall performance. Mr. Liang was eligible for an annual bonus of up to 35% of his base salary earned in 2018. Mr. Liang’s annual bonus

for 2018 was paid entirely in cash and was awarded based on the level of achievement of the objectives (with related weightings) as set out below:

- Meeting personal performance expectations (25%)
- Achieving business and operational requirements and improvements (35%)
- Achieving internal budget goals (20%)
- Achieving financial targets for 2018 (20%)

Mr. Liang's bonus program is designed to reward annual performance based on the achievement of individual and business short-term goals. The Company may also award bonuses relating to the achievement of specific projects or objectives from time to time.

Mr. Derek Bitar, the Chief Financial Officer of 407 East Development Group, was seconded to the Company by SNC-Lavalin to serve as the Company's Acting Chief Financial Officer from September 24, 2018, to October 25, 2018 while Mr. Liang was away on a temporary personal leave. Mr. Bitar did not receive any compensation from the Company in respect of his brief period of service. As Mr. Bitar is based in Montreal, the Company reimbursed Mr. Bitar for travel, accommodation and related expenses during his secondment.

The Company's common shares are not widely held or publicly traded, and the Company has not adopted any equity compensation plans for the benefit of its employees or directors. As such, the Company has not adopted any policies with respect to hedging activities by these individuals.

2. Summary Compensation Table

The following table sets forth all compensation earned by, or awarded, paid, or payable to Mr. Sacristan and Mr. Liang, respectively, during the financial years ended December 31, 2018 and 2017 for, or in connection with, services that Mr. Sacristan and Mr. Liang have provided to the Company and its subsidiaries during such years.

Mr. Sacristan participates in Cintra employee equity incentive programs such as share-based awards, option-based awards, long-term incentive plans, or pension plans related to his service with Cintra and its affiliates. The Company is not responsible for any expenses related to these programs, and, as such, no value is included in the table below.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Value of Perquisites (\$)	Total Compensation (\$)
Andres Sacristan, President & Chief Executive Officer	2018	\$287,283	up to \$150,000	\$335,761	\$773,045
	2017	\$272,318	\$140,365 ⁽¹⁾	\$ 285,793 ⁽²⁾	\$698,476 ⁽³⁾
Geoffrey Liang, Chief Financial Officer	2018	\$344,800	\$80,000	\$38,852	\$463,652
	2017	\$334,750	\$234,010 ⁽⁵⁾	\$46,013 ⁽⁴⁾	\$614,773

(1) Mr. Sacristan's total bonus compensation was determined by Cintra and earned by and awarded to Mr. Sacristan under Cintra's annual incentive plan.

(2) This amount represents payments for executive perquisites, including a living allowance, childcare allowance, housing allowance, personal travel allowance, car allowance and medical benefits. These perquisites are valued at their actual cost to the Company.

(3) \$335,761 of Mr. Sacristan's total compensation was paid directly by 407 ETR, while the balance of \$437,283 of Mr. Sacristan's total compensation was paid directly by Cintra and reimbursed by 407 ETR. This total compensation amount of \$773,045 for Mr. Sacristan reflects fluctuation in Euro-Dollars conversion rates.

(4) This amount represents payments for executive perquisites, including medical benefits and a car allowance. These perquisites are valued at their cost to the Company.

(5) Includes a one-time retention bonus of \$120,000.

3. Employment Agreements

Mr. Sacristan did not enter into an employment agreement with the Company or its subsidiaries and, as such, no compensatory plans or arrangements with respect to a termination, change-in-control, resignation or retirement exist with the Company or its subsidiaries.

In accordance with the terms of the CFO Employment Agreement, the Company may terminate Mr. Liang's employment and he will be entitled to: (i) a severance payment equal to 24 months ("**Severance Period**") of his current base salary and car allowance at the time of his termination; (ii) his annual bonus during the Severance Period based on the average bonus awarded to him in the three financial years immediately preceding the year in which the termination occurs; (iii) any special bonus award, subject to the evaluation criteria being met as at the date notice of termination or resignation is provided, and (iv) continuation of his group benefits, excluding disability and life insurance coverage during the Severance Period.

If Mr. Liang's employment is terminated due to his resignation, he will only be entitled to his accrued but unpaid base salary and vacation pay, continuation of group benefits and a pro-rated car allowance.

4. Compensation of Directors

A director of the Company that is employed by and receives salary from the Company or its subsidiaries, or any of their respective affiliates, or any other shareholder of the Company does not receive any compensation for serving as a director of the Company, other than reimbursement of his or her reasonable out-of-pocket expenses for attending Board and Committee meetings. Accordingly, each of Messrs. Alley, Bernasiewicz, Clemente, Díaz-Rato, Hay, Jasmin, Rubio, and Sacristan did not receive any compensation for serving as a director of the Company during 2018.

The table below states the compensation paid during 2018 and 2017 to each of Messrs., McFadden, Davie, Maclsaac and Walker as well as Ms. Formusa for serving as directors of the Company those years. Information relating to bonuses, perquisites, share-based awards, option-based awards, non-equity incentive plans or pension value is not included in the table as the Company does not provide any such forms of compensation to directors.

Name	2018 Total Compensation	2017 Total Compensation
David McFadden (Chair) ⁽¹⁾	\$150,750	\$151,500
George Davie ⁽²⁾	\$62,000	\$62,000
Robert Maclsaac ⁽³⁾	\$62,000	\$62,000
Ken Walker ⁽⁴⁾	\$74,000	\$74,000
Laura Formusa ⁽⁵⁾	\$62,000	\$62,000

- (1) As Chair of the Board, Audit Committee, Corporate Governance & Compensation Committee, and Environmental, Health & Safety Committee, Mr. McFadden earned an aggregate, annual retainer of \$124,000, and attendance fees of \$2,000 for each of the four (4) meetings of the Board that he attended in person (\$8,000), \$1,500 for each of the four (4) meetings that he attended in person and \$750 for the one (1) meeting he attended by teleconference of the Corporate Governance & Compensation Committee (\$6,750), \$1,500 for each of the four (4) meetings of the Audit Committee (\$6,000), and \$1,500 for each of the four (4) meetings of the Environmental, Health & Safety Committee that he attended in person (\$6,000).
- (2) As a director, Mr. Davie earned an annual retainer of \$54,000 and attendance fees of \$2,000 for each of the four (4) meetings of the Board (\$8,000) that he attended in person in 2018.
- (3) As a director, Mr. Maclsaac earned an annual retainer of \$54,000 and attendance fees of \$2,000 for each of the four (4) meetings of the Board (\$8,000) that he attended in person in 2018.
- (4) As a director, Mr. Walker earned an annual retainer of \$54,000 and attendance fees of \$2,000 for each of the four (4) meetings of the Board (\$8,000) that he attended in person in 2018. As an alternate member of four Board Committees, Mr. Walker earned the following in-person attendance fees in 2018: \$1,500 for each of the two (2) meetings of the Corporate Governance & Compensation Committee (\$3,000), \$1,500 for each of the two (2) meetings of the Environmental, Health & Safety Committee (\$3,000), \$1,500 for each of the two (2) meetings of the Audit Committee (\$3,000), and \$1,500 for each of the two (2) meetings of the Executive Committee (\$3,000).
- (5) As a director, Ms. Formusa earned an annual retainer of \$54,000 and attendance fees of \$2,000 for each of the four (4) meetings of the Board (\$8,000) that she attended in person in 2018.

See "Corporate Governance – Compensation" for a description of the Company's approach to director compensation.

5. Other Compensation for Services

None of the directors of the Company or its subsidiaries provided services as consultants or experts to the Company or its subsidiaries during the financial year ended December 31, 2018, except as disclosed elsewhere in this Annual Information Form.

6. Indebtedness of Directors and Executive Officers

None of the current or former directors or executive officers or employees of the Company or any of its subsidiaries during 2018, and no associate of any of them, is or has been indebted to the Company or its subsidiaries, except for routine indebtedness (as such term is defined in Form 51-102F5 "Information Circular" of National Instrument 51-102 – Continuous Disclosure Obligations).

7. Additional Information

Additional information about the Company may be found on SEDAR at www.sedar.com. Additional financial information is provided in the Company's consolidated financial statements, and management's discussion and analysis ("MD&A") of its financial condition and results of operations, for the year ended December 31, 2018.

CORPORATE GOVERNANCE

1. Background

The Company is a reporting issuer under applicable Canadian securities legislation by reason of its public distributions of debt securities. All of the voting equity securities of the Company are beneficially owned or controlled by the Company's three shareholders, Cintra Global, CPPIB and SNC-Lavalin (collectively, the "**Principal Investors**"). None of the Company's outstanding securities are listed on any stock exchange. See "Description of Capital Structure". As such, the Company is considered to be a "venture issuer" for the purposes of applicable Canadian securities laws.

All members of the Board are nominees of the Principal Investors (see "Nomination of Directors"). The Principal Investors have entered into an amended and restated subscription and unanimous shareholders agreement made as of April 12, 1999 (the "**Shareholders Agreement**"), which, among other things, provides for certain governance-related and decision-making processes and requirements, the terms by which the business and affairs of the Company (together with the interest of the parties therein) will be conducted and governed, certain restrictions on the transfer of shares of the Company and rights with respect to the issuance of new shares by the Company. The rights of the holders of the Company's outstanding debt securities are governed by the provisions of the Indenture (see "Description of Capital Structure").

2. The Company's Corporate Governance Practices

The Board and Management believe that sound corporate governance practices contribute to managing the Company effectively and achieving its strategic and operational plans, goals and objectives. The Company aspires to uphold sound and effective corporate governance which reflects not only applicable legal and regulatory requirements but also established corporate governance best practices appropriate to its needs and circumstances. The Board and Management are committed to govern and maintain the Company's operations effectively and efficiently. The Company's governance policies and practices enhance the ability of the Board to supervise and counsel Management in generating shareholder return on investment. The Company is committed to reviewing its governance policies and practices regularly for improvement and to strengthen the ability of the Board to effectively supervise Management and enhance long-term shareholder value.

The following corporate governance disclosure is responsive to the requirements applicable to venture issuers adopted by the Canadian securities regulatory authorities. The Board has approved the disclosure on the recommendation of its Corporate Governance & Compensation Committee.

3. Mandate and Direction of the Board of Directors

The Board, either directly or through its Committees, is responsible for the management or supervision of the business and affairs of the Company with the objective of enhancing shareholder return on investment. The Board's role is one of stewardship and to act in the best interests of the Company. This role has two fundamental elements:

decision-making and oversight. The former role is exercised with respect to the formulation with Management of fundamental policies and strategic goals and objectives and the approval of certain significant actions. The latter role concerns the review of Management decisions, the adequacy of systems and controls and the implementation of policies. The Board delegates to Management the authority and responsibility for day-to-day affairs, and reviews Management's performance and effectiveness.

The principal responsibility of the Board is to supervise the management of the business and affairs of the Company and, in doing so, set the highest prudential business standards and code for ethical behaviour and to provide the supervision necessary for:

- Disclosure of Reliable and Timely Information to the Principal Investors: The Principal Investors depend on the Board to get them accurate information.
- Approval of Strategy and Major Policy Decisions of the Company: The Board must understand and approve where the Company is going, be kept current on its progress towards those objectives and be part of and approve any major decisions.
- Succession for Key Management Roles: The Board must be sure that key roles have the right people, that they are monitored and evaluated and that they are appropriately compensated to encourage the Company's long-term success.
- Oversight of the management of Risks and the Implementation of Internal Controls: The Board must be satisfied that the assets of the Company are protected, that there are sufficient internal checks and balances and that the Company is operating within applicable laws and an appropriate control environment.
- Oversight in respect of Company's Financial Information: The Board must be satisfied that the financial performance of the Company is adequately and promptly reported and that the financial results are reported fairly and accurately.
- Establish Board Committees: The Board establishes Board Committees and defines their mandates to assist the Board in carrying out its roles and responsibilities.
- Effective Board Governance: To excel in its duties, the Board needs to be functioning properly as a board - strong, effective members with the right skills and the right information.

Pursuant to the Board's responsibility to establish Board Committees to assist the Board in carrying out its role and responsibilities, the Board has established four standing committees, namely:

1. Audit;
2. Corporate Governance & Compensation;
3. Environmental, Health & Safety; and
4. Executive.

The role of the Audit Committee is to assist in the Board's oversight of the reliability and integrity of the Company's accounting principles and practices, financial statements and other financial reporting, the internal control environment and related enterprise risk management, internal and external audit and disclosure practices followed by Management. See "Audit Committee".

The role of the Corporate Governance & Compensation Committee is to assist the Board in fulfilling its obligations by providing a focus on governance that is intended to enhance the Company's performance, and long-term shareholder value, at all times taking into consideration applicable regulatory requirements and established corporate governance best practices appropriate to the Company's needs and circumstances. In furtherance of this role, the Corporate Governance & Compensation Committee implements, monitors, assesses and reviews, among other things, matters relating to governance rules, procedures and policies, as well as compliance therewith and matters pertaining to the Company's policies and practices in respect of regulatory compliance, conflict of interest, and standards of ethical conduct and market conduct. In addition, the Corporate Governance & Compensation Committee has responsibility for reviewing and recommending for approval by the Board, executive and Management compensation arrangements.

The Chair of the Corporate Governance & Compensation Committee is Mr. McFadden. For over 40 years, Mr. McFadden has served as a corporate advisor to a wide range of companies in the energy and infrastructure sectors. As a former member of the Board of Trustees of Gowling WLG LLP, and as a member of the boards of directors of a

number of corporations, Mr. McFadden has extensive experience in corporate governance and compensation matters. See “Audit Committee” for a description of the education and/or experience related to executive compensation held by each member of the Corporate Governance & Compensation.

The Environmental, Health & Safety Committee’s role is to oversee, monitor, assess and review the Company’s overall approach to environmental, health and safety matters. The Environmental, Health & Safety Committee operates in tandem with the Corporate Governance & Compensation Committee through sequential meetings and overlapping membership.

The role of the Executive Committee is to exercise all the powers of the Board when the Board is not in session and, for such purposes, the Board has delegated all of its powers to such committee. The exercise of these powers and their delegation is subject always to the requirements of the CBCA, any other applicable statutes and laws, as well as the Shareholders Agreement. The Executive Committee exercises its powers in accordance with certain guidelines and limitations set forth in its mandate and in terms of reference related thereto.

The roles and responsibilities of the Board, its Chair, and each of its Committees, and of the Chairs of each Board Committee, are set out in formal written terms of reference (“**Terms of Reference**”) and mandates for each of the three aforementioned Board Committees (“**Mandates**”). These Terms of Reference and Mandates are reviewed annually by the Corporate Governance & Compensation Committee to ensure they are kept current with applicable regulatory requirements and established corporate governance best practices, as appropriate to the needs and circumstances of the Company, with recommendations for approval by the Board.

Under applicable securities law, a director will be considered to be “independent” if he or she has no direct or indirect material relationship with the Company. A “material relationship” exists where the directors are of the view “that the relationship could reasonably be expected to interfere with the exercise of the director’s independent judgment”.

To assist the Board in its determination of the independent status of directors, directors complete a detailed questionnaire (the “**Annual Directors Questionnaire**”) about their business relationships and interests on an annual basis.

Based upon information provided by each of the directors as to their individual circumstances, the Board, on advice from the Corporate Governance & Compensation Committee, has determined that five of the 13 directors holding office as of December 31, 2018, have no material relationship with the Company and are therefore independent. On this basis, the following five directors are independent:

1. George Davie;
2. Laura Formusa;
3. Robert MacIsaac;
4. David McFadden; and
5. Ken Walker.

The following seven directors are not independent, by virtue of their employment with or service to shareholders of the Company:

1. Andrew Alley;
2. Michael Bernasiewicz;
3. Francisco Clemente;
4. Enrique Diaz-Rato,
5. Andrew Hay;
6. Denis Jasmin; and
7. Jose Tamariz.

The following director is not independent, by virtue of his employment with or service to the Company:

1. Andres Sacristan

The Board exercises independent supervision over Management in order to protect the interests of stakeholders in the Company and to maximize the value that the shareholders receive from their investment in the Company. The Company facilitates this through the following means:

- an independent Chair of the Board;

- independent Chairs of the Audit Committee, the Corporate Governance & Compensation Committee, and the Environmental, Health & Safety Committee;
- the periodic reservation of time at meetings of the Board and Audit Committee for independent discussions without Management present;
- the completion annually by directors of the Annual Directors Questionnaire concerning their business relationships and security holdings and the certification annually by directors of their compliance with the Company's Code of Conduct Policy, which includes the requirement for the directors to disclose any material interest in matters coming before the Board;
- frequent direct communications and reporting between directors and the President & Chief Executive Officer;
- the supervisory, decision-making and review role and responsibilities of the Executive Committee, comprising entirely of representatives of the Principal Investors;
- ongoing communication between the Executive Committee and the President & Chief Executive Officer between regularly-scheduled Board meetings; and
- regular quarterly Board meetings, a significant portion of which is devoted to the review and discussion of Management's performance and operations.

Terms of Reference for the President & Chief Executive Officer have been approved by the Corporate Governance & Compensation Committee, and ultimately by the Board. These Terms of Reference provide that the President & Chief Executive Officer is responsible for defining, communicating, leading and implementing the strategic decisions, goals and core values of the Company. They also provide that the President & Chief Executive Officer is accountable to the Board for leading the development of the Company's strategic plan and corresponding business plans; developing and implementing a human resources strategy which develops leadership capabilities; creating an organizational structure and culture that optimizes and sustains high levels of performance; and overseeing the Company's corporate governance structure, framework and processes.

4. Orientation and Continuing Education

The Corporate Governance & Compensation Committee is responsible for the orientation and education of directors. The Directors Manual, which is reviewed and updated periodically, contains such details as: the Company's organization structure, the structure of the Board and its Committees, and Board administration matters, relevant Terms of Reference and position descriptions, corporate policies, by-laws, recent continuous public disclosure documents of the Company, an overview of, among other things, legal duties and responsibilities of directors, public company disclosure obligations, and directors' statutory liabilities, and the Company's Code of Conduct Policy, Disclosure of Material Information Policy and Corporate Communications Policy. New directors are also provided with an opportunity to meet with members of Management to assist the directors in better understanding the business and operations of the Company. These meetings are designed to meet the particular needs of the individual director, reflecting the level of knowledge and involvement that the new director may have had with the Company or, where applicable, one of the Principal Investors before his or her appointment. New directors may also participate from time to time in presentations from Management on material corporate and operations initiatives. The goal is to ensure that new directors fully understand the Company's business, the role of the Board and its Committees and the contribution that directors are expected to make.

Directors have full access to Management and employees of the Company. On an ongoing basis, as part of regular Board meetings, directors receive presentations and reports on various business and operational matters, and on governance and legal responsibilities to enhance directors' understanding of the Company's business and the environment in which it operates and to allow an in-depth discussion of topics covered. Special presentations on specific business operations are also provided to the Board. In the past year, Management presented to the Board on, among other things: the annual customer opinion survey report, annual entity risk assessment, corporate reputation, pricing strategy, tolling technology developments, highway operations, and employee opinion survey results. The Board also held a specific, dedicated session on the Company's annual business planning process and a progress review in respect of its five-year strategic business plan. In addition, Directors identify matters by a variety of means, including discussions with Management and at Board and Committee meetings and through annual Board Evaluation Questionnaires, which provide an opportunity for directors to indicate specific educational information and opportunities with which they wish to be provided that would enhance Board performance or assist in their roles as directors. Each of the directors is a member of the Institute of Corporate Directors ("ICD") through the Rotman School of Management and may participate in education seminars offered by the ICD.

5. Nomination of Directors

The Board currently consists of 13 directors. As a closely controlled corporation with no public shareholders, the Company does not have a nominating committee, nor is there any formal process in place for identifying nominees or potential candidates for the Board. Nominees and potential candidates for the Board are put forward by the Principal Investors. Assistance from professional director search consultants is also sought with respect to the consideration of candidates as independent directors. Pursuant to their rights under the Shareholders Agreement, the Company's directors are nominees of the Principal Investors; Cintra Global currently has six nominee directors, CPPIB currently has five nominee directors and, SNC-Lavalin currently has two nominee directors.

6. Board Assessments and Evaluations

The Board annually undertakes an effectiveness assessment process. Under this process, directors are asked annually to assess their effectiveness as a Board and to rate items such as the Board and Board committee structure and processes and size of the Board, the knowledge, diversity, skills and competence of its membership, the timelines and completeness of information received for discussion, the Board's operational oversight and relationship with Management, and the overall effectiveness of Board functions and decision-making process. The questionnaire also asks for subjective comments in each of these key areas. Directors also use the questionnaire to provide input on the Board.

This effectiveness assessment process is conducted in-house and requires all directors to complete a detailed Board Evaluation Questionnaire that is provided by the Corporate Governance & Compensation Committee. That Committee compiles the results and prepares a report that includes any comments that have also been provided. Anonymity of the particular director is maintained to encourage full and frank commentary, with the aggregate results presented to the Chair of the Board who then communicates the results, on an aggregate basis, to the full Board for discussion and recommendations, as required. The Board's approach to feedback is meant to be constructive and to ensure that the right programs are in place for continuously improving Board and Committee functioning and effectiveness.

The Board does not conduct regular assessments of individual directors. As the majority of the directors are direct nominees of, engaged with and/or known by the Principal Investors, it is considered that the Principal Investors are able to determine the effectiveness of the performance of such directors without the need for a formal individual director assessment process.

The Corporate Governance & Compensation Committee is responsible for reviewing annually the Board Evaluation Questionnaire and the Company's corporate governance policies, including the Company's Code of Conduct, Terms of Reference for the Board, the Chair of the Board, the various Committees of the Board and the respective Chairs of such Committees and of the President & Chief Executive Officer, and, in each case, recommending enhancements to the Board, where appropriate to meet established corporate governance best practices appropriate to the needs and circumstances of the Company. The most recent review by the Corporate Governance & Compensation Committee was conducted in July 2018.

7. Compensation

Director Compensation

The compensation paid to the directors ("**Eligible Directors**"), other than directors who are employed by and receive salary from the Company or its subsidiaries or any of their respective affiliates or any other shareholder of the Company, is reviewed periodically by the Corporate Governance & Compensation Committee, with the last such review occurring in 2016. Directors' compensation is intended to provide a competitive level of compensation relative to comparable positions with comparable degrees of responsibilities and time commitment in the marketplace. A comparator group is developed by identifying companies primarily within the Company's sector, of similar size considering value size and revenue of the organization. In conducting the 2016 review of directors' compensation, an external consultant obtained this information and assessed the Company's relative position. The compensation study took into account compensation practices of other Canadian infrastructure and public debt-issuing companies of comparable size. After reviewing the findings and conclusions of the compensation study, the Corporate Governance & Compensation Committee recommended to the full Board that the Eligible Directors be compensated as follows:

Position	Annual Retainer	Per Meeting in Person	Per Meeting Over-the-phone
Board Chair	\$100,000	\$2,000	\$1,000
Director	\$54,000	\$2,000	\$1,000
Audit Committee Chair	\$12,000	\$1,500	\$750
Corporate Governance & Compensation Committee Chair	\$6,000	\$1,500	\$750
Environmental, Health & Safety Committee Chair	\$6,000	\$1,500	\$750
Executive Committee Chair	N/A	N/A	N/A
Committee Members	N/A	\$1,500	\$750

The Board, taking into account the Corporate Governance & Compensation Committee's recommendations, after considering the findings and conclusions of the compensation study, approved the recommended changes to director compensation, as outlined above. See "Directors and Officers", as well as "Additional Information – Compensation of Directors", above.

President & Chief Executive Officer Compensation

Under the Shareholders Agreement, Cintra Global has the right to nominate, subject to Board approval, the President & Chief Executive Officer of the Company, whose compensation, as such, is determined and fixed by Cintra. The Corporate Governance & Compensation Committee annually reviews and discusses such compensation and recommends such compensation to the full Board for its approval. See "Additional Information – Summary Compensation Table", above.

8. Ethical Business Conduct

The Company's Code of Conduct Policy serves as the Company's code of ethics. Compliance with the Code of Conduct Policy is part of every officer's and employee's employment contract. Annually, each director, officer and employee of the Company is required to provide his or her written confirmation of compliance with the Code of Conduct Policy for the prior full year and to confirm that each such individual has reviewed the Code of Conduct Policy. A copy of the Code of Conduct Policy may be found under the Company's profile on SEDAR at www.sedar.com and on the Company's website at www.407etr.com.

The Board believes that the Company's success is based on a culture of integrity which starts with the principle of the "tone at the top". As set out in its Terms of Reference, the Board is responsible for setting the tone for a culture of integrity and compliance throughout the Company. The Board believes that a culture of strong corporate governance and ethical business conduct must be endorsed by the Board and Management. The Code of Conduct Policy emphasizes guiding principles, such as honouring trust, fairness, integrity and corporate and individual responsibility and addresses many areas of business conduct including:

- honesty and integrity in all conduct, including customers, suppliers and others;
- compliance with all applicable law;
- avoiding and dealing with conflicts of interest situations;
- ensuring high standards of disclosure and integrity in relation to the Company's activities and financial performance and reporting;
- ensuring the security of the Company's, communications, transactions and information;
- ensuring the workplace is free from any form of hostility, discrimination, harassment or violence pursuant to the Company's Workplace Harassment and Discrimination Policy;
- dealing with confidential and privacy matters; and
- reporting of illegal and unethical behaviour, including anonymously through the Company's whistle-blowing policy, which sets out specific reporting guidelines with respect to the potential misconduct of employees, officers and directors.

The Board periodically reviews Management reports on the effectiveness of and compliance with the Code of Conduct. In particular, the Board receives quarterly confirmations from the Chief Financial Officer and the General Counsel concerning, among other things, statutory filings and withholdings, any reported matters under the Company's Whistle-Blowing Policy or other matters that might materially affect the Company's reputation. Any waiver

of the requirements of the Code of Conduct Policy for directors and executive officers of the Company has to be approved by the Board.

From time to time, matters may come before the Board where a director may have a conflict of interest. If and when such matters arise, that director will declare him or herself as having a conflict of interest and will not participate in the discussion, and any vote on the matter.

Through the Annual Directors Questionnaire, directors are asked to identify other business relationships and other companies or entities with which they have relationships. These responses assist the Board and Management in identifying conflict of interest situations in advance. The Company also complies with all CBCA requirements with respect to conflicts of interest.

AUDIT COMMITTEE

1. Charter of the Audit Committee

The Audit Committee is responsible for assisting the Board's oversight of the reliability and integrity of the accounting principles and practices, financial statements and other financial reporting, the internal control environment and disclosure practices followed by the Company and its subsidiaries.

The original charter of the Audit Committee of the Company was approved by the Board in April 2004 and was subsequently amended. The amended charter is set out in Schedule A to this Annual Information Form.

2. Composition of the Audit Committee

The Audit Committee is composed of seven directors, four of whom, namely David McFadden (Chair), Michael Bernasiewicz, Denis Jasmin and Andres Sacristan act as principal members, and three of whom, namely, Andrew Alley, Ken Walker and Francisco Clemente, act as alternate members. These alternate members act as members of the committee in the absence or inability to act at meetings of Messrs. Bernasiewicz, Jasmin and Sacristan, respectively. With the exception of the Chair and Mr. Walker, no member of the Audit Committee is "independent" as defined under *National Instrument 52-110 – Audit Committees ("NI 52-110")*. In all cases, the members of the Audit Committee are nominees of the Principal Investors of the Company, chosen because of their Company-focused experience and expertise. The Audit Committee benefits by the participation of knowledgeable executives and professionals with financial expertise and experience who understand the Company and its business, the financial aspects thereof, and the industry generally in which it carries on business. Each member of the Audit Committee is "financially literate" as defined under NI 52-110. Each member of the Audit Committee has the ability to perform his or her responsibilities as a member of the Audit Committee based on his or her education and/or experience as summarized below:

- Mr. McFadden, Q.C, was called to the Ontario Bar in 1972 after receiving his law degree from Osgoode Hall Law School and was appointed Queen's Counsel in 1983. He is Chair of the Board of Directors of Toronto Hydro Corporation. Mr. McFadden served as Vice Chair of the Board of Macquarie Canadian Infrastructure Limited from 2003 to 2011 and was formerly Chair of the Infrastructure Advisory Boards of Fengate Capital Management Ltd. from April 2005 to May 2017. He also serves on the Audit Committee of the Toronto Board of Trade. Mr. McFadden previously served as Audit Committee Chair of the Company from 2006 to 2011 and was re-appointed in January 2016. Through his extensive Audit Committee experience, Mr. McFadden has gained insight and perspective in the supervision and direction of financial and accounting matters. Since 2010, Mr. McFadden has served as Chair of the Corporate Governance & Compensation Committee. Mr. McFadden currently serves as the Chairman of the PCI Geomatics Board of Directors and is also a member of its Governance and Compensation Committee.
- Mr. Alley holds a degree in Finance from Michigan State University and a Masters of Business Administration from the Richard Ivey School of Business at the University of Western Ontario. He is also a Chartered Financial Analyst (CFA) Charterholder. Mr. Alley joined CPPIB in 2007 and currently holds the position of Senior Principal, Private Investments, Infrastructure. Prior to joining CPPIB, Mr. Alley held positions in the Energy Investment Banking Group of RBC Capital Markets, and in the Business Development group of Pengrowth Energy Trust. As a senior member of CPPIB's Infrastructure investment group, Mr. Alley has played leadership roles in the execution of large global acquisitions in the infrastructure space and in the management of investments in portfolio companies at the shareholder and board levels, with extensive toll road sector experience through his responsibility for coverage of the toll road sector for CPPIB. These roles

have also included the application of Mr. Alley's business and financial expertise to the assessment of corporate governance, employee evaluation, and compensation frameworks for various investments.

- Mr. Bernasiewicz is a CFA charterholder and earned a Masters of Business Administration from the University of Ottawa. He currently provides advisory and consulting services to investors and managers in the area of infrastructure asset management and transactional execution. Mr. Bernasiewicz previously held the position of Managing Director, Macquarie Capital Funds Canada Ltd., following his roles as Assistant Vice President for Brascan Financial Real Estate Group and Partner with RBC Capital Partners' Mezzanine Fund. While at Macquarie, Mr. Bernasiewicz was on the Board of Directors of six toll roads, four in Canada and two in the United States, where as senior representative of Macquarie's investments, he had direct responsibility for the setting and approval of management compensation.
- Mr. Clemente holds a degree in Economics from University Complutense of Madrid, Spain and a Masters of Business Administration from Instituto de Empresa, Spain. He is the Chief Financial Officer of Cintra and Cintra Global and prior to holding that position, he was Head of Project Finance of Cintra and, before that, of Ferrovial, S.A. In these roles with Ferrovial, S.A. and Cintra, Mr. Clemente has been involved in the management and development of multi-disciplinary and highly qualified teams, including the determination and assessment of appropriate employee compensation.
- Mr. Jasmin is a Chartered Professional Accountant (CPA) with over 25 years of experience. He holds a Bachelor's Degree in Business Administration from the École des Hautes Études Commerciales (HEC) in Montreal. Mr. Jasmin joined SNC-Lavalin in 1999 as Assistant Corporate Controller and became Vice President of Investor Relations in 2007. Over his career, he gained extensive experience across numerous financial functions, including strategic planning, mergers and acquisitions, forecasting, internal controls, financial analysis and auditing. He also gained experience in the human resources and corporate governance field, by leading initiatives to replace human resource systems and participating in SNC-Lavalin's proxy circular preparation since 2000. Mr. Jasmin started his career at PricewaterhouseCoopers as an auditor and held finance roles in companies such as Thibault, Messier, Savard & Associates Inc. and TELAV-ISTS. Mr. Jasmin has also served as a Director of Canadian Investor Relations Institute since 2014 and was appointed as the Chair of its Board of Directors in June 2018.
- Mr. Sacristan is a civil engineer by profession and has close to 20 years of experience in the transportation and toll-road industries, both in Spain and in international markets. Mr. Sacristan joined Cintra Global in 2001 and has held various positions of increasing responsibility, both in the car park division and highways division. Mr. Sacristan most recently held the position of Director of Europe and New Markets, managing a portfolio of 18 international projects. During his time with Cintra Global, Mr. Sacristan has been involved in leading highly qualified personnel within multi-disciplinary teams, including the assessment of employee performance and the determination of appropriate employee compensation.
- Mr. Walker has more than 40 years of experience in the transportation sector initially as an industrial engineer in the aerospace sector followed by increasing management responsibilities in the mass transit and transportation sectors with Bombardier and SNC-Lavalin. Upon the acquisition of 407 ETR in 1999, Mr. Walker was seconded by SNC-Lavalin to the Company as the Chief Financial Officer & Corporate Secretary, a position he held until his retirement in October 2010. Mr. Walker's financial expertise and corporate experience, in addition to his extensive knowledge of the business as a former senior officer of the Company, assist him in assessing appropriate executive compensation based on the Company's growth and performance.

3. Audit Committee Oversight

There have been no instances in 2018 where the Board did not adopt a recommendation of the Audit Committee to nominate or compensate an external auditor.

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4. Audit Fees

Deloitte LLP was the auditor to the Company since May 5, 2010. The following table outlines the fees billed by Deloitte LLP to the Company for the fiscal years 2018 and 2017, categorized by audit fees, audit-related fees and tax fees, and includes a description of the nature of services comprising such fees.

	2018	2017
Audit Fees ⁽¹⁾	\$766,281	\$716,044
Audit-Related Fees ⁽²⁾	\$146,938	\$76,398
Tax Fees ⁽³⁾	\$37,450	\$95,664
Total	\$950,669	\$888,106

- (1) Audit Fees include fees for professional services rendered for the audit of the Company's annual financial statements (including subsidiaries) and review of the quarterly reports, including related translation services. They also comprise fees for audit services provided in connection with other statutory and regulatory filings and services that generally only the Company's auditor can provide, such as comfort letters, consents and assistance with and review of documents filed with the securities commissions.
- (2) Audit-Related Fees include fees for assurance services that are reasonably related to the audit or review of the financial statements and are not reported under "Audit Fees", including special attest services not required by statute or regulation, and accounting consultations.
- (3) Tax Fees are services performed by the Company's auditor's tax division, except those tax services related to the audit. These services include: fees for tax compliance, tax planning and tax advice.

All non-audit services to be provided to the Company or any of its subsidiaries by the external auditor or any of their affiliates are subject to pre-approval by the Audit Committee. The Audit Committee has determined that Deloitte LLP's provision of non-audit services was compatible with maintaining their independence.

5. Exemption

The Company is relying upon the exemption applicable to "Venture Issuers" in section 6.1 of NI 52-110.

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**SCHEDULE A
407 INTERNATIONAL INC
AUDIT COMMITTEE MANDATE**

Scope

Reporting to the Board of Directors (the “Board”), the Audit Committee (the “Committee”) shall be responsible for assisting in the Board’s oversight of the reliability and integrity of the accounting principles and practices, financial statements and other financial reporting, the internal control environment and disclosure practices followed by management of 407 International Inc. and its subsidiaries (collectively, the “Company”).

Composition of the Audit Committee

The Committee shall be composed of four (4) directors, at least three (3) of whom shall respectively represent each of the Significant Shareholders of the Company. The Audit Committee shall also include an aggregate number of alternate members (“Alternate Members”), equal to the aggregate number of Principal Members who collectively represent the Significant Shareholders of the Company, one of whom shall respectively represent one of the Significant Shareholders of the Company, and who shall act in the place and stead of the Principal Member for whom they act as an alternate in the event of the absence or inability to act for such Principal Member at a meeting of the Audit Committee. When so acting, each Alternate Member shall be a fully voting member of the Audit Committee and shall have all the powers and authorities of the Principal Member for whom such Alternate Member acts as an alternate. Without limiting the foregoing, the term “member” as used in this Mandate shall include a Principal Member and where the context requires an Alternate Member. In addition, the Committee’s composition, including the qualifications of its members, shall comply with the applicable laws and requirements of local securities exchanges and local regulatory authorities as adopted or in force or amended from time to time, keeping in mind that the Multilateral Instrument 52-110 - Audit Committee - issued by the Ontario Securities Commission (“MI 52-110”) requires that a Venture Issuer disclose whether or not each of the members of the Committee is (i) independent and (ii) financially literate. The Board will consider the appropriateness of the application of any applicable laws and local securities exchanges and regulatory authorities’ guidelines or recommendations regarding the composition of the Committee. The Board shall appoint, from among the Principal Members of the Audit Committee, a Chair of the Committee, who shall be independent from Management of the Company and from management of any of the Significant Shareholders and whose role and responsibilities have been set forth in the Terms of Reference for the Chair of the Audit Committee enacted by the Board and attached as the Appendix to this Mandate.

Audit Committee Meetings

Regular meetings of the Committee may be held at such time or times as the Board, the Chair of the Board, or the Committee Chair may determine, but not less frequently than quarterly, and special meetings of the Committee may be called by, or by the order of, the Chair of the Board, the Committee Chair, any member of the Board or the Company’s external auditor(s). The external auditors shall receive notice of every meeting of the Committee and the external auditor(s) are entitled to attend and participate in such meetings. Minutes of meetings of the Committee shall be taken and maintained in such fashion as the Committee shall direct. The Committee Chair, or an alternate Committee member, shall provide a report on each Committee meeting to the Board.

Quorum for Audit Committee Meetings

A quorum for a meeting of the Committee shall be a majority of the members, provided that such quorum shall include at least one Committee member representing each of the Significant Shareholders. Notwithstanding the foregoing, if, at the time of the scheduled meeting, a quorum is not present because at least one Committee member appointed by each Significant Shareholder is not in attendance at the time appointed for the meeting, or within such reasonable time thereafter as the Committee members present may determine, then (i) the meeting shall be adjourned to a fixed time and place by consent of the Committee members present (provided that at least five (5) business days prior written notice of the adjourned meeting shall be delivered to all the Committee members); (ii) at least five (5) business days prior written notice of the adjourned meeting shall be delivered to each such Significant Shareholder; and (iii) at such adjourned meeting, the quorum will not require the attendance of a Committee member nominated by any such Significant Shareholder.

Appointment of External Auditor(s)

The external auditor(s) of the Company shall be one or more internationally recognized firms of chartered accountants as agreed to and determined from time to time by the Investors by Unanimous Shareholder Approval.

The Board, after consideration of the recommendation of the Committee, shall nominate the external auditor(s) for appointment by the Investors and also recommend for approval the compensation of the external auditor(s).

Audit Committee Responsibilities

In carrying out its responsibilities, the Committee shall:

Charter

- a) Have a written charter that sets out its mandate and responsibilities;

External Auditors

- b) Require the Company's external auditor(s) to report directly to the Committee;
- c) Recommend to the Board:
 - i. the external auditor(s) to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attestation services for the Company; and
 - ii. the compensation of the external auditor(s);
- d) Be directly responsible for overseeing the work of the external auditor(s) engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attestation services for the Company, including the resolution of disagreements between Management and the external auditor(s) regarding financial reporting;
- e) Pre-approve all non-audit services to be provided to the Company by the Company's external auditor(s). The Committee shall satisfy the pre-approval requirements in accordance with applicable laws, rules and regulations as adopted or in force or amended from time to time, including sections 2.4 and 2.6 of the MI 52-110;
- f) Have the authority to delegate to one or more of its member(s) the authority to pre-approve non-audit services in satisfaction of the pre-approval requirement; such pre-approval by any member to whom such authority is delegated shall be presented to the Committee at its first scheduled meeting following such pre-approval;

Financial Statements and Other Filings

- g) Review, with the external auditor(s) and Management, where appropriate, the Company's financial statements, MD&A, interim or annual earnings press releases, annual and interim filings, all aspects of the financial accounting management procedures of the Company, including the reporting requirements of 407 ETR Concession Company Limited pursuant to the Concession Agreement and, where appropriate, make recommendations or reports thereon to the Board before the Company publicly discloses this information;
- h) Review and, following discussion with the external auditors and Management as indicated in (g) above, recommend to the Board, approval of the audited annual consolidated financial statements of the Company, the Company's interim financial statements, MD&A, interim or annual earnings press releases, and annual and interim filings, required to be approved by the Board;
- i) Be satisfied that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements, other than the public disclosure documents referred to in (g) above, and periodically assess the adequacy of those procedures;

- j) Prepare such reports of the Committee as may be required by any applicable securities regulatory authority to be included in the proxy statement (if applicable), Annual Information Form or any other public disclosure document of the Company;

Compliance

- k) Review and evaluate the adequacy of internal controls over financial reporting and financial governance and corporate accounting and audit policies and practices and the degree of independence, objectivity and accuracy of the Company's internal control function;
- l) Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters;
- m) Establish procedures for the confidential and anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters or matters of questionable ethical or market conduct;
- n) Overseeing and engaging in procedures for the confidential and anonymous submission by directors of the Company of concerns regarding matters of questionable ethical or market conduct;
- o) Review and approve the hiring policies of the Company regarding partners, employees and former partners and employees of the current and former external auditor(s) of the Company; and
- p) Periodically, but not less than annually, receive and review a report on the risk management and insurance programs of the Company to minimize risk and exposure and ensure compliance with the insurance requirements under the Concession Agreement and the Capital Market Platform of the Company.

Acquisition of Additional Services Required by the Committee

The Committee shall have the authority:

- a) to engage independent counsel and other advisors as it determines necessary to carry out its duties; and
- b) to set and pay the compensation for any advisor employed by the Committee;

Independent Communication with Internal and External Auditors

The Committee shall have the authority to communicate directly with the internal and external auditor(s) of the Company.

The Committee shall review reports received from the internal and external auditor(s) and, where appropriate, make recommendations or reports thereon to the Board.

Limitation of Responsibility

While the Committee has the responsibilities and powers set forth in this Mandate, it is not the duty of the Committee to plan or conduct audits, to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles, or to design or implement an effective system of internal controls. Such matters are the responsibility of Management, the internal auditor and the external auditor(s), as the case may be. Nor is it the duty of the Committee to conduct investigations or to assure compliance with applicable accounting standards, laws and regulations and the Code of Conduct, unless otherwise expressly provided for therein.

Review of Mandate

The Corporate Governance & Compensation Committee is responsible for ensuring that the Mandate is reviewed annually and kept current with applicable regulatory requirements and good corporate governance procedures, as

applicable in the circumstances of the Company, and shall make recommendations to the Board of any amendments to this Mandate for the approval of the Board.

**APPENDIX
TO
AUDIT COMMITTEE MANDATE
407 INTERNATIONAL INC.**

TERMS OF REFERENCE FOR THE CHAIR OF THE AUDIT COMMITTEE

1. INTRODUCTION

1.1 Defined Terms

In these Terms of Reference, “Company”, includes, where the context requires, 407 International Inc. and its subsidiaries; “Board” means the Board of Directors of the Company; and “Committee” means the Audit Committee.

1.2 Accountability of the Board and Committee

The Board is responsible for the stewardship of the Company and, as a consequence, has accountability for the Management or supervision of the Management of the Company. To assist in fulfilling this responsibility, the Board has established an Audit Committee to assist in the Board’s oversight of the reliability and integrity of the accounting principles and practices, financial statements and other financial reporting, the internal control environment and disclosure practices followed by Management of the Company. From among its members, the Committee has appointed the Chair of the Committee, whose role and responsibilities are outlined in these Terms of Reference.

1.3 Independence of the Chair of the Committee

The Chair of the Committee, while working closely with the President & Chief Executive Officer and the Chief Financial Officer, retains an independent perspective in representing the best interests of the Company, the Board, the shareholders and other stakeholders.

1.4 Focus of the Chair of the Committee

The Chair of the Committee demonstrates understanding of and support for the clear division of responsibilities between the Board and Management.

2. SPECIFIC RESPONSIBILITIES

2.1 Leading the Committee

The Chair of the Committee has the responsibility to:

- (a) Lead the Committee in the execution of its role and responsibilities as described in the Committee’s Mandate to which this Appendix is attached;
- (b) Manage the affairs of the Committee, including ensuring the Committee is organized properly, functions effectively and meets its obligations and responsibilities;
- (c) Build consensus, foster effectiveness and develop teamwork within the Committee;
- (d) Ensure that the Committee discharges its independent oversight role of Management and the external auditor(s) of the Company and facilitate the functioning of the Committee independently of Management;
- (e) Be financially literate, knowledgeable of corporate governance practices, particularly as they relate to the oversight of the reliability and integrity of the accounting practices and principles, financial statements and other financial reporting, internal control environment and disclosure practices of the Company, stay current of developments in such matters, as

well as accounting, audit and internal control management principles, standards and practices and lead the adoption of “best practices”, where appropriate in the circumstances of the Company, in order to maintain an appropriately high level of governance practices at the Company as they relate to the Mandate, functions and responsibilities of the Committee;

- (f) Communicate with the Committee to keep it up to date on major Committee matters and developments, including timely discussion of potential developments;
- (g) Co-ordinate with the President & Chief Executive Officer, the Chief Financial Officer and the external auditor(s) of the Company to ensure the Committee has sufficient information to enable it to make informed decisions;
- (h) In consultation with the President & Chief Executive Officer and the Secretary, establish annually, in advance, the annual schedule of Committee meetings;
- (i) Call Committee meetings;
- (j) Coordinate with the President & Chief Executive Officer, the Chief Financial Officer, the Secretary and the external auditor(s) of the Company, the agenda and related events for Committee meetings;
- (k) Ensure that orientation and continuing education meet the needs of the Committee and its members in the context of the Committee’s Mandate, functions and responsibilities;
- (l) Chair Committee meetings;
- (m) Conduct, as appropriate, *in camera* sessions of the Committee, both without Management and/or the external auditor(s) or internal auditor present, as the case may be, and call and conduct such additional *in camera* sessions as required and/or requested and report the results of such meetings to the President & Chief Executive Officer, the Chief Financial Officer, the external auditor(s), the internal auditor and the Board, as appropriate;
- (n) Ensure that Committee meetings are conducted in an efficient, effective and focused manner;
- (o) Ensure that the Committee reports regularly to the Board; and
- (p) In conjunction with the Corporate Governance & Compensation Committee, assess performances of Committee members, collectively and individually and, where applicable, provide constructive performance feedback to Committee members.

2.2 Working with Management

The Chair of the Committee has the responsibility to:

- (a) Foster a constructive and harmonious relationship of shared responsibility and partnership between the Board, the Committee and Management, including the effective interaction of Board and/or Committee members and Management;
- (b) Act as the liaison person for requests by Committee members in the performance of their duties and responsibilities for assistance, information and/or advice from management or for advice or opinions from the external auditor(s), of the Company, and without inhibiting the direct interaction between other members of the Committee and Management, provide Management with a point of contact for the Committee;
- (c) Meet or discuss proactively with all Committee members and seek their feedback on Management performance, and Committee effectiveness and other matters;
- (d) Provide feedback to and act as a sounding board for the President & Chief Executive Officer and the Chief Financial Officer in relation to matters within the Mandate, functions and

responsibilities of the Committee and ensure the President & Chief Executive Office and Chief Financial Officer are aware of concerns and decisions of the Committee; and

- (e) Interact, as required, with the President & Chief Executive Officer and/or the Chief Financial Officer on governance, performance and other areas within the Mandate, functions and responsibilities of the Committee and collaborate with the President & Chief Executive Officer and Chief Financial Officer to co-ordinate activities and plans and to exchange timely, pertinent information.

2.3 Working with External Auditor(s) and Internal Auditor

The Chair of the Committee has the responsibility to:

- (a) Foster a constructive and harmonious relationship of shared responsibility between the Board, the Committee and the external auditor(s) of the Company, including the effective interaction of Board and/or Committee members and such auditor(s);
- (b) Act as the liaison person for requests by the external auditor(s) of the Company in the performance of their duties and responsibilities for assistance, information and/or advice from the Board or the Committee;
- (c) Meet or discuss proactively with all Committee members and seek their feedback on the performance of the external auditor(s) and internal auditor of the Company;
- (d) Provide feedback to and act as a sounding board for the external auditor(s) and internal auditor of the Company and ensure such auditors are aware of concerns and decisions of the Committee; and
- (e) Interact with the external auditor(s) of the Company and internal auditor on performance and other areas and collaborate closely with such auditor(s) to co-ordinate activities and plans and to exchange timely, pertinent information.

3. QUALIFICATIONS

The qualifications of the Chair of the Committee shall include the following:

- (a) Has determined, after careful self-assessment and consideration, that he or she has the time, energy and desire to assume this position;
- (b) Has sufficient years of experience as a member of a board of a reporting issuer or an advisor thereto and is financially literate;
- (c) Thoroughly understands the governance process, particularly as it relates to the Committee, its Mandate and functions;
- (d) Has no conflicts of interest that would prohibit him or her from acting in the role of the Chair of the Committee;
- (e) Is respected for his or her personal and professional integrity, and judgement by the Board, Committee members, Management and the external auditor(s) of the Company;
- (f) Has a collegial working relationship with the President & Chief Executive Officer, the Chief Financial Officer, the internal auditor and the external auditor(s) of the Company; and
- (g) Has a collegial working relationship with other members of the Committee.

SCHEDULE B SUMMARY OF MATERIAL PROVISIONS OF CONCESSION AGREEMENT

Grant of Concession

Together with the 407 Act, the Concession Agreement is the key agreement, which governs 407 ETR's rights and obligations with respect to Highway 407 ETR and regulates the relationship between the Province and 407 ETR. It grants 407 ETR a 99-year ground lease of the Project Lands* owned by the Province (which commenced on April 6, 1999) for a nominal rent, which has been prepaid by 407 ETR. It further obliges 407 ETR to finance, operate, manage, maintain, rehabilitate and toll the Project** in accordance with the provisions of the Concession Agreement.

* **"Project Lands"** means the Highway 407 ETR Lands, the lands upon which operation centre and tolling systems are located or constructed upon, and lands and premises used for patrol yards for Highway 407 ETR, commuter parking lots and inspection stations.

** **"Project"** means Highway 407 ETR, any buildings and structures located on the Project Lands including the toll system, all other facilities, fixtures and personal property contained on the Project Lands or used in connection with the Project Lands or Highway 407 ETR, all mechanical, electrical and other systems used in connection with any of the foregoing and 407 ETR's leasehold interest in the Project Lands.

Pursuant to the terms of the Concession Agreement, the Province transferred to 407 ETR all of its right, title and interest in and to the Existing Improvements*, excluding the Project Lands in, on, or under which the Existing Improvements are located. At the end of the term of the Concession Agreement, all improvements on the Project Lands and all improvements comprising the Project, including the Existing Improvements, shall become the absolute property of the Province. The Province also transferred to 407 ETR all of the Province's right, title and interest in the permits and authorizations applicable to Highway 407 ETR. To the extent that such permits and authorizations are not assignable or are not assignable without consent, the Province, at the request of 407 ETR, shall extend or make available such permits and authorizations to the extent permitted or feasible in the circumstances.

* **"Existing Improvements"** mean: (i) the highway that as of October 19, 1998 was part of the King's Highway known as Number 407 located on the lands that are the subject of the Concession Agreement and which are also described in regulations made under the 407 Act (the **"Highway 407 ETR Lands"**), including all improvements, signage, the toll system, equipment, materials and fixtures forming a part of and used in connection with Highway 407 ETR; (ii) all buildings and structures on the Project Lands; (iii) all other facilities, fixtures and personal property contained on the Project Lands or used in connection with the Project Lands; (iv) all mechanical, electrical and other systems used in connection with any of the foregoing; and (v) the facilities completed or to be completed by the Province, including Highway 407 ETR Central, as more particularly described in the Concession Agreement.

The Province has retained the right: (i) for transit ways (for public or private mass transit) on corridor lands (being lands and rights that are adjacent to, over or under the Highway 407 ETR Lands, and which are owned by the Province and not leased to 407 ETR) and portions of the Highway 407 ETR Lands; (ii) for inspection stations on corridor lands and/or the Highway 407 ETR Lands; and (iii) to install utilities in, along, under, across and through the Highway 407 ETR Lands provided that such uses are in accordance with the provisions of the Concession Agreement, including not preventing or materially impeding the operation of Highway 407 ETR or the expansion or extension of Highway 407 ETR as required or permitted under the Concession Agreement.

Revenues

As permitted under the 407 Act, the Concession Agreement authorizes 407 ETR to charge and collect tolls, administration fees and interest ("Toll Revenues") in connection with Highway 407 ETR. All Toll Revenues are the property of 407 ETR while non-toll revenues are the property of the Province and 407 ETR has no rights to such non-toll revenues. The range and scope of the tolls which may be charged by 407 ETR are set out in the Tolling Agreement.

Principal Obligations of 407 ETR

Under the Concession Agreement, 407 ETR was required at its expense to develop, design, build and finance the development, design and building of Highway 407 West Extension, Highway 407 East Partial Extension and the Highway 407 Central Deferred Interchanges (all of which have now been completed, other than certain interchanges described under "Principal Obligations of 407 ETR" – Schedule B) and to finance, operate, manage, maintain, rehabilitate and toll the Project, all in accordance with specified standards. 407 ETR is obligated, at its expense, to ensure that Highway 407 ETR complies with the safety standards established generally for controlled access highways by the Province, which standards may be upgraded by the Province at any time. The Concession Agreement further provides that the Province may impose higher safety standards than those applicable to other controlled access highways, but the Province will reimburse 407 ETR for the incremental cost of complying with such higher standards.

Upon the occurrence of certain events, including Congestion (as that term is defined in the Tolling Agreement) or receipt of a change order from the Province, 407 ETR must expand (i.e., by adding lanes to an existing segment) or extend (i.e., by adding linear extensions) Highway 407 ETR. 407 ETR may also initiate a voluntary expansion or extension of Highway 407 ETR beyond that required in accordance with the Concession Agreement. Any additional lands required to complete an approved expansion or extension will be expropriated by the Province. The cost of the expropriation will be borne by the Province or, in the case of a voluntary expansion or extension, will be allocated as negotiated by the Province and 407 ETR.

407 ETR is responsible for financing the performance of its obligations under the Concession Agreement, and satisfying debt service or repayment obligations related to such financing. 407 ETR is also responsible for making all payments required in connection with the operation of Highway 407 ETR or the use or occupancy of the Project Lands, including: (i) the operation and maintenance costs for the Project (such as utilities and repairs); (ii) all taxes payable by 407 ETR; and (iii) the cost of insurance coverage required by the Concession Agreement.

The Concession Agreement was amended on December 22, 2000 to provide for the further deferral of construction of the Highway 407 Central Deferred Interchanges at Centre Street and Kipling Avenue.

Termination

The Province and 407 ETR may mutually agree to terminate the Concession Agreement if *force majeure* events (as defined in the Concession Agreement) continue for more than one year and result in a delay in the performance of material obligations, damage to Highway 407 ETR or the suspension of toll collection. In such an event, the Province shall pay to 407 ETR an amount equal to the principal, accrued interest and breakage costs on any leasehold mortgages 407 ETR may have granted with respect to Highway 407 ETR as security for debt obligations incurred therewith (including the leasehold mortgage granted to the Trustee for the benefit of all Bondholders), plus reasonable costs and expenses incurred by 407 ETR as a result of termination, less any insurance and expropriation proceeds.

Certain events of default by 407 ETR under the Concession Agreement give the Province the right to exercise remedies other than termination, including the right to seek specific performance, injunctive relief or other equitable remedies, recovery of its losses and other amounts due and payable, and the right to halt construction of work in progress or close any or all portions of Highway 407 ETR. These events of default include: (i) the failure to make payment of any amounts due to the Province under any material agreements to which the Province and 407 ETR are parties; (ii) any material representation or warranty made by 407 ETR to the Province under the Concession Agreement being materially incorrect; (iii) the failure to perform or observe any material obligation or covenant under the Concession Agreement; (iv) a default under any material agreement related to Highway 407 ETR to which the Province is a party; or (v) the bankruptcy or insolvency of 407 ETR.

The Province may unilaterally terminate the Concession Agreement or re-enter the Project Lands prior to the expiry of the term of the Concession Agreement without compensation to 407 ETR if 407 ETR does not rectify specified defaults by it under the Concession Agreement within the applicable cure periods. This right of termination will arise only upon the occurrence of: (i) the use by 407 ETR of the Project Lands for any use other than those permitted under the Concession Agreement (i.e., toll highway, operations centre and patrol yards); or (ii) the failure by 407 ETR to comply with the provisions of the Concession Agreement relating to provincial highway safety standards. Any Leasehold Mortgagee (as defined in the Concession Agreement) has the right to cure, within applicable periods, such defaults prior to the Province exercising any such right of termination. Upon the exercise by the Province of its right to terminate the Concession Agreement following the occurrence and continuance of such defaults and prior to any such termination, the Province must notify any Leasehold Mortgagee of such termination and thereupon, such Leasehold Mortgagee has the option, exercisable within a certain time period, to obtain from the Province a concession and ground lease agreement effective as of the date of such termination, having a term equal to the term remaining under the Concession Agreement and otherwise having the terms of the Concession Agreement. The obligation of the Province to grant such a concession and ground lease agreement is conditional on, among other things, such Leasehold Mortgagee paying all sums which would, at the time of execution thereof, be due and payable under the Concession Agreement but for such termination, and otherwise fully remedying, to the extent capable by such Leasehold Mortgagee, any defaults under the Concession Agreement existing immediately prior to the termination thereof.

The Province has acknowledged that, except as described above, it shall not have a right to terminate the Concession Agreement. If, notwithstanding the foregoing, the Province terminates the Concession Agreement for any reason other than *force majeure* continuing for over one year or default by 407 ETR (both as described above), it will be required to pay to 407 ETR compensation equal to the reasonable costs of termination incurred by 407 ETR plus the aggregate of: (i) the amount of all debt relating to the Highway, including accrued interest and all commercially reasonable breakage costs, make-whole payments and any other prepayment amounts required to be paid by 407

ETR in connection with such debt; plus (ii) such amount, if any, as may be required to ensure that, following repayment of the debt, the value of 407 ETR on the date of termination is the same as it would have been had termination not occurred, less the amount of any expropriation proceeds received by 407 ETR as a result of such termination. If the Province defaults in its performance of the Concession Agreement, or takes any action which materially and adversely affects the fair market value of the Project and meets the other criteria set out under “Discriminatory Action” in the Concession Agreement, 407 ETR may seek compensation or may terminate the Concession Agreement and receive compensation as described above. The 407 Act exempts Highway 407 ETR and the Highway 407 ETR Lands from the application of various provincial statutes, regulations and obligations, and the removal of these exemptions may constitute a Discriminatory Action as defined in the Concession Agreement.

SCHEDULE C SUMMARY OF MATERIAL PROVISIONS OF TOLLING AGREEMENT

The Tolling Agreement between 407 ETR and the Province will remain in effect throughout the term of the Concession Agreement. Under the Tolling Agreement, 407 ETR has the flexibility to manage the basis on which tolls will be established and the freedom to establish higher tolls while avoiding Congestion Payments as such term is here after defined, if prescribed traffic levels are achieved. In this manner, 407 ETR is financially motivated to provide congestion relief to other roads and highways – a key public interest goal – by achieving those prescribed traffic levels. The Tolling Agreement also requires 407 ETR to undertake lane expansions once certain traffic levels are exceeded.

The Tolling Agreement established a toll threshold for calendar year 1999 (the "Toll Threshold") of \$0.11/km for light vehicles, \$0.22/km for heavy-single unit vehicles and \$0.33/km for heavy-multi unit vehicles (each including administration fees), increasing at an annual rate of 1½% in the first year and thereafter 2% of the initial Toll Threshold plus inflation annually, to a total increase (before inflation) of not more than 30%.

The Toll Threshold was the principal limit on the toll rates until the completion of the Highway 407 West Extension and Highway 407 East Partial Extension. At that point, a base traffic flow (the "Traffic Threshold") was established based upon peak-hour traffic by Highway segment over the 2002 calendar year. This Traffic Threshold was then to grow at a rate between 1% and 3% per year, depending upon the Traffic Threshold in the prior year, to a maximum of 1,500 vehicles per lane per hour. If actual peak-hour traffic levels in a calendar year are below the relevant Traffic Threshold and toll rates are above the Toll Threshold, 407 ETR is required to make certain payments ("Congestion Payments") to the Province. In some circumstances, that payment will be equal to two times the excess of actual toll revenue charges over the Toll Threshold during the applicable calendar year. Provided observed peak hour traffic flows during the calendar year are greater than the relevant Traffic Threshold, tolls may be raised by 407 ETR without any payment being made by 407 ETR to the Province. 407 ETR has the right to establish, collect and enforce payment of tolls with respect to the operation of vehicles on Highway 407 in accordance with the provisions of the Tolling Agreement, whether or not 407 ETR may be required to make a payment to the Province because actual traffic levels in a calendar year are below the Traffic Threshold.

In addition, penalties will be payable to the Province if:

- (a) average administration fees payable by transponder equipped light vehicles exceed \$60 per annum (in 1999 dollars);
- (b) camera charges exceed a maximum of \$3.00 (in 1999 dollars);
- (c) toll charges and administration fees for single heavy units and multiple heavy units exceed two and three times, respectively, the toll charges and administration fees for light vehicles; and
- (d) off peak and night rate toll charges are set at higher levels than peak rate toll charges.

The Tolling Agreement also provides that 407 ETR is required to expand certain segments of Highway 407 ETR if traffic flow on the Highway exceeds specified levels. Any lane expansion must be completed within two years following the determination that the maximum traffic volume threshold is being exceeded on the applicable segment of Highway 407 ETR. The Province cannot require 407 ETR to expand more than one segment of the Highway in any given year, or to expand by more than one lane in either direction.

SCHEDULE D

SUMMARY OF MATERIAL PROVISIONS OF MASTER TRUST INDENTURE

On May 5, 1999, the Company, 407 ETR and The Trust Company of Bank of Montreal (now BNY Trust Company of Canada), as trustee (the "Trustee"), entered into a master trust indenture, which was amended and restated on July 20, 1999 (the "Indenture"), which establishes common security and a set of common covenants given by the Company and 407 ETR for the benefit of all of their creditors under the Capital Markets Platform.

The following summary of the principal provisions contained in the Indenture is qualified in its entirety by reference to the Indenture. This overview summarizes certain complex provisions of the Indenture and omits descriptions of many provisions thereof. The full text of the Indenture is posted on SEDAR (www.sedar.com). Certain defined terms and capitalized terms contained in this section of the Annual Information Form are more fully defined in the Indenture.

Nature of Obligations Issued and Secured

The Indenture authorizes the issuance of different classes and series of bonds (for ease of reference, each a "Bond"). Bonds are issued under supplemental indentures ("Supplemental Indentures") to the Indenture, either as obligation bonds ("Obligation Bonds"), to evidence the direct indebtedness of the Company to the holder of such bonds, or by way of pledged bonds ("Pledged Bonds") which evidence direct borrowings by the Company and which will be pledged to collaterally secure bank borrowings, obligations under letters of credit, debentures, commercial paper, medium-term notes and other evidences of indebtedness and obligations under derivative instruments, such as interest rate and currency hedging agreements.

Under the Indenture, the Company can issue the following classes of Bonds (each a "Class"): (i) Senior Bonds, (ii) Junior Bonds, which are subordinate to the Senior Bonds, and (iii) Subordinated Bonds, which are subordinate to both the Senior and Junior Bonds. An unlimited number of series (each a "Series") of Bonds may be issued within each of these three Classes of Bonds. The specific terms and conditions of each Series of Bonds are set forth in the Supplemental Indenture authorizing that Series.

All Bonds of all Series within a Class will rank *pari passu* with all other outstanding Bonds of such Class, except with respect to any sinking fund or Series Reserve Account established for the benefit of a particular Series. Each Bond of a particular Series shall, in all respects, be equally secured with all other Bonds of such Series. The Indenture provides that the principal terms attaching to each Series of Bonds shall be set out in the related Supplemental Indenture, and may include the following terms:

- (a) principal amount and currency of payment;
- (b) the purpose or purposes for which the Bonds are being issued, any limitations on the use of proceeds from the issue of the Series and, if applicable, the description of any project or phase of a project (a "Development Project") which will be financed by the issuance of the Bonds;
- (c) the date or dates of maturity of the Bonds of such Series;
- (d) the interest or discount rates or the manner for determining such rates and the payment dates;
- (e) the paying agent and the place or places of payment of the principal and redemption price;
- (f) repurchase and redemption features and procedures;
- (g) requirements to establish certain funds (including any sinking fund or Series Reserve Account for such Series) or to contribute to funds, and whether such funds are maintained by the Company, 407 ETR or the Trustee;
- (h) procedures for the sale of the Bonds of the Series;
- (i) whether such Bonds are Obligation Bonds or Pledged Bonds;
- (j) if applicable, the priority of payments and other entitlements, including covenants, events of default, terms of subordination and other matters differentiating the Series within a Class of Bonds;
- (k) any special voting requirements applicable to the Bonds of such Series;

- (l) any restriction on the use of proceeds from the issue of the Bonds; and
- (m) form of instrument (including registered, book-entry or coupon).

Unless restricted by the terms of a Supplemental Indenture, all proceeds from Indebtedness secured under the Indenture may be used for any purpose, including the design, development, maintenance, management and operation of Highway 407 and the toll equipment and systems relating to the toll data and facilities used in connection with the operation of Highway 407 ETR.

Issuance of Refunding Bonds and Completion Bonds

Obligation Bonds may be issued as either Refunding Bonds or Completion Bonds for the purposes of the Indenture. Refunding Bonds are issued for the purpose of refinancing or repaying existing indebtedness, and may be issued without the Company being required to satisfy the conditions imposed by the Additional Indebtedness covenant (described below under “- Additional Indebtedness Covenant”). Completion Bonds are issued to finance the costs of completing the design, development and construction of the Highway 407 Central Deferred Interchanges, Highway 407 West Extension and Highway 407 East Partial Extension and to finance the cost of any other Development Project, in each case, for which other Bonds have already been issued. The Company may issue Completion Bonds in an amount not exceeding 10% of the original estimated cost of any Development Project without violating the Additional Indebtedness covenant, provided that at least two of the Rating Agencies (or one of the Rating Agencies if the Bonds are then rated by only one Rating Agency) have provided written confirmation that such issue of Completion Bonds will not result in an Adverse Ratings Effect for any Senior or Junior Bonds.

Junior Bonds

The following provisions apply to all series of Junior Bonds so long as any Senior Bonds are outstanding:

- (a) Holders of Junior Bonds will be entitled to attend the meetings of holders of Junior Bonds as a Class, or of any Series of Junior Bonds, and will be entitled to vote at any such meeting. Holders of Junior Bonds will be entitled to attend any meeting of the holders of all Classes of Bonds but will not be entitled to vote thereat unless, and only to the extent that, there is a vote of holders of Junior Bonds as a Class held at such meeting.
- (b) All Indebtedness of the Company evidenced by or collaterally secured by the Junior Bonds is postponed, to the extent necessary to comply with clauses (c) and (d) below, to the Indebtedness of the Company evidenced or collaterally secured by the Senior Bonds.
- (c) No payment of interest, principal or any other amount shall be made by the Company on any Indebtedness evidenced or collaterally secured by any Junior Bond unless all payments of principal and interest then due and payable on all Senior Debt evidenced or collaterally secured by Senior Bonds have been made, subject to any such payments permitted after the passage of a specified period of time as set forth in any Supplemental Indenture for such Junior Bonds and not otherwise prohibited by the Indenture or any Supplemental Indenture.
- (d) Except as otherwise expressly provided in the Indenture, holders of the Junior Bonds will not be entitled to accelerate or enforce their rights and remedies following the occurrence of an Event of Default or an Acceleration Event of Default pursuant to the provisions of the Indenture unless, and only to the extent that, holders of the Senior Bonds shall have enforced their rights and remedies pursuant to the provisions of the Indenture or no Senior Bonds are outstanding.
- (e) No holder of Junior Bonds will take any steps whatsoever whereby the priority or rights of holders of any Senior Bonds may be defeated or impaired and no holder of Junior Bonds will assert any right or claim, whether in law or equity, which might impair the validity and effectiveness of the priority of the Senior Bonds in accordance with the terms of the Indenture.
- (f) Notwithstanding the provisions of clause (d) above, a Supplemental Indenture with respect to any Series of Junior Bonds may provide that holders of such Series of Junior Bonds will have the right to exercise remedies pursuant to the provisions of the Indenture following the occurrence of an Event of Default or an Acceleration Event of Default regardless of whether holders of the Senior Bonds have taken any action to enforce their rights and remedies provided that (i) the Company has failed or refused to make or defaulted in the payment of principal and interest due and owing on such Series of Junior Bonds and such default has continued for a period of time specified in the Supplemental Indenture for such Series, which period shall not be less than 18 months; (ii) the Event of Default or Acceleration Event of Default (other than an Event of Default arising

solely as a result of a payment default with respect to principal or interest due and owing on Junior Bonds) shall not have been waived by the holders of the Senior Bonds; and (iii) the issue of any such Series of Junior Bonds containing provisions entitling holders of such Series to exercise remedies pursuant to the provisions of the Indenture as contemplated by this clause (f) will not give rise to an Adverse Rating Effect.

Subordinated Bonds

Notwithstanding the Additional Indebtedness covenant, the Company may issue Subordinated Bonds without complying with the Additional Indebtedness covenant, regardless of whether an Event of Default has occurred and is continuing, provided that the Company delivers to the Trustee written confirmation from each Rating Agency which has a current rating on any of the then outstanding Bonds that such issue of Subordinated Bonds will not cause such Rating Agency to withdraw or reduce the then current rating on any Outstanding Senior or Junior Bonds below the current rating on such Bonds.

The following provisions apply to all Series of Subordinated Bonds so long as any Senior Bonds or Junior Bonds are outstanding:

- (a) Holders of Subordinated Bonds shall be entitled to attend the meetings of holders of Subordinated Bonds as a Class, or of any Series of Subordinated Bonds and shall be entitled to vote at any such meeting. Holders of Subordinated Bonds shall be entitled to attend any meeting of the Bondholders of all Classes of Bonds but shall not be entitled to vote thereat unless, and only to the extent that, there is a vote of Bondholders of Subordinated Bonds as a Class held at such meeting.
- (b) All Indebtedness of the Company evidenced by or collaterally secured by the Subordinated Bonds is postponed, to the extent necessary to comply with clauses (c) and (d) below, to the indebtedness and liabilities of the Company evidenced or collaterally secured by the Senior Bonds and the Junior Bonds.
- (c) No payments in respect of principal, interest or any other amount shall be made on any Indebtedness evidenced or collaterally secured by any Subordinated Bonds at any time that a Default or Event of Default has occurred and is continuing or if a Default or Event of Default would occur as a consequence of any such payment or if any amounts are in arrears under the Indebtedness secured under the Indenture and the Security or if the Debt Service Reserve Fund has not been fully funded as and when required pursuant to the Indenture or if any such payments are restricted by the terms of any Supplemental Indenture authorizing the issuance of such Subordinated Bonds.
- (d) No payment of interest, principal or any other amount shall be made by the Company on any Indebtedness evidenced or secured by any Subordinated Bonds unless all payments of principal and interest then due and payable on all Senior Debt evidenced or collaterally secured by Senior Bonds and Junior Debt evidenced or collaterally secured by Junior Bonds have been made and no interest on any such Senior Debt or Junior Debt evidenced or collaterally secured by Bonds is then being capitalized or deferred.
- (e) Holders of Subordinated Bonds shall have no right to instruct the Trustee to waive any Event of Default or to exercise any remedies pursuant to the Indenture.
- (f) Holders of Subordinated Bonds shall have no right to institute or commence any proceedings for the appointment of a receiver or receiver and manager or trustee for the Company, 407 ETR or any Subsidiary or for any part of the property of the Company, 407 ETR or any Subsidiary or any other proceeding relating to the Company, 407 ETR or any Subsidiary under any bankruptcy, insolvency, reorganization, arrangement or readjustment of debt, law or statute of any jurisdiction, whether now or hereafter in effect.
- (g) Except as otherwise expressly provided in the Indenture, holders of the Subordinated Bonds shall not be entitled to enforce their rights and remedies under the Indenture following the occurrence of an Event of Default or an Acceleration Event of Default pursuant to the provisions of the Indenture unless, and only to the extent that, holders of the Senior Bonds and the Junior Bonds shall have enforced their rights and remedies pursuant to the Indenture.
- (h) No holder of Subordinated Bonds will take any steps whatsoever whereby the priority or rights of holders of any Senior Bonds or Junior Bonds under the Indenture may be defeated or impaired and no holder of Subordinated Bonds shall assert any right or claim, whether in law or equity, which might impair the validity and effectiveness of the priority of the Senior Bonds and the Junior Bonds in accordance with the terms of the Indenture.

Conditions of Pledged Bonds

The Indenture provides that a Pledged Bond and the pledge related thereto will be subject to the following conditions:

- (a) a Pledged Bond will not be transferable or negotiable except to an assignee of the borrowings secured by such Bond and only in conjunction with an assignment of the related pledge or the entering into of a new pledge complying with the provisions of the Indenture;
- (b) notwithstanding the principal amount of a Pledged Bond or the interest rate expressed to be payable thereon, such Pledged Bond will constitute an obligation of the Company only to the extent of the lesser of (i) the outstanding amount of the borrowings secured by such Pledged Bond, and (ii) the principal amount of such Pledged Bond and interest accrued thereon, and such indebtedness shall only be payable in accordance with the payment provisions applicable thereto;
- (c) at any meeting of the Bondholders or in respect of any Special Bondholders' Resolution (defined below under "- Indenture Terms Glossary") or Extraordinary Resolution (defined below under "- Indenture Terms Glossary"), the holder of a Pledged Bond will be entitled to that number of votes which the holder of an Obligation Bond would be entitled, based on the principal amount equal to the amount determined in clause (b) above; and
- (d) all rights of the holder of a Pledged Bond may be divisible with respect to the indebtedness secured thereby.

Security

As security for the obligations of the Company, 407 ETR and Cantoll under the Indenture (the "Security"), the Trustee has been granted, among other things: a leasehold mortgage on 407 ETR's leasehold interest in and to the Highway 407 ETR Lands, a security interest in all real and personal property of the Company, a security interest in all real and personal property of 407 ETR related to the Project and a security interest in all real and personal property of Cantoll, 9665641 Canada Inc. Such security interest includes, among other things: (i) a specific assignment of each of the Company's and 407 ETR's interest in and rights under all Project Agreements and other material agreements, (ii) an assignment of revenues and a security interest in all Funds and Accounts which are required to be maintained pursuant to the Indenture and any Supplemental Indenture, and (iii) a pledge of the shares of 407 ETR owned by the Company.

Any Subsidiary which may exist in the future shall provide a guarantee of the Company's obligations under the Indenture and provide comparable security against its assets.

Flow of Funds

The Indenture requires the Company or 407 ETR and the Trustee to establish and maintain a series of segregated accounts and funds. All Revenues (other than certain receipts under Swap Agreements) received by the Company, 407 ETR or any other Subsidiary will be deposited to the credit of the Revenue Account which will be under the control of either the Company or 407 ETR. Funds in the Revenue Account shall be applied in the following order:

- (a) to pay all Operating and Maintenance Expenses (defined below under "- Indenture Terms Glossary");
- (b) to fund a Senior Debt Service Fund by depositing on a monthly basis the following amounts: (i) into an Interest Account an amount equal to one-sixth of the semi-annual aggregate interest requirements due on all outstanding Senior Bonds in such year; (ii) into a Principal Account an amount equal to one-twelfth of the principal component of Annual Debt Service due on all outstanding Senior Bonds in such year (other than the principal component of Senior Bonds which, by their terms, are payable in full in a single instalment on maturity); and (iii) into a Swap Account an amount equal to the full amount of all payments under any Swap Agreement which are, or during the next 30 days will become, due and payable; in each case unless otherwise provided in any Supplemental Indenture with respect to such payments for any Series of Senior Bonds. Money in the Senior Debt Service Fund will be used to make payments on Senior Debt in respect of interest and principal and payments due under Swap Agreements as they come due;
- (c) to fund each separate account (a "Series Reserve Account") in the Debt Service Reserve Fund with an amount sufficient to fulfill the requirements of each Series of Senior Bonds as set out in the relevant Supplemental Indentures. A Series Reserve Account within the Debt Service Reserve Fund will be established for each Series of Bonds which requires such a reserve fund to be established for such Series and will be funded with an amount specified in each Supplemental Indenture. The terms of any Series of

Bonds may also require receipts under any Swap Agreement directly related to hedging interest rate or currency exposure in respect of such Series to be deposited directly into the Series Reserve Account for such Series;

- (d) to fund the Construction Fund in the event the Company is required to maintain a minimum Construction Fund Amount. The Construction Fund was initially funded in the amount of \$507,407,000, and was used to pay amounts due under the fixed price Design Build Agreement and the Extension Toll Supply Agreement in respect of the work relating to the construction of Highway 407 East Partial Extension, 407 West Extension and Highway 407 Central Deferred Interchanges;
- (e) to fund an Operating and Maintenance Reserve Fund with sufficient monies to cover the estimated Operating and Maintenance Expenses for the Company, 407 ETR and any other Subsidiary, for one-quarter of the estimated annual requirements for the applicable fiscal year;
- (f) to fund a Renewal and Replacement Fund with sufficient monies to cover the estimated Renewal and Replacement Expenses for the Company, 407 ETR and any other Subsidiary, for one-quarter of the total estimated requirements for the next four fiscal years. Monies on deposit in this fund will be used solely for the purpose of reconstructing, restoring, repairing or rehabilitating the Project or any part thereof (including expansions and extensions of Highway 407 ETR and including capital expenditures for vehicles and equipment and other assets not funded out of the Construction Fund) unless there exists a shortfall in either the Operating and Maintenance Reserve Fund or the Debt Service Fund, in which case the Trustee may require the Company to transfer from the Renewal and Replacement Fund, first to the Operating and Maintenance Reserve Fund and then the Debt Service Fund, amounts up to the amount of any such shortfall;
- (g) to transfer as and when required all amounts to any other Account, Fund or Reserve Fund which may be required by any Supplemental Indenture to be held by the Trustee or by the Company, 407 ETR or any other Subsidiary; however, the terms of the Junior Bridge Credit Facility restrict the establishment of any such additional Accounts or Funds or Reserve Funds while any Indebtedness under the Junior Bridge Credit Facility remains outstanding;
- (h) to fund a Junior/Subordinated Debt Service Fund by depositing on a monthly basis the following amounts: (i) into an Interest Account an amount equal to one-sixth of the semi-annual aggregate interest requirements due on all outstanding Junior Bonds and Subordinated Bonds in such year; (ii) into a Principal Account an amount equal to one-twelfth of the principal component of Annual Debt Service due on all outstanding Junior Bonds and Subordinated Bonds in such year (other than the principal component of Junior Bonds or Subordinated Bonds which, by their terms, are payable in full in a single instalment on maturity); and (iii) into a Swap Account an amount equal to the full amount of all payments under any Swap Agreement (if the obligations under such Swap Agreement are Junior Debt or Subordinated Debt) which are, or during the next 30 days will become, due and payable; in each case unless otherwise provided in any Supplemental Indenture with respect to such payments for any Series of Junior Bonds or Subordinated Bonds. Money in the Junior/Subordinated Debt Service Fund will be used to make payments on Junior Debt and Subordinated Debt in respect of interest and principal and payments due under Swap Agreements (if the obligations under such Swap Agreement are Junior Debt or Subordinated Debt) as they become due, subject to any restrictions on payment of principal or interest on Subordinated Debt set forth in any Supplemental Indenture with respect to such Subordinated Debt, including the Subordinated Term Credit Facility;
- (i) to fund a separate Series Reserve Account in the Debt Service Reserve Fund with an amount sufficient to fulfil the requirements of each Series of Junior Bonds and Subordinated Bonds as set out in the relevant Supplemental Indentures;
- (j) to transfer, as and when required, the amount required to maintain a balance of \$10 million in the Cash Reserve Account. Monies in the Cash Reserve Account can be used for any lawful purpose of the Company other than payments on Subordinated Debt or distributions to shareholders of the Company;
- (k) to pay principal, interest and other amounts then payable on Obligation Bonds and the principal, interest and other amounts (including payments under Swap Agreements) owing in respect of the Indebtedness secured by Pledged Bonds, all after giving effect to payments made out of the Debt Service Funds and payments, if any, made out of any Series Reserve Account in the Debt Service Reserve Fund; and
- (l) to fund a General Fund which will contain any portion of Net Revenues which the Company has transferred from the Revenue Account after the above disbursements have been satisfied. Money in the General Fund shall be applied by the Company firstly to satisfy any deficiencies in amounts deposited to the Debt Service

Funds, Series Reserve Accounts in the Debt Service Reserve Fund, the Operating and Maintenance Reserve Fund, the Construction Fund and the Renewal and Replacement Fund. Thereafter, money in the General Fund and the accounts therein may be applied by the Company or 407 ETR for any lawful purpose of the Company or 407 ETR, including payments on Subordinated Debt or distributions to shareholders of the Company, subject to the certain restrictions on such payments and distributions.

The Debt Service Funds, the Debt Service Reserve Fund and the Construction Fund are each segregated accounts held in trust by the Trustee and applied by the Trustee in accordance with the provisions of the Indenture. The Operation and Maintenance Reserve Fund, the Revenue Account, the General Fund, the Renewal and Replacement Fund and the Cash Reserve Account are invested in Qualified Investments and are under the control of the Company or 407 ETR but are subject to the terms of the Indenture and a security interest in favour of the Trustee on behalf of the Bondholders.

Additional Indebtedness Covenant

There is no limit on the aggregate amount of Additional Indebtedness which may be secured under the Indenture. However, the Company will not be permitted to issue any Additional Indebtedness secured under the Indenture unless the Company meets the following conditions (subject to certain exceptions for Refunding Bonds and Subordinated Bonds):

- (a) no Event of Default has occurred and is continuing under the Indenture or any Supplemental Indenture;
- (b) the amounts held in any fund required to be maintained by the Company or 407 ETR under the Indenture or any Supplemental Indenture are at least equal to the amounts required to be kept in such funds on the date the Additional Indebtedness exists; and
- (c) the Company has delivered to the Trustee written confirmation from each Rating Agency which has a current rating on any outstanding Bonds that no Adverse Ratings Effect will occur as a consequence of the creation, issuance or assumption of any Additional Indebtedness. For the purposes of the Indenture, "Adverse Ratings Effect" means, at any time, the withdrawal or reduction by any Rating Agency which, at such time, has a current rating on any of the then outstanding Senior Bonds or Junior Bonds which are Obligation Bonds, below the then current rating of such outstanding Obligation Bonds.¹

In addition, in order to issue any Additional Indebtedness, other than Additional Indebtedness under Subordinated Bonds, Refunding Bonds or Completion Bonds, the Company must satisfy certain financial coverage tests, based on either projected Net Revenues over the next five Fiscal Years or actual Net Revenues (as defined below under "— Indenture Terms Glossary") for any 12-month period during the most recently completed 18-month period. To demonstrate that such financial tests are met, the Company must deliver to the Trustee either:

- (a) a certificate from the Consultant (as defined below under "— Indenture Terms Glossary") certifying that the estimated Revenues (as defined below under "— Indenture Terms Glossary") and Net Revenues based on reasonable and prudent projections, assumptions and hypotheses, shall be sufficient to permit the Company to comply with the Rate Covenant (as defined below under "— Rate Covenant") in the then current Fiscal Year and in each of the following five Fiscal Years, assuming that the full amount of the Additional Indebtedness is outstanding at all times and assuming that paragraph (b) of the Rate Covenant provides as follows:
 - (i) in the case of the issue of Additional Indebtedness which is Senior Debt (as defined below under "— Indenture Terms Glossary"), Net Revenues in each Fiscal Year will be at least equal to (x) 145% of the Annual Senior Debt Service (as defined below under "— Indenture Terms Glossary") with respect to that Fiscal Year; and (y) 130% of the Annual Junior Debt Service (as defined below under "— Indenture Terms Glossary") with respect to that Fiscal Year; and
 - (ii) in the case of the issue of Additional Indebtedness which is Junior Debt, Net Revenues in each Fiscal Year will be at least equal to 130% of the Annual Junior Debt Service with respect to that Fiscal Year; or

¹ Senior Bonds, Series 10-A2, Series 10-A3, Series 11-A1, Series 12-A1, Series 12-A2, Series 13-A1, Series 14-A1, Series 15-A1, Series 15-A2, Series 16-A1, Series 16-A2, Series 17-A1, Series 17-A2 and Series 18-A1 and Subordinated Bonds, Series 17-D1 are not entitled to this provision.

- (b) an Officers' Certificate certifying that Net Revenues during any consecutive 12-month period during the most recently completed 18-month period, assuming that the full amount of the Additional Indebtedness had been incurred at the beginning of the most recently completed 18-month period and was outstanding at all times during such 18-month period, was not less than:
 - (i) in the case of the issue of Additional Indebtedness which is Senior Debt, (x) 135% of the Annual Senior Debt Service with respect to that Fiscal Year; and (y) 120% of the Annual Junior Debt Service with respect to that Fiscal Year; and
 - (ii) in the case of the issue of Additional Indebtedness which is Junior Debt, 120% of the Annual Junior Debt Service with respect to that fiscal year.

The specified amount in the certificate issued by the Consultant as described above upon the first issue by the Company of Bonds evidencing or securing Additional Indebtedness (other than Refunding Bonds, Completion Bonds or Subordinated Bonds) shall be Certified Indebtedness, which certificate may be replaced from time to time at the request of the Company, and such certificate shall indicate that the Company will be able to comply with the requirements for the issuance of such a certificate if it has outstanding such specified amount of Indebtedness. For the purposes of the Indenture, "Certified Indebtedness" means, at any time, the aggregate amount of Indebtedness which the Consultant has certified may be incurred by the Company, 407 ETR and any other Subsidiaries and secured under the Indenture, whether or not the Company, 407 ETR or any other Subsidiary has incurred such amount. Once the Consultant has determined the amount of such permitted Certified Indebtedness, the Company may borrow and re-borrow or otherwise secure liabilities within this limit, including, without limitation, Obligation Bonds and pursuant to borrowings under bank credit facilities and commercial paper, medium term note programs and liabilities in respect of letters of credit and derivatives; provided, however, that any determination of Certified Indebtedness may not be relied upon after 12 months from the date of such determination. If the Company requires greater financing capacity for such purposes, it must obtain a new certificate from the Consultant and deliver to the Trustee an Officer's Certificate of the Company confirming that it may incur such Additional Indebtedness for such greater amount. In preparing all certificates required to be delivered from time to time, the Consultant will assume that the full amount of Certified Indebtedness is outstanding at all times.

Rate Covenant

The Company and 407 ETR shall establish and at all times maintain tolls, rentals, rates, fees, charges and interest on unpaid tolls, fees and charges, in connection with the use of Highway 407 ETR and the toll system and for services rendered by the Company, 407 ETR and any other Subsidiaries in connection with Highway 407 ETR (the "Rate Covenant") so that:

- (a) Revenues in each Fiscal Year together with any net proceeds from the issue of equity securities and Subordinated Debt in such Fiscal Year will be at least sufficient to make:
 - (i) all required debt service payments (other than capitalized interest and sums otherwise provided for) and deposits in Funds and Reserve Funds in such Fiscal Year with respect to any of the outstanding Indebtedness, any Subordinated Debt and any general obligations issued by the Company, 407 ETR and any other Subsidiary; and
 - (ii) all other payments required to be made by the Company, 407 ETR and any other Subsidiary in the ordinary course of their respective businesses, including payment of all Operating and Maintenance Expenses or payments required in such Fiscal Year under any Capital Lease Obligations and Purchase Money Obligations and payments on Subordinated Debt; and
- (b) Net Revenues together with any net proceeds from the issue of equity securities and Subordinated Debt in each Fiscal Year will be at least equal to (A) 125% of the Annual Senior Debt Service with respect to that Fiscal Year; and (B) 115% of the Annual Debt Service with respect to that fiscal year.

Notwithstanding the above, 407 ETR shall not be obligated to increase any tolls, rentals, rates, fees, charges or interest on unpaid tolls, fees and charges in connection with the use of Highway 407 ETR if either the Company or 407 ETR provides the Trustee with a written opinion of the Highway Consultant that such increase would reasonably be expected to result in a net decrease in aggregate toll revenues because of decreases in traffic volumes or if such increase would not be permitted under the Project Agreements or any applicable law.

In the event that Revenues or Net Revenues for any full Fiscal Year are less than the amount specified above, but the Company and 407 ETR have promptly taken, prior to or during the next succeeding Fiscal Year (to the extent

407 ETR is permitted to do so by the Province under the Concession Agreement and the other Project Agreements), all lawful measures to revise the schedule of tolls, rentals, rates, fees and charges as required, such deficiency in Revenues or Net Revenues, as the case may be, shall not constitute an Event of Default under the provisions of the Indenture.

Additional Covenants

In addition to covenants contained in any Supplemental Indenture, and the Additional Indebtedness Covenant and the Rate Covenant (both described above), the following covenants apply to the Company, 407 ETR and any other Subsidiary:

- (a) All Bonds shall be secured by a guarantee given by 407 ETR to the Trustee under the Indenture and the security therefore.
- (b) The Company shall pay, or cause to be paid, the principal and interest and premium, if any, due in respect of all obligations secured under the Indenture in accordance with their terms on a timely basis.
- (c) The Company shall not, nor shall it allow 407 ETR or any other Subsidiary to, declare or pay any dividend or other distribution on its issued shares or purchase, redeem or otherwise retire any of its issued shares, warrants or any other options or rights to acquire its shares or make any payments in respect of Subordinated Debt other than dividends or other distributions to the Company, 407 ETR or another Subsidiary and Permitted Distributions.
- (d) Neither the Company nor 407 ETR will, nor will the Company allow any Subsidiary to, enter into any Swap Agreement, or any other similar agreement except pursuant to a Swap Agreement for the purpose of hedging Indebtedness or Operating and Maintenance Expenses.
- (e) The Company and 407 ETR will, and the Company will cause each other Subsidiary to, maintain insurance coverage for Highway 407 ETR, the Project, the Project Lands, and any Development Project and operations of the Company, 407 ETR and any other Subsidiary, customarily held by similar companies engaged in the same or similar business.
- (f) Each of the Company and 407 ETR shall at all times maintain an office in Toronto for the administration of the Bonds pursuant to the terms of the Indenture.
- (g) The Company will and will cause 407 ETR and any other Subsidiary to carry on business in a proper, efficient, prudent and businesslike manner and to keep proper books of record and account in accordance with generally accepted accounting principles.
- (h) The Company will promptly notify the Trustee of the occurrence of any Default or Event of Default and of any other event, circumstance or matter (other than general economic conditions applicable to the Company or 407 ETR) which may reasonably be expected to have a material adverse effect on the ability of the Company or 407 ETR or any other Subsidiary to perform any material obligation under the Indenture, the Concession Agreement or any other material agreement.
- (i) Neither the Company nor 407 ETR will, nor will the Company allow any Subsidiary to, create any Guarantee (other than 407 ETR Guarantee or a Subsidiary Guarantee of the obligations of the Company under the Bonds and the Indenture or a guarantee of the Company with respect to any Subordinated Debt), or make or maintain any investment in, a person that is not a Subsidiary (or will not as a result of such investment become a Subsidiary) unless:
 - (a) the aggregate of such guarantees and investments amounts to less than 5% of the Company's accumulated surplus on a consolidated basis for the Company and its Subsidiaries indicated in its most recent audited financial statements; and
 - (b) no Default or Event of Default exists or would exist as a result thereof.
- (j) The Company, 407 ETR and any other Subsidiary may deal with its assets in the ordinary course of business, provided that neither the Company nor 407 ETR shall, nor will the Company permit any Subsidiary to, sell, lease, license or otherwise dispose of any material portion of its property or assets unless:

(a) on a pro forma basis, the Company would have complied with the Indenture and the Supplemental Indentures, including the Rate Covenant; and

(b) no Event of Default would occur as a result thereof.

Notwithstanding the foregoing, neither the Company nor 407 ETR will, nor permit any Subsidiary to, sell, lease, license or otherwise dispose of any of their respective interests in any portion of Highway 407 ETR, the Highway 407 ETR Lands, 407 ETR's interest in the Concession Agreement, or its material rights under the Project Agreements other than as expressly contemplated under the Indenture.

- (k) Each of the Company and 407 ETR shall only carry on the business and activities which it is permitted by law to carry on directly or through a Subsidiary. Neither the Company nor 407 ETR shall, and the Company shall not permit any Subsidiary, to make any material change in its business. The sole business of the Company and 407 ETR (other than any business carried on by a Subsidiary) shall be the acquisition, operation, design, maintenance, development, repair, rehabilitation and management of Highway 407 ETR (and any expansions and extensions thereto), the toll system and the Project and the financing thereof and business ancillary thereto. 407 ETR shall not own any real or personal property which is not related to the Project. All of the business of the Company and 407 ETR directly related to the development, design, construction, operation, management, maintenance, rehabilitation and/or tolling of the Project shall be carried on by the Company directly or by 407 ETR directly.
- (l) 407 ETR shall comply with the terms of the Concession Agreement and each of the Company and 407 ETR, to the extent that it is a party, shall comply with the terms of all other Project Agreements in all material respects. 407 ETR will not surrender the Concession Agreement, voluntarily terminate, voluntarily forfeit or voluntarily cancel the Concession Agreement or 407 ETR's interest in the Concession Agreement, without the prior written consent of the Trustee (which shall be given only if authorized by an Extraordinary Resolution of the Bondholders).
- (m) Neither the Company nor 407 ETR will, without the consent of the Trustee (which shall be given only if authorized by an Extraordinary Resolution of the Bondholders), enter into an agreement with the Province which would:
 - (i) result in a reduction in the term of the Concession Agreement or diminish or reduce 407 ETR's interest in the Concession Agreement or result in a reduction of toll revenue or impair the ability of 407 ETR to increase rates, tolls, fees or charges or other amounts affecting toll revenue;
 - (ii) cause an increase in the rent or other amounts payable by 407 ETR under the Concession Agreement or amounts payable under any other Project Agreement unless the Company or 407 ETR receives an offsetting financial benefit of at least equal value;
 - (iii) amend or delete any provision of the Concession Agreement or any other Project Agreement which would have a material adverse effect on the Company's ability to comply with the Rate Covenant; or
 - (iv) have a material adverse effect on the rights of the Trustee, as a leasehold mortgagee, under the Concession Agreement or any other Project Agreement to appoint or maintain the appointment of a receiver to receive payment of all Revenues or to change the tolls, rates and charges imposed by 407 ETR on users of Highway 407 ETR.
- (n) 407 ETR will not make any amendment to the Concession Agreement or any other Project Agreement unless, on a pro forma basis, the Company would have complied with the Indenture and the Supplemental Indentures, including the Rate Covenant.
- (o) The Company and 407 ETR will defend the leasehold estate created under the Concession Agreement for the entire remainder of the term set forth therein against all and every person lawfully claiming or who may claim the same or a part thereof.
- (p) Neither the Company nor 407 ETR will enter into any leasehold mortgage other than with the Trustee or as otherwise permitted under the Indenture.

- (q) The Company and 407 ETR will ensure that any lien or encumbrance complies with the provisions of the Concession Agreement.
- (r) 407 ETR will pay all monies payable pursuant to the Concession Agreement as and when they become due and payable and will observe and perform all of the covenants of 407 ETR contained in the Concession Agreement and in all other Project Agreements.
- (s) The Company will promptly give written notice to the Trustee of:
 - (i) the occurrence of any Concessionaire Default or Grantor Default (each as defined in the Concession Agreement) or any allegation by the Province that a Concessionaire Default or any event which, with the giving of notice or lapse of time or both, would be a Concessionaire Default has occurred;
 - (ii) the occurrence of an event of force majeure (as defined in the Concession Agreement) that could reasonably be expected to give rise to a termination pursuant to the Concession Agreement;
 - (iii) the receipt by 407 ETR of any notice of non-compliance with any applicable law, the non-compliance with which could reasonably be expected to have a material adverse effect on its business, operations or finances or on the Project or the Security, or notice of any Delay Event (as defined in the Concession Agreement);
 - (iv) the delivery by 407 ETR to the Province of any notice of any Discriminatory Action (as defined in the Concession Agreement) or any Delay Event;
 - (v) the addition of any additional lands or deletion of any surplus lands from the grant of concession and ground lease under the Concession Agreement; and
 - (vi) the receipt by 407 ETR or the Company of any bona fide notice of non-compliance with or default under any provision of any Project Agreement other than the Concession Agreement.
- (t) The Company, 407 ETR and each Subsidiary shall comply in all material respects with all material agreements and neither the Company nor 407 ETR nor any Subsidiary will amend, terminate, waive or otherwise modify any provision of any material agreement, (except in limited situations).
- (u) The Company shall promptly give written notice to the Trustee of any event of default under or termination of any Material Agreement or Swap Agreement.
- (v) The Company and 407 ETR will at all times take such steps as may be necessary to ensure that the toll system performs satisfactorily in order to ensure that 407 ETR complies with all of the requirements of the Concession Agreement.
- (w) Neither the Company nor 407 ETR shall and the Company shall not permit any Subsidiary to conduct non-arm's length transactions except at prices and on terms not less favourable to the Company, 407 ETR or any other Subsidiary, than those terms which could have been obtained in an arm's length transaction or with the consent of the Trustee upon approval by Extraordinary Resolution of the holders of the Senior Bonds.
- (x) Unless the Company and 407 ETR have amalgamated as permitted pursuant to the Indenture, the Company shall at all times own and control all of the issued and outstanding shares of 407 ETR and any outstanding rights, options or other securities capable of becoming a share of 407 ETR.
- (y) The Company and 407 ETR shall, and shall cause each other Subsidiary to, maintain in full force and effect all material industrial and intellectual property used in their respective businesses, including the Project and will ensure that all computer systems, hardware and software used in connection with the operation of the Project are free of any disabling codes or instructions and any virus or other contaminants that may cause material damage or disruption.

Events of Default

In addition to any specific Events of Default created under any Supplemental Indenture which will apply to the related Series, the following shall constitute Events of Default in respect of all obligations secured under the Indenture:

- (a) failure to pay principal when due or interest within three days of becoming due on any obligation secured under the Indenture;
- (b) failure of the Company, 407 ETR or any Subsidiary to comply in a material respect with any covenant, agreement or condition contained in the Indenture, the Supplemental Indenture, the leasehold mortgage granted to the Trustee or, in the case of a Subsidiary, under a Subsidiary Guarantee and such failure continues for a period of 60 days after notice from the Trustee or such longer period as may be required to cure such default if not curable within such 60-day period, provided diligent efforts are made to remedy such default;
- (c) if the Company is required to take measures to comply with the Rate Covenant and fails to take all lawful measures to revise its tolls, rates, rentals, fees and charges for the use of the Highway as necessary to increase its Net Revenues and, thereafter, the Net Revenues are less than that required by paragraph (b) of the Rate Covenant in the next succeeding Fiscal Year;
- (d) if proceedings are commenced for the dissolution, liquidation or winding-up of the Company, 407 ETR or any other Subsidiary or for the suspension of its respective operations unless such proceedings are being actively and diligently contested by the Company, 407 ETR or any other Subsidiary or such a transaction is permitted under the Indenture;
- (e) if proceedings are commenced for the appointment of a receiver or trustee for the Company, 407 ETR or any other Subsidiary and any such receivership or trusteeship remains un-discharged for a period of 60 days;
- (f) if the Company, 407 ETR or any other Subsidiary becomes bankrupt or is adjudged to be bankrupt;
- (g) the making by the Company, 407 ETR or any other Subsidiary of an assignment for the benefit of its creditors, or if the Company, 407 ETR or any other Subsidiary petitions or applies to any court or tribunal for the appointment of a receiver or trustee for itself or for any substantial part of its property, or commences any proceeding relating to itself under any bankruptcy, insolvency, reorganization, arrangement or readjustment of debt law or statute of any jurisdiction whether now or hereafter in effect, or by any act indicates its consent to, approval of or acquiescence in any such proceeding;
- (h) if so provided in a Supplemental Indenture authorizing Pledged Bonds, if at any time such Pledged Bonds secure Indebtedness in an aggregate principal amount exceeding the Threshold Amount specified in such supplemental Indenture and the Company has failed to pay such Indebtedness at maturity (whether by acceleration or otherwise), or within any applicable period of grace, and payment under the Pledged Bonds is demanded (see "Description of Capital Structure - Existing Indebtedness");
- (i) a default by the Company, 407 ETR or any other Subsidiary under any other Indebtedness provided in a principal amount of more than \$50 million and the lender has accelerated or demanded payment of such Indebtedness; provided however, that no such failure shall constitute an Event of Default if the Company, 407 ETR or such Subsidiary is contesting such failure and has deposited in trust with the Trustee an amount in cash or qualified investments equal to the amount at issue;
- (j) the Company fails to deliver the financial statements required under the Indenture and such failure continues for a period of 15 days after written notice by the Trustee;
- (k) the Company fails or refuses to make or cause to be made, or defaults in, the deposit of any Revenues of the Company, 407 ETR or any other Subsidiary to the Revenue Account as required under the Indenture;
- (l) the Trustee has received notice that the Province has given to 407 ETR notice of the Province's intention to terminate the Concession Agreement or stop the progress of the construction work and/or

close any or all portions of Highway 407 ETR as a result of a Concessionaire Default and 407 ETR is not disputing the right of the Province to take such action;

- (m) the Concession Agreement has been terminated or 407 ETR's interest in the Concession Agreement has been terminated;
- (n) a final judgment or order, or series of judgments or orders, whether or not related (but subject to no further right of appeal), is rendered against the Company, 407 ETR or any other Subsidiary for the payment of money in the aggregate in excess of \$25 million and either:
 - (i) enforcement proceedings have commenced and have not been stayed, or
 - (ii) there is any period of 30 consecutive days during which a stay of enforcement of the judgment or order is not in effect; or
- (o) if the obligations of the Company or 407 ETR under the Indenture or any Supplemental Indenture or under the leasehold mortgage in favour of the Trustee shall cease to constitute the legal, valid and binding obligations of the Company or 407 ETR or shall cease to be in full force and effect or the Company or 407 ETR shall have contested the validity of the Indenture, any Supplemental Indenture or the leasehold mortgage or denied that it has any liability there under or the lien created by the Indenture ceases to create a valid and enforceable security interest in the collateral.

Remedies

Upon the occurrence of an uncured Event of Default which remains uncured, other than an event of default (an "Acceleration Event of Default") under clauses (g), (h) or (m) above, or under clauses (e) or (f) above and a court or tribunal of competent jurisdiction adjudges the Company or 407 ETR bankrupt or under any item above designated as an "Acceleration Event of Default" under any Supplemental Indenture, all Bonds outstanding under the Indenture will not be accelerated but, instead, will become due in accordance with their terms and revenues and amounts in any Fund or Reserve Fund, the balance from time to time in the Revenue Account and monies received or collected by the Trustee, the Company or 407 ETR which are subject to the Security shall be applied as follows:

- (a) the balances in each Fund and Reserve Fund (other than balances in any Series Reserve Fund) described under clauses (b), (c) and (d) below shall first be applied pro rata to the payment of the Trustee's expenses incurred in the performance of its duties under the Indenture or any Supplemental Indenture;
- (b) the balance in each Sinking Fund Reserve shall be applied to the repayment of principal due in respect of the Bonds of the related Series;
- (c) the balance in any Series Reserve Account in the Debt Service Reserve Account of each Series shall be applied firstly to the payment of interest and secondly, to the payment of principal on the Bonds (or Indebtedness secured by Bonds) of the related Series;
- (d) the balance in the Debt Service Funds shall be applied firstly, to the payment of interest on Senior Debt, secondly, to the payment of principal on Senior Debt, thirdly, to the payment of interest on Junior Debt, and fourthly, to the payment of principal on Junior Debt;
- (e) any balance in the Operating and Maintenance Reserve Fund shall be applied to the payment of Operating and Maintenance Expenses or any other expenses associated with the safe ongoing operation of Highway 407 ETR and to comply with any applicable legislation;
- (f) any balance in any Construction Fund or Renewal and Replacement Fund shall be applied to the payment of any required construction, replacement or renewal for which the fund was created; and
- (g) monies in the Revenues Account will be applied in the following order:
 - (i) to the payment of any expenses incurred by the Trustee in the performance of its duties under the Indenture;

- (ii) to the payment of Operating and Maintenance Expenses or any other expenses associated with the safe ongoing operation of Highway 407 ETR and to comply with any applicable legislation then due;
- (iii) at the discretion of the Trustee, to the payment of all Liens ranking in priority to the security given under the Indenture;
- (iv) to the payment of overdue interest and then interest due in respect of any Bonds evidencing or securing any Senior Debt;
- (v) to the payment of principal due in respect of any Bonds evidencing or securing any Senior Debt;
- (vi) to the payment of overdue interest and then interest due in respect of any Bonds evidencing or securing any Junior Debt;
- (vii) to the payment of principal due in respect of any Bonds evidencing or securing any Junior Debt;
- (viii) to make payments from the Revenue Account as described above under “– Flow of Funds” as if no Event of Default had occurred but excluding any payments to the General Fund;
- (ix) to fund any deficiency in the amount required to be maintained in each Series Reserve Account in the Debt Service Reserve Fund;
- (x) to the payment of all other amounts owing to the holders of Senior Bonds;
- (xi) to the payment of all other amounts owing to the holders of Junior Bonds;
- (xii) to the payment of overdue interest and then interest due and payable in respect of any Bonds evidencing or securing Subordinated Debt;
- (xiii) to the payment of principal due in respect of any Bonds evidencing or securing any Subordinated Debt;
- (xiv) to the payment of all other amounts owing to the holders of Subordinated Bonds; and
- (xv) lastly, to the payment of interest, principal and premiums in respect of any other Indebtedness.

Upon the occurrence of an Acceleration Event of Default, the holders of the Senior Bonds may, by Extraordinary Resolution of the holders of Senior Bonds (or, if applicable, in the case of an Acceleration Event of Default pursuant to clause (h) under “— Events of Default” (a “Threshold Event of Default”), by Extraordinary Resolution of the holders of the Series of Pledged Bonds in respect of which the Threshold Event of Default has arisen), declare the Bonds of all Classes immediately due and payable and instruct the Trustee to take such legal action or proceedings as it deems expedient, including enforcement of the Security and the exercise of any rights of foreclosure or sale under the leasehold mortgage given by 407 ETR to the Trustee; provided, however, that if the Acceleration Event of Default which has occurred is a Threshold Event of Default, then, notwithstanding the foregoing, the exercise of any rights of foreclosure or sale under the leasehold mortgage given by 407 ETR to the Trustee, the Indenture or otherwise and any right, including, without limitation, the right of foreclosure or sale of the shares or convertible debentures of 407 ETR pledged by the Company, shall be limited to the same extent, if any, as limited in the terms set forth in agreements or instruments governing the Indebtedness collaterally secured by the Series of Pledged Bonds in respect of which such Threshold Event of Default arises.

Upon the occurrence of an Event of Default which remains uncured, the Security shall become immediately enforceable (excluding certain foreclosure or sale rights) and the Trustee may, in its discretion, and shall upon receipt of a Bondholders’ Request (or, if applicable, in the case of a Threshold Event of Default, by an Extraordinary Resolution of the holders of the Series of Pledged Bonds in respect of which such Threshold Event of Default has arisen) proceed to protect and enforce its rights and the rights of the Bondholders under the Indenture, all Supplemental Indentures, any Subsidiary Guarantee and the leasehold mortgage given by 407 ETR to the Trustee (but excluding the exercise of any rights of foreclosure or sale under the leasehold mortgage, the Indenture or otherwise and excluding any right of foreclosure or sale of the shares or convertible debentures of 407 ETR pledged by the Company, unless an Acceleration Event of Default has occurred) by such appropriate private or judicial proceedings as the Trustee shall deem most effectual to protect and enforce such rights.

An Event of Default, other than a Threshold Event of Default, may be waived by Extraordinary Resolution of the holders of Senior Bonds. A Threshold Event of Default may be waived by the holders of Senior Bonds by a Threshold Waiver Resolution (as described under “— Meeting of Bondholders”) unless such Threshold Event of Default has been continuing for a period of not less than 12 months, or such shorter or longer period as may be specified in the Supplemental Indenture providing for such Threshold Event of Default, in which event the Threshold Event of Default may only be waived by Extraordinary Resolution of the holders of the Series of Pledged Bonds in respect of which such Threshold Event of Default has arisen.

Defeasance

The Indenture provides that the Company may deposit with the Trustee as trust funds in trust, specifically pledged as security for and dedicated solely to the benefit of the holders of any Series or Class of Bonds, money or non-callable obligations in Canadian or United States dollars and which are obligations of, or unconditionally guaranteed by, (i) the Government of Canada or the United States of America or, (ii) provided such obligations have a rating of not less than A low or the equivalent rating from a Rating Agency, the government of any province of Canada, and which, through the scheduled payment of principal and interest in the case of government obligations (without reinvestment) provide money in an amount sufficient (and in the currency of and not later than the due date of any payment on the relevant Bonds) to pay and discharge when due the principal of, premium, if any, and interest on such Bonds and irrevocably direct the Trustee to apply such money and/or proceeds of such government obligations to such payments with respect to such Bonds. In such case, the Company and its Subsidiaries shall be discharged and released from all of their obligations to the holders of such Bonds and any security in respect of such Bonds (other than the money and government obligations deposited with the Trustee to defease such Bonds) shall be released and the sole right of the holders of such Bonds shall be to receive, from such trust fund established to defease such Bonds, payments in respect of the principal of, premium, if any, and interest on such Bonds when such payments are due.

Meeting of Bondholders

The Trustee may hold a meeting of the Bondholders (a “Bondholders Meeting”) at any time provided that notice of at least 15 days and not more than 60 days is provided to the Bondholders. The Company, by delivery of a Written Request to the Trustee, and the Bondholders, by delivery of a Bondholders’ Request, may also require the Trustee to hold a Bondholders Meeting. Voting at a Bondholders Meeting shall be conducted by polling with each Bondholder entitled to one vote for every \$1,000 of Voting Amount in respect of Outstanding Obligation Bonds of which it is the holder and one vote in respect of every \$1,000 of Voting Amount in respect of Indebtedness collaterally secured by Outstanding Pledged Bonds of which it is the holder.

Quorum for a Bondholders Meeting is 50% (or 80% in the case of a meeting to consider a Threshold Waiver Resolution and 90% in the case of a meeting to consider a Special Bondholders’ Resolution) of the aggregate Voting Amount in respect of Outstanding Bonds of each Class or Series of Bonds for which the meeting has been called. If no quorum is achieved at the meeting of the Bondholders, then the meeting shall either be (i) terminated if such meeting was convened by Bondholders’ Request, or (ii) adjourned for a period of seven days after which the meeting shall be reconvened without a threshold quorum requirement, except in the case of a Bondholders Meeting to consider an Extraordinary Resolution, a Threshold Waiver Resolution or Special Bondholders’ Resolution, in which case the original quorum requirements apply. If, at such further adjourned meeting to consider a Threshold Waiver Resolution or a Special Bondholders’ Resolution a quorum is still not present, such meeting may be further adjourned to such date, time and place as the Company may select and of which not less than 10 days’ notice shall be given. At such further adjourned meeting to consider a Threshold Waiver Resolution, a quorum shall consist of Bondholders present in person or by proxy and representing not less than 67% of the Voting Amount of the Senior Bonds or the Series of Senior Bonds for which the meeting has been called. At such further adjourned meeting to consider a Special Bondholders’ Resolution, a quorum shall consist of Bondholders present in person or by proxy and representing not less than 67% of the Voting Amount of the Series, Class or Classes of Bonds for which the meeting has been called.

In the case of a Threshold Waiver Resolution, such resolution shall be effective if the holders of Outstanding Senior Bonds representing not less than 67% of the Voting Amount of the Senior Bonds, or the Series of Senior Bonds for which the meeting has been called vote in favour of such Threshold Waiver Resolution and the holders of not more than 20% of the Voting Amount of the Senior Bonds, or the Series of Senior Bonds vote against such Threshold Waiver Resolution. In the case of a Special Bondholders’ Resolution, such resolution shall be effective if the holders of Outstanding Senior Bonds representing not less than 67% of the Voting Amount of the Series, Class or Classes of Bonds for which the meeting has been called vote in favour of such Special Bondholders’ Resolution and the

holders of not more than 5% of the Voting Amount of the Senior Bonds, or the Series of Senior Bonds for which the meeting has been called, vote against such Special Bondholders' Resolution.

The Bondholders, by Extraordinary Resolution, generally may sanction the amendment or modification of the Indenture or any Supplemental Indenture as well as direct the Trustee to waive any Event of Default or exercise or refrain from exercising any power under the Indenture. A Special Bondholders' Resolution is required in order to amend or otherwise vary, among other things, certain defined terms, sections and provisions in the Indenture, any power exercisable by a written direction of a Bondholder, the Security and any other security granted to the Trustee by the Company (other than Security provided or granted for the benefit of one Series or one Class only) or the *pari passu* ranking of each Series of Bonds within a Class. Also, notwithstanding any provision of the Indenture, certain amendments or waivers, including amendments or waivers reducing the principal of, changing the fixed maturity of or altering the redemption provisions for any Bond or reducing the rate of, or changing the time for, payment of interest on any Bond will not be effective as against a Bondholder unless such Bondholder has consented to such amendments or waivers. All actions that may be taken and all powers that may be exercised by the Bondholders by Extraordinary Resolution, Threshold Waiver Resolution, or Special Bondholders' Resolution may also be taken and exercised by an instrument in writing which is signed by the requisite number of Bondholders so as to comply with the requirements under the Indenture for Extraordinary Resolutions, Threshold Waiver Resolution, and Special Bondholders' Resolutions.

Indenture Terms Glossary

For the purposes of the Indenture the following terms have the following meanings:

"Annual Debt Service" for any Fiscal Year means the amount scheduled to become due and payable on the Indebtedness during such Fiscal Year as (a) interest or fees, plus (b) principal, plus (c) mandatory sinking fund payments or redemptions. For the purpose of calculating Annual Debt Service, the following assumptions shall be used:

- (i) all principal payments and mandatory sinking fund redemptions or payments shall be made as and when the same shall become due except that all Indebtedness which, by its terms is payable in full in a single instalment on maturity and does not provide for either principal amortization or sinking fund payments prior to its maturity date will be amortized on a level debt service basis over a period of 30 years commencing when the interest on such Indebtedness is expensed in accordance with generally accepted accounting principles and using the interest rate in effect from time to time on such Indebtedness (using the assumptions set out in paragraphs (ii) and (iii) below where appropriate); provided, however, that there will be no amortization of Indebtedness under Swap Agreements secured by Pledged Bonds and there shall be no amortization of Indebtedness under any revolving operating lines of credit secured by Pledged Bonds to the extent that such Indebtedness does not exceed \$500 million;
- (ii) outstanding variable rate Indebtedness shall be deemed to bear interest during any period after the date of calculation at a fixed annual rate equal to the average of actual annual rates on such Indebtedness for each day during the immediately preceding one-year period or at the effective annual rate thereon as a result of any related Swap Agreement;
- (iii) variable rate Indebtedness proposed to be issued shall be deemed to bear interest at a fixed annual rate equal to the estimated initial rate or rates thereon as set forth in a certificate of two investment dealers selected by the Company dated within 30 days prior to the delivery of such obligations or at the effective rate fixed thereon as a result of any related Swap Agreement;
- (iv) capitalized interest on any Indebtedness (but only to the extent that such interest, if not capitalized, would be scheduled to be due and payable during the relevant Fiscal Year) and accrued interest paid on the date of initial delivery thereof shall be excluded from the calculation of Annual Debt Service, provided that interest may only be capitalized for such period of time as may be permitted under generally accepted accounting principles; and
- (v) any payments due in non-Canadian currency will be converted into Canadian currency based upon currency swaps or hedges to the extent applicable thereto and otherwise based upon the Equivalent Amount.

"Annual Junior Debt Service" means the amount of Annual Debt Service calculated as if only Junior Debt and any other Indebtedness ranking *pari passu* with or in priority to the Junior Debt was outstanding and no Subordinated Debt was outstanding.

“Annual Senior Debt Service” means the amount of Annual Debt Service calculated as if only Senior Debt and any other Indebtedness ranking *pari passu* with the Senior Debt was outstanding, and no Junior Debt or Subordinated Debt was outstanding.

“Bondholders’ Request” means an instrument requesting the Trustee to take or refrain from taking some action or proceeding specified therein, signed in one or more counterparts by the holder or holders of Senior Bonds representing not less than 10% of the Voting Amount of all Senior Bonds then Outstanding, or for the purposes of a Bondholders’ Request given in connection with the occurrence of an Event of Default, by the holder or holders of Senior Bonds representing not less than 50% of the Voting Amount of the Senior Bonds then Outstanding plus \$1.00, or such lesser percentage as may be provided in any Supplemental Indenture related to a Series of Senior Bonds; provided that if no Senior Bonds are Outstanding, the term “Bondholders’ Request” shall mean an instrument requesting the Trustee to take or refrain from taking some action or proceeding specified therein, signed in one or more counterparts by the holder or holders of Junior Bonds representing not less than 25% of the Voting Amount of all Junior Bonds then Outstanding, or for the purposes of a Bondholders’ Request given in connection with the occurrence of an Event of Default, by the holder or holders of Junior Bonds representing not less than 50% of the Voting Amount of the Junior Bonds then Outstanding plus \$1.00, or such lesser percentage as may be provided in any Supplemental Indenture related to a Series of Junior Bonds, and if no Senior Bonds or Junior Bonds are Outstanding, the term “Bondholders’ Request” shall mean an instrument requesting the Trustee to take or refrain from taking some action or proceeding specified therein, signed in one or more counterparts by the holder or holders of Subordinated Bonds representing not less than 25% of the Voting Amount of all Subordinated Bonds then Outstanding, or for the purposes of a Bondholders’ Request given in connection with the occurrence of an Event of Default, by the holder or holders of Subordinated Bonds representing not less than 50% of the Voting Amount of the Subordinated Bonds then Outstanding plus \$1.00, or such lesser percentage as may be provided in any Supplemental Indenture related to a Series of Subordinated Bonds.

“Consultant” means the Highway Consultant which, in providing any reports, opinions or certificates required to be provided by the Consultant, may rely on the Consulting Engineer and any independent nationally recognized accounting firms or consulting firms with other special areas of expertise and on Operating and Maintenance Expense Projections prepared by the Company or 407 ETR.

“Extraordinary Resolution” means a resolution in writing or certified by the Trustee as duly passed at a meeting (including an adjourned meeting) of the Bondholders, or Class or Series of Bondholders, as the case may be, affected by the subject matter of the resolution, duly convened for the purposes and passed by the holder or holders of Outstanding Bonds of the Series or the Class or Classes affected by the subject matter of the resolution and entitled to vote thereon representing not less than 50% of the Voting Amount of the Bonds of such series, class or classes then Outstanding, and, if so provided in any Supplemental Indenture related to a Series, passed by the holder or holders of Bonds of that Series then Outstanding satisfying the requirements of the relevant Supplemental Indenture, which resolution is in full force and effect on the date of such certification. Unless the resolution relates solely to the terms of payment of a Series or a Class or Classes or the Security or Funds available solely for such Series or such Class or such Classes, the subject matter of the resolution shall be presumed to affect the holders of all Outstanding Bonds.

“Highway Consultant” means an independent firm or firms at arm’s length with the Company, with knowledge, experience and having North American recognition in the field of advising the management of toll roads as to the planning, development, financing, operation and management of toll roads, selected and employed by the Company or 407 ETR from time to time. The Company has from time to time engaged Halcrow Fox to certify Net Revenue projections regarding Additional Indebtedness and Rate Covenant compliance.

“Net Revenues” means, for any Fiscal Year, the Revenues of the Company, 407 ETR and any other Subsidiary less Operating and Maintenance Expenses, all determined in accordance with generally accepted accounting principles on a consolidated basis for the Company, 407 ETR and such other Subsidiaries.

“Operating and Maintenance Expenses” means, for any Fiscal Year, the costs incurred by the Company, 407 ETR and any other Subsidiaries in operating and maintaining Highway 407 ETR during such Fiscal Year in accordance with generally accepted accounting principles; provided, however, that Operating and Maintenance Expenses shall not include: (a) Annual Debt Service; (b) any allowance for amortization, depreciation or obsolescence of the assets owned or used in connection with the Project; (c) any extraordinary items arising from the early extinguishment of Indebtedness; (d) any costs or charges for capital additions, acquisitions, replacements, betterments, extensions or improvements which, under generally accepted accounting principles, are properly charged to the capital account or the reserve for amortization or depreciation; (e) any losses from the sale, abandonment, reclassification, revaluation or other disposition of any assets in accordance with this Indenture; and (f) amounts payable out of the Construction

Fund in respect of Construction Work or Other Construction Work. Operating and Maintenance Expenses for any Fiscal Year shall include (i) amounts due and payable under the Concession Agreement and other Project Agreements in respect of such Fiscal Year other than as set out above; (ii) amounts paid as taxes in respect of such Fiscal Year (excluding, for certainty, any deferred taxes not yet payable); and (iii) the amount of contributions made and other amounts paid by the Company, 407 ETR or the Subsidiaries to or in respect of pension plans maintained for its employees and former employees and premiums and other amounts paid by the Company, 407 ETR or any other Subsidiaries in respect of any insurance plans maintained for their employees or former employees.

“Revenues” means, for any Fiscal Year, all revenues, payments (including Swap Receipts), fees, charges, rents, grants and all other income of any nature, including interest and other investment income earned on monies held under the Indenture and on other funds of the Company, 407 ETR or any other Subsidiary (other than the Construction Fund and the General Fund), toll revenues, any licence fees paid to the Company, 407 ETR or any other Subsidiary, any advisory, management or consulting fees or charges and any proceeds of business interruption insurance and any other insurance proceeds which are deemed to be revenues from Highway 407 ETR in accordance with generally accepted accounting principles, all of which shall be determined on a consolidated basis for the Company, 407 ETR and the other Subsidiaries but excluding (i) other non-toll revenues charged by or on behalf of 407 ETR in connection with the Project, (ii) proceeds of expropriations, and (iii) proceeds of sales of any portion of the Project Lands.

“Special Bondholders’ Resolution” means a resolution in writing or certified by the Trustee as duly passed at a meeting (including an adjourned meeting) of the Bondholders or Class or Series of Bondholders, as the case may be, affected by the subject matter of the resolution, duly convened and passed by the holder or holders of Outstanding Bonds of the Series or the Class or Classes affected by the subject matter of the resolution representing not less than 90% of the Voting Amount of the Bonds of such Series, Class or Classes then Outstanding, and, if so provided in any Supplemental Indenture related to a Series, passed by the holder or holders of such other percentage of the Voting Amount of the Bonds of that Series then Outstanding satisfying the requirements of the relevant Supplemental Indenture, which resolution is in full force and effect on the date of such certification. Unless the resolution relates solely to the terms of payment of a Series or a Class or Classes or the Security or Funds available solely for such Series or such Class or such Classes, the subject matter of the resolution shall be presumed to affect the holders of all Outstanding Bonds.