

407 *International*

407 INTERNATIONAL INC.

Consolidated Financial Statements

December 31, 2016 and 2015

Independent Auditor's Report

To the Shareholders of
407 International Inc.

We have audited the accompanying consolidated financial statements of 407 International Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of 407 International Inc. as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants
Licensed Public Accountants
February 9, 2017
Toronto, Canada

407 INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in millions of Canadian dollars)

	Notes	As at December 31, 2016	As at December 31, 2015
Assets			
Current assets			
Cash and cash equivalents	19	\$ 557.6	\$ 376.9
Restricted cash and investments	5	220.3	197.8
Trade receivables and other	8	186.8	153.8
Amounts due from customer for contract	9	2.8	6.8
Total current assets		<u>967.5</u>	<u>735.3</u>
Non-current assets			
Restricted cash and investments	5	383.0	337.8
Deferred tax assets	13	40.6	93.8
Intangible assets	7	1,570.0	1,590.4
Property, plant and equipment	6	2,368.1	2,374.2
Total non-current assets		<u>4,361.7</u>	<u>4,396.2</u>
Total assets		<u>\$ 5,329.2</u>	<u>\$ 5,131.5</u>
Liabilities and equity			
Current liabilities			
Trade and other payables		\$ 86.1	\$ 87.1
Accrued interest on long-term debt		68.1	65.8
Obligation under finance leases	14	3.1	3.6
Long-term debt	12	921.3	883.5
Total current liabilities		<u>1,078.6</u>	<u>1,040.0</u>
Non-current liabilities			
Obligation under finance leases	14	4.5	6.3
Deferred tax liabilities	13	491.4	476.8
Long-term debt	12	6,814.0	6,249.8
Total non-current liabilities		<u>7,309.9</u>	<u>6,732.9</u>
Total liabilities		<u>8,388.5</u>	<u>7,772.9</u>
Equity			
Issued capital	10	804.6	804.6
Reserve	11	13.9	14.7
Retained deficit		<u>(3,877.8)</u>	<u>(3,460.7)</u>
Total deficit		<u>(3,059.3)</u>	<u>(2,641.4)</u>
Total liabilities and equity		<u>\$ 5,329.2</u>	<u>\$ 5,131.5</u>

On behalf of the Board:

(signed)
DAVID MCFADDEN
Director

(signed)
MICHAEL BERNASIEWICZ
Director

The accompanying notes are an integral part of these consolidated financial statements.

407 INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years ended December 31, 2016 and 2015
(in millions of Canadian dollars, except per share amounts)

	Notes	<u>2016</u>	<u>2015</u>
Revenues	16	\$ 1,134.7	\$ 1,002.2
Expenses	17	254.6	248.2
Interest expense		383.4	336.3
Interest income		(10.6)	(9.3)
Other expense		0.8	0.6
Other income		(0.8)	(0.7)
Interest and other expenses	12	<u>372.8</u>	<u>326.9</u>
Income before tax		507.3	427.1
Current income tax expense	13	66.6	0.4
Deferred income tax expense	13	67.8	115.5
Income tax expense		<u>134.4</u>	<u>115.9</u>
Net income		<u>\$ 372.9</u>	<u>\$ 311.2</u>
Net income		372.9	311.2
Other comprehensive loss:			
Reclassification to income of gains on cash flow hedges, net	11	(0.8)	(0.7)
Total comprehensive income		<u>\$ 372.1</u>	<u>\$ 310.5</u>
Earnings per share			
Net income per share, basic and diluted		<u>\$ 0.481</u>	<u>\$ 0.402</u>

The accompanying notes are an integral part of these consolidated financial statements.

407 INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Years ended December 31, 2016 and 2015
(in millions of Canadian dollars)

	<u>Issued capital</u>	<u>Reserve</u>	<u>Retained deficit</u>	<u>Total deficit</u>
Balance at January 1, 2016	\$ 804.6	\$ 14.7	\$ (3,460.7)	\$ (2,641.4)
Payment of dividends	-	-	(790.0)	(790.0)
Net income for the period	-	-	372.9	372.9
Other comprehensive loss for the period	-	(0.8)	-	(0.8)
Balance at December 31, 2016	<u>\$ 804.6</u>	<u>\$ 13.9</u>	<u>\$ (3,877.8)</u>	<u>\$ (3,059.3)</u>
Balance at January 1, 2015	\$ 804.6	\$ 15.4	\$ (3,021.9)	\$ (2,201.9)
Payment of dividends	-	-	(750.0)	(750.0)
Net income for the period	-	-	311.2	311.2
Other comprehensive loss for the period	-	(0.7)	-	(0.7)
Balance at December 31, 2015	<u>\$ 804.6</u>	<u>\$ 14.7</u>	<u>\$ (3,460.7)</u>	<u>\$ (2,641.4)</u>

The accompanying notes are an integral part of these consolidated financial statements.

407 INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2016 and 2015
(in millions of Canadian dollars)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Receipts from customers	\$ 1,101.5	\$ 980.2
Payments to suppliers and employees	(149.1)	(144.5)
Cash generated from operations	<u>952.4</u>	<u>835.7</u>
Interest received	9.8	9.4
Interest paid	(345.3)	(331.1)
Income tax paid	(65.7)	-
	<u>551.2</u>	<u>514.0</u>
Cash flows from investing activities		
Additions to property, plant and equipment	(71.5)	(70.3)
Additions to intangible assets	(0.4)	(0.9)
Advance payment	(2.0)	(1.6)
Restricted cash and investments	(67.2)	(33.3)
Non-trade receivables and other	(0.5)	(1.2)
	<u>(141.6)</u>	<u>(107.3)</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt	1,335.3	986.7
Debt issue costs	(5.8)	(5.8)
Repayment of long-term debt	(764.6)	(650.0)
Repayment of obligation under finance leases	(3.8)	(4.8)
Dividends paid to shareholders	(790.0)	(750.0)
	<u>(228.9)</u>	<u>(423.9)</u>
Increase (decrease) in cash and cash equivalents	180.7	(17.2)
Cash and cash equivalents, beginning of year	<u>376.9</u>	<u>394.1</u>
Cash and cash equivalents, end of year	<u>\$ 557.6</u>	<u>\$ 376.9</u>

The accompanying notes are an integral part of these consolidated financial statements.

407 INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2016 and 2015
(in millions of Canadian dollars, except per share amounts)

1. GENERAL INFORMATION

407 International Inc. (the "Company") is a privately-held company incorporated under the laws of Ontario, Canada and continued under the laws of Canada. The Company's address and principal place of business is 6300 Steeles Avenue West, Woodbridge, Ontario, L4H 1J1, Canada. The principal business of the Company is the ownership of 407 ETR Concession Company Limited ("407 ETR") and, through 407 ETR, the operation, maintenance and management of Highway 407 ETR (the "Highway") along with the construction of extensions and certain deferred interchanges, lane widenings and additional interchanges under the 99-year Highway 407 Concession and Ground Lease Agreement (the "Concession Agreement") with the Province of Ontario (the "Province") dated April 6, 1999. The consolidated financial statements of the Company for the year ended December 31, 2016 (the "Financial Statements") were approved by the Board of Directors of the Company (the "Board") on February 9, 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The Financial Statements are prepared on a going concern basis and have been presented in millions of Canadian dollars. These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The following new accounting pronouncements have been adopted on January 1, 2016,; IFRS 7 *Financial Instruments: Disclosures*, IAS 1 *Presentation of Financial Statements, Disclosure Initiatives*, IAS 16 *Property, Plant and Equipment, Clarification of Acceptable Methods of Depreciation and Amortization*, IAS 34 *Interim Financial Reporting*, and IAS 38 *Intangible Assets, Clarification of Acceptable Methods of Depreciation and Amortization*. There was no impact to the Financial Statements as a result of adopting these accounting pronouncements, except for IAS 38, which resulted in a change in the method of amortizing the concession rights from revenue-based to straight-line method. The principal accounting policies are set out below.

b) Basis of preparation

The Financial Statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value. Historical cost is based on the fair value of consideration given or received in exchange for assets.

c) Principles of consolidation

The Financial Statements include the accounts of the Company consolidated with those of its wholly-owned subsidiaries, 407 ETR, Canadian Tolling Company International Inc. ("Cantoll"), 7253770 Canada Inc. ("7253770 Inc."), 8011397 Canada Inc. ("8011397 Inc."), Financing Limited Partnership ("FLP"), 8018278 Canada Inc. ("8018278 Inc."), 8915172 Canada Inc. ("8915172 Inc.") and 9665641 Canada Inc. ("9665641 Inc."). Cantoll was incorporated in December 2001 to assume ownership of an integrated computerized accounting, billing and customer relationship management system and new transponders, and is responsible for the development of its integrated automation systems and the implementation and management of road-side tolling technologies and back-office systems. 7253770 Inc., 8011397 Inc., 8018278 Inc., 8915172 Inc. and 9665641 Inc. were incorporated in October 2009, October 2011, April 2012, August 2014 and March 2016, respectively, and FLP was registered as a partnership under the Limited Partnerships Act (Ontario) in November 2011, all to assist in the implementation of the Company's tax planning strategies. All inter-company transactions, balances, revenues and expenses have been eliminated on consolidation. FLP was dissolved on October 28, 2016, and 7253770 Inc., 8011397 Inc., 8018278 Inc. and 8915172 Inc. were dissolved on November 18, 2016.

407 INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2016 and 2015
(in millions of Canadian dollars, except per share amounts)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Revenue recognition

Toll revenues

The Company recognizes toll revenues, net of future adjustments and amounts deemed to be uncollectible, from both transponder and video customers' use of the Highway on the date trips are taken.

Fee revenues

Various fees and charges are also included in revenues, net of amounts deemed to be uncollectible. Account and other fees are recognized when billed, lease fees for transponders are recognized over the term of the lease, service fees are recognized once services have been performed for the customer, and late payment charges are recognized once the account is delinquent and the late payment charges are applied to the account.

Contract revenues

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

e) Financial assets

All financial assets are recognized and derecognized on their settlement date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit and loss ("FVTPL"), for which transaction costs are expensed immediately. Financial assets are classified into the following specified categories: financial assets at FVTPL, held-to-maturity ("HTM") investments, loans and receivables, and available-for-sale ("AFS"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Cash and cash equivalents

Cash and cash equivalents include short-term highly-liquid interest-bearing investments with original maturities of three months or less. Cash and cash equivalents are designated as FVTPL and are carried at fair value.

Restricted cash and investments

Restricted cash and investments include highly-liquid interest-bearing investments with maturities of 10 years or less. Restricted cash and investments are designated as FVTPL and are carried at fair value.

407 INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2016 and 2015
(in millions of Canadian dollars, except per share amounts)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Contract receivables and deferred contract revenues

Contract in progress represent the gross unbilled amount for a given contract that is expected to be collected from the customers for contract work performed to date. It is measured as contract revenues recognized to date, less progress billings.

Deferred contract revenues consist of progress billings for a given contract in excess of contract revenues.

g) Embedded derivatives

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivative are the same as those of a free standing derivative; and the combined instrument or contract is not measured at fair value with changes in fair value recognized in interest and other expenses. These embedded derivatives are measured at fair value with changes therein recognized in interest and other expenses.

h) Comprehensive income

Comprehensive income is composed of net income and other comprehensive loss ("OCL"). OCL includes the effective portion of the change in fair value of designated cash flow hedges less any amounts reclassified to interest and other expenses in the period that the underlying hedged item is also recorded in interest and other expenses.

i) Cash flow hedges and hedging reserve

The Company terminated cash flow hedging relationships to hedge cash flows relating to certain senior and junior bonds. The gains and losses were recorded in cash flow hedging reserve and amounts will be reclassified from the reserve to interest and other expenses during the periods when the cash flows of the senior and junior bonds affect interest and other expenses.

The cash flow hedging reserve is included on the consolidated statements of financial position as a separate component of equity, and includes the effective portion of gains and losses on derivative instruments designated as cash flow hedges.

j) Transaction costs

Transaction costs related to FVTPL financial assets and FVTPL financial liabilities are expensed to interest and other expenses as incurred. Transaction costs related to AFS financial assets, HTM financial assets, other liabilities ("OL") and loans and receivables are netted against the carrying value of the asset or liability upon initial recognition and are then amortized over the expected life of the instrument using the effective interest method.

407 INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2016 and 2015
(in millions of Canadian dollars, except per share amounts)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Financial liabilities

Financial liabilities are designated as either FVTPL or OL.

Derivatives

Derivatives are measured at fair value and are reported as assets where they have a positive fair value to the Company and as liabilities where they have a negative fair value to the Company. The change in fair value during the period is recorded in interest and other expenses.

Effective interest method

The effective interest method of amortization is used to account for transaction costs or fees, premiums or discounts earned or incurred for financial instruments that are classified as loans and receivables, HTM or OL.

Long-term debt

Long-term debt is classified as OL and is calculated using the amortized cost method, except for Senior Bonds, Series 04-A2, which is a derivative financial liability designated as FVTPL.

l) Other financial instruments

Trade receivables and contract receivables are classified as loans and receivables and are accounted for at amortized cost. Trade and other payables are classified as OL and are accounted for at amortized cost.

407 INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2016 and 2015
(in millions of Canadian dollars, except per share amounts)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Property, plant and equipment

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

Depreciation and amortization charges are recorded using methods and rates determined to amortize the cost of property, plant and equipment over their estimated useful lives as follows:

Toll highway	
– Bridge structures, bridge deck, storm sewer culverts, grading, granular, asphalt & concrete pavement (base) and drainage	50-99 years projected Vehicle Kilometres Travelled (“VKTs”)
– Large galvanized steel drainage, small steel culverts, bridge bearings and joints	25-30 years projected VKTs
– Asphalt & concrete pavement (top coat)	8-15 years projected VKTs
– Tolling civil and electrical, barriers and guide rails, catch basins and outlets, gantries, signage, landscaping, fencing and utilities relocation	10-99 years straight-line
– Highway tools, cameras, and inspection stations	5-15 years straight-line
– Concrete pavement joints	12 years projected VKTs
Toll equipment	4-35 years straight-line
Transponders	5 years straight-line
Operations centre	30 years straight-line
Office equipment	4 years straight-line
Motor vehicles	3 years straight-line
Snow clearing equipment and motor vehicles under finance lease	2-10 years straight-line
Computer equipment under finance lease	2-5 years straight-line

n) Leases

Leases are classified as finance or operating depending on the terms and conditions of the contracts. The costs of assets acquired under finance leases are amortized on a straight-line basis over their estimated useful lives or the lease term, whichever is shorter, when it is not reasonably certain that the Company will obtain ownership by the end of lease term. Obligations recorded under finance leases are reduced by lease payments net of imputed interest. Operating leases are expensed on a straight-line basis.

o) Interest capitalization

Interest expense on debt attributable to the construction of property, plant and equipment is capitalized during the construction or development period as part of the cost of the related qualifying asset. All other borrowing costs are expensed as incurred.

Qualifying assets are assets that necessarily take a substantial period of time to get ready for use or sale. Borrowing costs are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

407 INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2016 and 2015
(in millions of Canadian dollars, except per share amounts)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The interest capitalization amount is calculated based on effective interest rates related to the specific borrowings to fund the construction of these qualifying assets. Construction costs incurred are allocated based on specific borrowings and the amount of capitalized interest is calculated at rates specific to the costs incurred for these assets.

p) Intangible assets and concession rights

Definite life intangible assets are recorded at cost less accumulated amortization and net of any impairment loss. Intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Impairment loss is measured as the amount by which the carrying amount of an asset exceeds the higher of: (i) its fair value less costs to sell; and (ii) its value in use.

Concession rights were amortized on a usage basis using projected revenues over 99 years to reflect the duration of the Concession Agreement with the Province expiring in May 2098. Effective January 1, 2016, the Company has prospectively adopted the straight-line method of amortizing its concession rights over the remaining term of the Concession Agreement. As a result of this change, the amortization expense of concession rights for 2016 increased by \$13.6 when compared to 2015.

A licence and related intellectual property relating to roadside maintenance of the tolling system are amortized over their terms and useful lives of five years on a straight-line basis.

q) Income taxes

Current tax

The tax currently payable is based on taxable income for the year. Taxable income differs from accounting income as reported in the consolidated income statements as a result of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable income nor the accounting income.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

407 INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2016 and 2015
(in millions of Canadian dollars, except per share amounts)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applicable in the period in which the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

r) Customer loyalty program (the “407 ETR Rewards Program”)

The 407 ETR Rewards Program has been designed to reward eligible frequent customers with free weekend kilometres on the Highway in conjunction with discounts on gas purchases. When rewards are earned by such customers, the Company defers recognition of a portion of current revenues relating to future free kilometres rewards and records an expense for the gas rewards, based on the fair value of the rewards extended to customers taking into account expected customer take-up rates, thereby establishing a liability for future redemptions. The actual revenue and discount on gas purchase redemptions reduce the liability for the 407 ETR Rewards Program, which is included in trade and other payables.

s) Allowance for doubtful accounts

The provision for doubtful accounts is based principally on historical collection rates and Management’s expectation of success rates for collection of overdue accounts by the Ontario Registrar of Motor Vehicles (the “Registrar”) through refusing to renew or issue vehicle permits until outstanding amounts are paid (“Licence Plate Denial”) as well as Management’s expectation of success rates for collection through legal proceedings.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

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

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

IFRS 16 *Leases (“IFRS 16”)*: This standard replaces IAS 17 Leases. This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is that lessees and lessors provide relevant information in a manner that faithfully represents lease transactions and gives a basis for users of financial statements to assess its effect on the financial position, financial performance and cash flows of an entity. The latest date of mandatory implementation of IFRS 16 is January 1, 2019. The Company has not yet evaluated the impact on the financial statements.

407 INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2016 and 2015
(in millions of Canadian dollars, except per share amounts)

3. FUTURE CHANGES IN ACCOUNTING POLICIES (continued)

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENT

The preparation of the Financial Statements in conformity with IFRS requires management of the Company ("Management") to make certain judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities as at the date of the Financial Statements, the reported amounts of revenues and expenses of the reporting period, as well as disclosures made in the accompanying notes to the Financial Statements. Judgement is commonly used in determining whether a balance or transaction should be recognized in the consolidated financial statements, and estimates and assumptions are more commonly used in determining the measurement of recognized transactions and balances. However, judgements and estimates are often interrelated.

a) Critical Estimates

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

Contract revenues and expenses are recognized based on the stage of completion of the contract. The Company has reliably estimated the economic benefits associated with contracts and the anticipated contract costs attributable to the contract. Contract revenues have been matched with the contract costs incurred in reaching the stage of its completion, and may involve estimates of future revenues from claims and unapproved change orders, if such additional amounts can be reliably estimated and considered probable that such amounts will be recovered.

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

Deferred revenue relating to the 407 ETR Rewards Program is estimated by multiplying the number of free weekend kilometres offered by the estimated price per kilometre and expected future redemption. The expense for gas discounts is determined by multiplying the number of litres offered by the estimated cost per litre and expected usage. Expected usage and redemption are estimated based on historical experience.

407 INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(in millions of Canadian dollars, except per share amounts)

4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENT (continued)

The provision for credits and adjustments to billed revenues is estimated based on the historical experience of credits and adjustments made to customer accounts.

Depreciation of property, plant and equipment is estimated based on projected VKTs and estimated useful lives.

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

Refer to the following notes for further details of other estimates:

Estimate	Note Reference
Provision for doubtful accounts	Note 15 (c)
Provision for customer litigation	Note 18

These estimates and associated assumptions are based on past experience and other factors that are considered relevant and are reviewed on an on-going basis. Actual results could differ materially from these estimates.

b) Judgement

The identification of cash-generating units involves judgement. Cash inflows which are generated from customers' use of Highway 407 ETR are classified as a single cash-generating unit, while the cash inflows which are generated from contract work are classified as a separate cash-generating unit.

The Company has only one reportable segment. All non-current assets are located and revenues are generated in Canada.

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5. RESTRICTED CASH AND INVESTMENTS

The Company, along with its financial advisors, developed a financing plan referred to as the Capital Markets Platform, capable of accommodating a variety of corporate debt instruments. All indebtedness incurred under the Capital Markets Platform is secured under a Master Trust Indenture (the "Indenture") which establishes a common security and a set of common covenants given by the Company and 407 ETR for the benefit of all its lenders. The security comprises a leasehold mortgage on 407 ETR's leasehold interest in the Highway, 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 Highway and a security interest in all real and personal property of Cantoll and 9665641 Inc. Such security interests include the following:

- i. a specific assignment of each of the Company's and 407 ETR's interest in and rights under all Project Agreements (as defined in the Indenture) and other material agreements;
- ii. an assignment of revenues and a security interest in all funds and accounts that are required to be maintained pursuant to the Indenture and any Supplemental Indenture (as defined in the Indenture); and
- iii. a pledge of, or a security interest in, the shares of 407 ETR, Cantoll and 9665641 Inc. owned by the Company.

Pursuant to the Indenture, the Company established the debt service funds, the operating and maintenance and renewal and replacement funds, and debt service reserve funds, all of which are fully funded with Qualified Investments (as defined in the Indenture). The current portion is expected to become unrestricted within the next twelve months.

Pursuant to an agreement to provide tolling, billing and back-office services relating to Highway 407 (east of Brock Road) (the "Tolling Services Contract"), the Company established a Tolling Services Contract segregated funds account which is funded with cash and cash equivalents.

	As at	
	December 31, 2016	December 31, 2015
Current		
Debt service funds	\$ 64.3	\$ 62.6
Debt service reserve funds	-	10.9
Operating and maintenance reserve and renewal and replacement funds ("O&M and R&R Funds")	156.0	124.3
	<u>\$ 220.3</u>	<u>\$ 197.8</u>
Non-current		
Debt service reserve funds	\$ 374.0	\$ 328.8
Tolling Services Contract segregated funds	9.0	9.0
	<u>\$ 383.0</u>	<u>\$ 337.8</u>
Total	<u>\$ 603.3</u>	<u>\$ 535.6</u>

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5. RESTRICTED CASH AND INVESTMENTS (continued)

Restricted cash and investments consist of:

	As at	
	December 31, 2016	December 31, 2015
Cash	\$ 231.3	\$ 170.3
Bankers' Acceptances	54.8	28.3
Federal Notes	47.8	47.0
Floating Rate Notes	193.7	186.7
Treasury Bills	43.3	93.9
Provincial Promissory Notes	32.4	9.4
	\$ 603.3	\$ 535.6

Cash movements in restricted cash and investments were as follows:

	2016	2015
Contributions to debt service funds	\$ 348.4	\$ 335.9
Contributions to refunding bond fund	289.0	500.0
Interest payments on long-term debt	(335.5)	(323.1)
Repayments of long-term debt	(299.6)	(510.0)
Interest received	6.4	6.5
Transfers to cash and cash equivalents	(4.4)	(5.2)
Increase in O&M and R&R Funds requirement	30.0	22.0
Establishment of debt service reserve fund	43.9	36.1
Release of debt service reserve fund	(11.0)	(28.9)
	\$ 67.2	\$ 33.3

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6. PROPERTY, PLANT AND EQUIPMENT

	Toll highway	Toll equipment	Transponders	Operations centre	Office equipment	Motor vehicles	Equipment under finance lease	Assets under construction	Total
Cost									
Balance at January 1, 2015	\$ 2,493.5	\$ 355.6	\$ 31.6	\$ 34.6	\$ 10.8	\$ 3.7	\$ 26.3	\$ 39.6	\$ 2,995.7
Additions	4.3	0.1	6.2	1.2	0.2	2.0	8.0	58.2	80.2
Retirements	(10.1)	-	(4.7)	-	(1.9)	(0.1)	(1.3)	-	(18.1)
Transfers	40.3	33.2	-	0.7	-	-	-	(74.2)	-
Balance at December 31, 2015	\$ 2,528.0	\$ 388.9	\$ 33.1	\$ 36.5	\$ 9.1	\$ 5.6	\$ 33.0	\$ 23.6	\$ 3,057.8
Additions	4.5	-	6.0	0.5	1.3	0.5	5.7	59.9	78.4
Retirements	(8.4)	-	(5.1)	-	-	(0.1)	(0.5)	-	(14.1)
Transfers	9.8	11.8	-	0.7	-	-	-	(22.3)	-
Balance at December 31, 2016	\$ 2,533.9	\$ 400.7	\$ 34.0	\$ 37.7	\$ 10.4	\$ 6.0	\$ 38.2	\$ 61.2	\$ 3,122.1
Accumulated depreciation									
Balance at January 1, 2015	\$ 274.2	\$ 289.1	\$ 19.1	\$ 12.0	\$ 7.0	\$ 2.5	\$ 18.5	\$ -	\$ 622.4
Depreciation expense	47.4	17.6	5.7	1.5	1.3	1.0	4.8	-	79.3
Retirements	(10.1)	-	(4.7)	-	(1.9)	(0.1)	(1.3)	-	(18.1)
Balance at December 31, 2015	\$ 311.5	\$ 306.7	\$ 20.1	\$ 13.5	\$ 6.4	\$ 3.4	\$ 22.0	\$ -	\$ 683.6
Depreciation expense	51.4	19.3	5.7	1.6	1.4	1.1	4.0	-	84.5
Retirements	(8.4)	-	(5.1)	-	-	(0.1)	(0.5)	-	(14.1)
Balance at December 31, 2016	\$ 354.5	\$ 326.0	\$ 20.7	\$ 15.1	\$ 7.8	\$ 4.4	\$ 25.5	\$ -	\$ 754.0
Carrying amount, December 31, 2015	\$ 2,216.5	\$ 82.2	\$ 13.0	\$ 23.0	\$ 2.7	\$ 2.2	\$ 11.0	\$ 23.6	\$ 2,374.2
Carrying amount, December 31, 2016	\$ 2,179.4	\$ 74.7	\$ 13.3	\$ 22.6	\$ 2.6	\$ 1.6	\$ 12.7	\$ 61.2	\$ 2,368.1

During 2016, capitalized borrowing costs aggregating to \$0.6 (2015 - \$0.6) were included as additions to assets under construction. The average interest capitalization rate relating to the borrowing cost was 1.78% (2015 – 2.24%).

Assets under construction mainly include work in progress on major highway construction and systems development projects, and certain assets relating to highway improvements, tolling and roadside equipment and buildings.

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7. INTANGIBLE ASSETS

	Concession		Total
	Rights	Licences	
Cost			
Balance at December 31, 2015	\$ 1,676.1	\$ 10.1	\$ 1,686.2
Balance at December 31, 2016	<u>\$ 1,676.1</u>	<u>\$ 10.1</u>	<u>\$ 1,686.2</u>
Accumulated amortization			
Balance at January 1, 2015	\$ 83.6	\$ 5.5	\$ 89.1
Amortization expense	<u>5.6</u>	<u>1.1</u>	<u>6.7</u>
Balance at December 31, 2015	\$ 89.2	\$ 6.6	\$ 95.8
Amortization expense	<u>19.3</u>	<u>1.1</u>	<u>20.4</u>
Balance at December 31, 2016	<u>\$ 108.5</u>	<u>\$ 7.7</u>	<u>\$ 116.2</u>
Carrying amount, December 31, 2015	<u>\$ 1,586.9</u>	<u>\$ 3.5</u>	<u>\$ 1,590.4</u>
Carrying amount, December 31, 2016	<u>\$ 1,567.6</u>	<u>\$ 2.4</u>	<u>\$ 1,570.0</u>

8. TRADE RECEIVABLES AND OTHER

	As at	
	December 31, 2016	December 31, 2015
Trade receivables	\$ 362.1	\$ 337.4
Allowance for doubtful accounts	<u>(191.3)</u>	<u>(198.5)</u>
	170.8	138.9
Prepayments and other receivables	<u>16.0</u>	<u>14.9</u>
	<u>\$ 186.8</u>	<u>\$ 153.8</u>

Trade receivables are net of certain amounts that were billed to customers but excluded from revenues in accordance with the revenue recognition policy for toll and fee revenues.

Movement in Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts are as follows:

	2016	2015
Balance, beginning of year	\$ 198.5	\$ 213.9
Provision for doubtful accounts	19.5	19.4
Bad debts written off, net of recoveries, and other	<u>(26.7)</u>	<u>(34.8)</u>
Balance, end of year	<u>\$ 191.3</u>	<u>\$ 198.5</u>

The provision for doubtful accounts has been included in expenses, and is net of any recoveries that were provided for in prior periods.

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9. AMOUNTS DUE FROM CUSTOMER FOR CONTRACT

	As at	
	December 31, 2016	December 31, 2015
Costs incurred plus recognized profits to date	\$ 42.1	\$ 33.2
Less: Progress billings to date	(39.3)	(26.4)
Amounts due from customer for contract	<u>\$ 2.8</u>	<u>\$ 6.8</u>

Amounts due from customer for contract represent the gross unbilled amount for a given contract that is expected to be collected from the customer for contract work performed to date. It is measured as contract costs incurred plus recognized profits to date, less progress billings.

10. ISSUED CAPITAL

	As at	
	December 31, 2016	December 31, 2015
Share capital	\$ 775.0	\$ 775.0
Contributed surplus	29.6	29.6
	<u>\$ 804.6</u>	<u>\$ 804.6</u>
Share capital comprises:		
Authorized - Unlimited		
775,000,003 common shares issued and outstanding (\$ nil par value)		
(2015 - 775,000,003, \$ nil par value)	<u>\$ 775.0</u>	<u>\$ 775.0</u>

Payments of dividends per share were \$1.019 for 2016 (2015 - \$0.968).

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11. RESERVE

Cash flow hedging reserve

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 14.7	\$ 15.4
Other comprehensive loss	<u>(0.8)</u>	<u>(0.7)</u>
Balance, end of year	<u>\$ 13.9</u>	<u>\$ 14.7</u>

The cash flow hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in cash flow hedges, net of unrecognized deferred taxes of \$0.2 (2015 - \$0.2) and will be reclassified to interest and other expenses over periods of up to 24 years of which approximately \$0.7 will be reclassified during the next 12 months.

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12. LONG-TERM DEBT

	As at	
	December 31, 2016	December 31, 2015
Senior Bonds:		
\$400.0, Series 99-A2, 6.47%, maturing July 27, 2029	\$ 391.8	\$ 391.4
\$300.0, Series 99-A3, 6.75%, maturing July 27, 2039	256.5	260.9
\$208.3, Series 99-A4, 5.328%, maturing December 1, 2016	-	285.5
\$208.3, Series 99-A5, 5.328%, maturing December 1, 2021	290.1	285.9
\$208.3, Series 99-A6, 5.328%, maturing December 1, 2026	290.2	286.0
\$208.3, Series 99-A7, 5.328%, maturing December 1, 2031	290.4	286.1
\$325.0, Series 00-A2, 5.29%, maturing December 1, 2039	369.9	372.3
\$340.0, Series 04-A3, 5.96%, maturing December 3, 2035	338.2	338.2
\$300.0, Series 10-A2, 4.99%, maturing June 16, 2020	299.2	299.1
\$400.0, Series 10-A3, 4.30%, maturing May 26, 2021	398.9	398.7
\$350.0, Series 11-A1, 4.45%, maturing November 15, 2041	347.2	347.2
\$400.0, Series 12-A1, 4.19%, maturing April 25, 2042	397.0	397.0
\$400.0, Series 12-A2, 3.98%, maturing September 11, 2052	395.3	395.2
\$200.0, Series 13-A1, 4.68%, maturing October 7, 2053	198.6	198.6
\$250.0, Series 14-A1, 3.35%, maturing May 16, 2024	248.5	248.3
\$150.0, Series 15-A1, 3.30%, maturing March 27, 2045	148.4	148.4
\$500.0, Series 15-A2, 3.83%, maturing May 11, 2046	495.8	495.7
\$500.0, Series 16-A1, 3.60%, maturing May 21, 2047	495.8	-
\$350.0, Series 16-A2, 2.43%, maturing May 4, 2027	347.8	-
Other Senior Bonds:		
\$162.3, Series 04-A2, 3.276%, maturing July 27, 2039 (note 15(a))	192.2	177.9
Senior Bank Credit Facilities	602.0	579.8
Junior Bonds:		
\$165.0, Series 00-B1, 7.125%, maturing July 26, 2040	164.4	164.4
Subordinated Bonds:		
\$480.0, Series 06-D1, 5.75%, maturing February 14, 2036	477.3	477.2
\$300.0, Series 10-D1, 3.87%, maturing November 24, 2017	299.8	299.5
	<u>\$ 7,735.3</u>	<u>\$ 7,133.3</u>
Financial liabilities carried at Fair Value Through Profit or Loss ("FVTPL")		
Other Senior Bonds: Series 04-A2	\$ 192.2	\$ 177.9
Financial liabilities carried at amortized cost		
Senior Bonds	\$ 5,999.6	\$ 5,434.5
Senior Bank Credit Facilities	602.0	579.8
Junior Bonds	164.4	164.4
Subordinated Bonds	777.1	776.7
	<u>7,543.1</u>	<u>6,955.4</u>
	<u>\$ 7,735.3</u>	<u>\$ 7,133.3</u>
Current	\$ 921.3	\$ 883.5
Non-current	6,814.0	6,249.8
	<u>\$ 7,735.3</u>	<u>\$ 7,133.3</u>

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12. LONG-TERM DEBT (continued)

Interest and Other Expenses

	<u>2016</u>	<u>2015</u>
Interest expense	\$ 350.1	\$ 335.8
Non-cash inflation component of:		
Interest expense, RRBs	19.6	13.5
Interest recovery, Senior Bond, Series 04-A2	(0.9)	(2.8)
Fair value adjustment, Senior Bond, Series 04-A2	15.2	(9.6)
Capitalized interest	<u>(0.6)</u>	<u>(0.6)</u>
Total Interest Expense on Long-term debt	383.4	336.3
Interest income on financial assets designated as FVTPL	(10.6)	(9.3)
Other expense	0.8	0.6
Other income:		
Reclassification of gains and losses on cash flow hedges (note 11)	(0.8)	(0.7)
	<u><u>\$ 372.8</u></u>	<u><u>\$ 326.9</u></u>

Senior Bonds

The Company issued Series 99-A2 and 99-A3 in July 1999, Series 04-A3 in December 2004, Series 10-A1 and Series 10-A2 in June 2010, Series 10-A3 in November 2010, Series 11-A1 in November 2011, \$400.0 Series 12-A1 in April 2012, \$200.0 Series 12-A2 in September 2012 and an additional \$200.0 in June 2013, \$200.0 Series 13-A1 in October 2013, \$250.0 Series 14-A1 in May 2014, \$150.0 Series 15-A1 in March 2015, \$500.0 Series 15-A2 in May 2015, \$500.0 Series 16-A1 in May 2016 and \$350.0 Series 16-A2 in November 2016 with interest payable semi-annually. These bonds are all repayable at maturity except for Series 99-A3, which is repayable in fixed semi-annual scheduled installments of interest and principal of \$11.2. These bonds are redeemable, in whole or in part, at the option of the Company.

Real Return Bonds (“RRBs”)

The Company issued RRBs Series 99-A4, 99-A5, 99-A6 and 99-A7 in August 1999 with interest payable semi-annually. The Company issued amortizing RRBs Series 00-A2 in February 2000. Series 99-A4 was paid in full in December 2016.

The cash interest and principal payable on Series 99-A5 to 99-A7 RRBs, is adjusted based on the Consumer Price Index (the “CPI”) at the time of payment divided by the CPI at the time of issue. In addition to reserves established at the time of issuance of the Series 99-A5 to 99-A7 RRBs, the Company is required to fund a series excess inflation reserve account should the principal outstanding multiplied by the CPI at the time of measurement divided by the CPI at the time of issue exceed a pre-established threshold level. As at December 31, 2016, the Company had not been required to fund this series excess inflation reserve account. The RRBs are repayable at maturity except for Series 00-A2, which is repayable in semi-annual scheduled installments of interest and principal of \$10.2, adjusted based on the CPI at the time of payment divided by the CPI at the time of issue.

As at December 31, 2016, the inflation compensation component of all RRBs was \$346.1 (2015 - \$407.2) which was recorded as additional long-term debt. The inflation compensation component relating to RRB Series 99-A4 was fully paid in December 2016.

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12. LONG-TERM DEBT (continued)

Other Senior Bonds

The Company issued Senior Bonds, Series 04-A2 in December 2004. The Company is obligated to make semi-annual cash payments (consisting of principal and interest) determined by the product of \$13.0 and the CPI at the time of payment divided by the CPI at time of issue. The Senior Bonds, Series 04-A2 are redeemable, in whole or in part, at the option of the Company.

Junior Bonds

The Company issued Junior Bonds, Series 00-B1 in July 2000 with interest payable semi-annually. The Junior Bonds, Series 00-B1 are redeemable in whole or in part, at the option of the Company.

Subordinated Bonds

The Company issued Subordinated Bonds, Series 06-D1 in February 2006 and Series 10-D1 in November 2010, with interest payable semi-annually. These bonds are redeemable in whole or in part, at the option of the Company.

Senior Bank Credit Facilities

In 2012, the Company entered into a credit agreement with respect to a revolving credit facility with a Canadian chartered bank in the principal amount of up to \$50.0. On March 26, 2013, the credit agreement was amended and the Company entered into two additional credit agreements with respect to two additional revolving credit facilities with two other Canadian chartered banks. The aggregate principal amount of the three revolving credit facilities was up to \$300.0. On November 28, 2014 and on December 1, 2015, the credit agreements were amended. The aggregate principal amount of the three revolving credit facilities is currently up to \$1,000.0 and will be used to refinance existing debt, fund future operating and capital expenditures, interest payments and for general corporate purposes. The obligations under the credit facilities rank pari passu with the senior debt of the Company. The Company issued to the Canadian chartered banks senior pledged bonds with an aggregate principal amount of \$1,200.0, resulting in the indebtedness arising from the credit facilities being secured under the Indenture.

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

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

Current Portion of Long-Term Debt

As at December 31, 2016, the current portion of long-term debt of \$921.3 includes \$299.8 Subordinated Bonds, Series 10-D1, \$602.0 Senior Bank Credit Facilities, \$4.9 Senior Bonds, Series 99-A3, \$8.6 Senior Bonds, Series 00-A2, and \$6.0 Senior Bonds, Series 04-A2.

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13. INCOME TAX

The components of income tax expense are as follows:

	<u>2016</u>	<u>2015</u>
Current income tax expense	\$ 66.6	\$ 0.4
Deferred income tax expense in respect of the current year	67.8	112.8
Recognition of previously unrecognized deferred tax assets	-	(0.3)
Other	-	3.0
Total deferred income tax expense	<u>\$ 67.8</u>	<u>\$ 115.5</u>
Total income tax expense	<u>\$ 134.4</u>	<u>\$ 115.9</u>

Current and deferred income tax expense differs from amount computed at the statutory rates as a result of the following:

	<u>2016</u>	<u>2015</u>
Income tax calculated at statutory rates of 26.5% (2015 - 26.5%)	\$ 134.4	\$ 113.2
Reduction in income tax resulting from:		
Other	-	3.0
Changes to unused tax losses and tax credits not recognized as deferred tax assets	-	(0.3)
Total current and deferred income tax expense	<u>\$ 134.4</u>	<u>\$ 115.9</u>

The 2016 applicable tax rate is the aggregate of the federal corporate income tax rate of 15.0% (2015 – 15.0%) and provincial income tax rate of 11.5% (2015 – 11.5%).

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13. INCOME TAX (continued)

Temporary differences and non-capital losses give rise to deferred income tax assets (liabilities) as follows:

	<u>Opening balance</u>	<u>Recognized in profit or loss</u>	<u>Other</u>	<u>Closing balance</u>
2016				
<i>Deferred tax assets/(liabilities) in relation to:</i>				
Property, plant and equipment and intangible assets	\$ (475.0)	\$ (15.4)	\$ -	\$ (490.4)
Long-term debt and other	20.3	(5.1)	-	15.2
Deferred contract revenue	(1.8)	0.8	-	(1.0)
Other assets	0.8	(0.2)	-	0.6
	<u>(455.7)</u>	<u>(19.9)</u>	<u>-</u>	<u>(475.6)</u>
Non-capital losses	72.7	(47.9)	-	24.8
Net deferred tax assets/(liabilities)	<u>\$ (383.0)</u>	<u>\$ (67.8)</u>	<u>\$ -</u>	<u>\$ (450.8)</u>
2015				
<i>Deferred tax assets/(liabilities) in relation to:</i>				
Property, plant and equipment and intangible assets	\$ (451.4)	\$ (23.6)	\$ -	\$ (475.0)
Long-term debt and other	22.5	(4.2)	-	18.3
Deferred contract revenue	-	(1.8)	-	(1.8)
Other assets	0.7	0.2	(0.1)	0.8
	<u>(428.2)</u>	<u>(29.4)</u>	<u>(0.1)</u>	<u>(457.7)</u>
Non-capital losses	160.8	(88.1)	-	72.7
Net deferred tax assets/(liabilities)	<u>\$ (267.4)</u>	<u>\$ (117.5)</u>	<u>\$ (0.1)</u>	<u>\$ (385.0)</u>

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Deferred tax liabilities	\$ (491.4)	\$ (476.8)
Deferred tax assets	40.6	93.8
	<u>\$ (450.8)</u>	<u>\$ (383.0)</u>

The Company anticipates that its accumulated non-capital tax losses will be utilized prior to their expiration dates. As a result, a deferred income tax asset is recorded in relation to these non-capital losses based on Management's assessment that it is probable that the tax benefit recognized will be utilized.

	<u>As at</u>	
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Amounts unused for which no deferred tax assets have been been recognized are attributable to the following:		
Unused tax losses	<u>\$ 19.6</u>	<u>\$ 19.6</u>

The unrecognized tax losses that are capital in nature can be carried forward indefinitely.

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14. OBLIGATIONS UNDER FINANCE LEASES AND OPERATING LEASES

The Company entered into finance leases for the use of snow clearing equipment, computer equipment, and vehicles. The leases expire on various dates, at which time the Company has the right, but not the obligation, to purchase the equipment.

Minimum lease payments for finance leases in the aggregate and for the next five years and thereafter are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
2016	\$ -	\$ 3.9	\$ -	\$ 3.6
2017	3.5	2.9	3.1	2.7
2018	1.9	1.3	1.6	1.1
2019	1.2	0.8	1.0	0.7
2020	0.6	0.6	0.6	0.6
2021 and thereafter	1.3	1.3	1.3	1.2
	8.5	10.8	7.6	9.9
Less future finance charges at rates varying between 3.66% to 18.79%	(0.9)	(0.9)	-	-
Present value of minimum lease payments	\$ 7.6	\$ 9.9	\$ 7.6	\$ 9.9
			December 31, 2016	December 31, 2015
Current portion of obligations under finance leases			\$ 3.1	\$ 3.6
Non-current portion of obligations under finance leases			4.5	6.3
			\$ 7.6	\$ 9.9

The Company entered into operating leases for the use of office equipment and the rental of premises. Total expense for operating leases was \$0.6 in 2016 (2015 - \$0.6).

As at December 31, 2016, payments under operating lease agreements for the next five years and thereafter are as follows:

Year:	2017	2018	2019	2020	2021 & thereafter
Amount:	\$0.5	\$0.3	\$0.2	-	-

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15. FINANCIAL INSTRUMENTS

a) Fair Value of Financial Instruments

Current financial assets and liabilities

Financial assets and liabilities classified as current are amounts that are expected to be settled within one year. The carrying amounts approximate fair value because of the short-term nature of these instruments.

Non-current restricted cash and investments

The Company compares and uses publicly-available quotations provided by major Canadian financial institutions to determine the fair values. The carrying amounts approximate fair values.

Long-term debt

The fair value of the long-term debt (including the current portion) as at December 31, 2016 was \$8,807.2 (2015 - \$8,214.4) determined using publicly-available quotations provided by a major Canadian financial institution, except for Senior Bonds, Series 04-A2, which was determined by using a valuation technique.

Senior Bonds, Series 04-A2

Senior Bonds, Series 04-A2 is a derivative financial instrument and is reported at fair value. The fair value of Senior Bonds, Series 04-A2 as at December 31, 2016 was \$192.2 (2015 - \$177.9) which was determined by using a valuation technique which estimated future inflation of 1.8% (2015 - 1.6%) based on the BEIR and applied a nominal discount rate of 3.7% (2015 - 3.7%). During 2016, the fair value of Senior Bonds, Series 04-A2 increased by \$5.4 (2015 - decreased by \$5.3) due to the change in the Company's corporate spread. As at December 31, 2016, a 10 basis points decrease in the nominal discount rate would increase the fair value of Senior Bonds, Series 04-A2 by approximately \$2.4 (2015 - \$2.3).

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15. FINANCIAL INSTRUMENTS (continued)

Financial value hierarchy

The following table summarizes the fair value hierarchy under which financial instruments are valued.

Level 1 of the fair value hierarchy includes unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 includes inputs for the asset or liability that are not based on observable market data.

	Assets Measured at Fair Value					
	As at December 31, 2016			As at December 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets measured at FVTPL						
Cash and cash equivalents	\$ 557.6	\$ -	\$ -	\$ 376.9	\$ -	\$ -
Restricted cash and investments	603.3	-	-	535.6	-	-
	\$ 1,160.9	\$ -	\$ -	\$ 912.5	\$ -	\$ -
Total fair value			\$ 1,160.9			\$ 912.5
	Liabilities Measured at Fair Value					
	As at December 31, 2016			As at December 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial liabilities measured at FVTPL						
Senior Bonds, Series 04-A2	\$ -	\$ 192.2	\$ -	\$ -	\$ 177.9	\$ -
	\$ -	\$ 192.2	\$ -	\$ -	\$ 177.9	\$ -
Total fair value			\$ 192.2			\$ 177.9

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15. FINANCIAL INSTRUMENTS (continued)

b) Capital Risk Management

The Company defines its capital as follows:

1. Long-term debt, including the current portion; and
2. Cash and cash equivalents.

The Company's objectives when managing capital are to:

1. Maintain a capital structure and an appropriate credit rating that provides financing options to the Company when a financing or a refinancing need arises to ensure access to capital, on commercially reasonable terms, without exceeding its debt capacity or resulting in a downgrade to the credit ratings of the existing indebtedness;
2. Maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments and dividend payments;
3. Satisfy covenants set out in the Indenture and the indentures supplemental thereto (the "Supplemental Indentures"); and
4. Deploy capital to provide an appropriate investment return to its shareholders.

The Company's financial strategy is designed and formulated to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue additional debt, issue debt to replace existing debt with similar or different characteristics, and adjust the amount of dividends paid to shareholders. The Company's financing and refinancing decisions are made on a specific transaction basis and depend upon such factors as the Company's needs, and market and economic conditions at the time of the transaction.

Under the terms of the Indenture and Supplemental Indentures, the Company may not incur additional indebtedness that would result in a downgrade to the credit ratings of certain of its existing indebtedness. The Company may only make interest payments relating to subordinated debt and dividend payments to shareholders upon the satisfaction of certain financial covenants. The Board reviews the level of dividends paid to the Company's shareholders. The Company was in compliance with all its financial covenants as at December 31, 2015 and December 31, 2016.

There were no changes in the Company's approach to capital management during 2016.

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15. FINANCIAL INSTRUMENTS (continued)

c) Risks Arising from Financial Instruments

Credit risk

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

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

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

Trade receivables and other are aged as follows:

	As at December 31, 2016	As at December 31, 2015
Unbilled	\$ 64.0	\$ 55.8
0-60 days	64.7	56.2
61-90 days	7.0	7.0
91-120 days	4.9	4.8
121-150 days	4.3	4.2
151+ days	25.9	10.9
Sub total ¹	<u>170.8</u>	<u>138.9</u>
Other ²	16.0	14.9
	<u>\$ 186.8</u>	<u>\$ 153.8</u>

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

In accordance with the revenue recognition policy, toll revenues are recognized on the date trips are taken on the Highway. Tolls and other charges are recorded in trade receivables as "Unbilled" until invoiced.

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15. FINANCIAL INSTRUMENTS (continued)

The provision for doubtful accounts is based principally on historical collection rates and Management's expectation of success rates for collection of overdue accounts by the Ontario Registrar of Motor Vehicles (the "Registrar") through refusing to renew or issue vehicle permits until outstanding amounts are paid or settled ("Licence Plate Denial") as well as Management's expectation of success rates for collection through legal proceedings. When a licence plate associated with a customer's unpaid 407 ETR account becomes unattached from the vehicle or expired, the Registrar is required to refuse to renew another single vehicle permit issued to the same customer or issue a vehicle permit to that customer. The legislation affording 407 ETR the right to Licence Plate Denial requires a series of notices to be sent to customers with delinquent accounts. This process takes a minimum of 150 days from the date an invoice is sent until a customer is subject to Licence Plate Denial, followed by up to two years before a customer's licence plate is subject to renewal. The Licence Plate Denial process, together with other collection strategies, is expected to result in the successful collection of net trade receivables that are more than 151 days past due. The provision for doubtful accounts could materially change and may result in significant changes to trade receivable balances as Management continues to monitor the collection of outstanding 407 ETR charges through the Licence Plate Denial process with the Ontario Ministry of Transportation (the "MTO"), as well as collections through legal proceedings.

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

Management continuously monitors the collection of overdue accounts including the allowance for doubtful accounts. In determining the allowance for doubtful accounts, the Company considers a number of factors affecting the likelihood of collection. In determining the collectability of customer accounts, the Company does not obtain information about the credit quality of customers whose accounts are not overdue or not impaired.

An increase of 1 percent in the weighted-average provision rate would have increased the provision for doubtful accounts by approximately \$11.3 (2015 - \$10.0) and decreased equity by approximately \$8.5 (2015 - \$7.3).

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

Interest rate risk

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

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

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15. FINANCIAL INSTRUMENTS (continued)

Inflation risk

The Company is exposed to inflation risk as interest expense and debt service payments relating to Senior Bonds, Series 99-A5, Series 99-A6, Series 99-A7, Series 00-A2 and Series 04-A2 (collectively, the “RRBs”) are linked to the Consumer Price Index (the “CPI”). An increase of 50 basis points in the CPI would have increased interest expense by approximately \$8.6 for 2016 (2015 - \$10.0), decreased equity by approximately \$6.3 for 2016 (2015 - \$7.4) and increased debt service payments by approximately \$0.8 for 2016 (2015 - \$0.5). BEIR is highly volatile and may lead to significant changes in the fair value of Senior Bonds, Series 04-A2 that may not be representative of actual inflation paid or to be paid to the Senior Bonds, Series 04-A2 noteholders. An increase of 10 basis points in the BEIR would have increased interest expense by approximately \$6.3 for 2016 (2015 - \$6.5) and decreased equity by approximately \$4.6 for 2016 (2015 - \$4.7). A decrease of 10 basis points in the BEIR would have reduced interest expense by approximately \$6.2 for 2016 (2015 - \$6.4) and increased equity by approximately \$4.5 for 2016 (2015 - \$4.7). This inflation risk is partially mitigated by the Company’s right to increase toll rates.

d) Liquidity Risk

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

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

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

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16. REVENUES

	2016	2015
Toll	\$ 1,055.8	\$ 915.9
Fee	68.3	66.4
Contract	10.6	19.9
	\$ 1,134.7	\$ 1,002.2

The Company charges customers a lease fee for transponders to be used on Highway 407 ETR. Revenue from transponder leases is included in fee revenue above and was \$30.6 (2015 - \$28.6).

17. EXPENSES

	2016	2015
Systems operations	\$ 19.9	\$ 15.5
Customer operations	65.0	76.5
Highway operations	33.0	29.9
General and administration	22.7	23.3
Contract	9.1	17.0
Operating expenses	149.7	162.2
Depreciation and amortization	104.9	86.0
Expenses	\$ 254.6	\$ 248.2

Systems operations expenses include staff salaries, subcontractor costs for operating and maintaining the tolling system, costs for operating and maintaining the Company's office computer network and other costs for operating and maintaining the Company's integrated automation systems.

Customer operations expenses include costs to operate the customer service centre and service existing customer relationships as well as general inquiries. These costs include the call centre, customer service centre, account management, transponder distribution, billing, customer address system access fees, ombudsman services, collection of overdue accounts, provision for customer litigation and the provision for doubtful accounts.

Highway operations expenses include costs of operating activities such as maintenance of the major system elements of roadway surfaces, bridges and culverts, drainage and lighting systems, together with seasonal maintenance, highway patrol operations, road safety enforcement and police enforcement.

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

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17. EXPENSES (continued)

Contract expenses include costs for work performed in completing contract obligations with customers.

Depreciation and amortization expenses reflect the expense of property, plant and equipment and intangible assets over their respective useful lives. Substantially all of the depreciation and amortization expenses relate to highway operations expenses and systems operations expenses.

Total expenses include employee salary and benefits of \$37.0 (2015 - \$38.0), of which \$1.2 (2015 - \$1.1) relate to short-term benefits of key management personnel for the year ended December 31, 2016. Key management personnel of the Company include the President and Chief Executive Officer and the Chief Financial Officer. Short-term benefits of key management personnel include wages, annual incentives and other benefits. The Company does not provide for share-based payments or other long-term benefits, but does provide post-employment benefits and termination benefits.

18. COMMITMENTS AND CONTINGENCIES

Claims and Contingencies

Future Commitments and Significant Operating Agreements

The Company has a licence for the continued use of the 407 Highway Toll System Licenced Technology until December 31, 2018. Under the terms of the agreement, an annual fixed payment of \$0.6 will be required for expert technical support and additional milestone payments will be required for licensed technology along with the purchase of certain toll equipment for the development of new and enhanced toll system products.

Pursuant to the Tolling Services Contract, the cost of implementation of Phase 1 of Highway 407 (east of Brock Road) was \$25.0 plus an additional amount of \$5.0. In 2015, the Tolling Services Contract was amended and restated to include Phases 2a and 2b of Highway 407 (east of Brock Road) at an estimated cost of \$18.5. The scheduled date of Phase 1 substantial completion was also amended from December 2015 to November 2016. The Company completed the implementation of Phase 1 and was issued the substantial completion certification by the Province on November 30, 2016. The scheduled completion dates of Phases 2a and 2b are December 2017 and December 2019, respectively. The duration of the operating agreement is 10 years from December 2015 and is renewable by 10-year increments, for up to 30 years.

The Company has future commitments comprised of a service agreement and associated operating lease for certain highway winter maintenance services requiring monthly payments, expiring on April 30, 2023.

As at December 31, 2016, payments under these agreements for the next five years are as follows:

Year:	2017	2018	2019	2020	2021 & thereafter
Amount:	\$21.6	\$16.9	\$9.8	\$9.2	\$18.9

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18. COMMITMENTS AND CONTINGENCIES (continued)

Other Claims and Contingencies

From time to time, in the ordinary course of business, the Company is a defendant or party to a number of pending or threatened legal actions and proceedings. It is not possible to determine the ultimate outcome of such matters; however, based on all currently available information, Management believes that liabilities, if any, arising from pending litigation will not have a material adverse effect on the financial position or results of operations of the Company.

Litigation

Proposed Class Action Regarding Bankruptcy and Consumer Proposals

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

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

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

A settlement was reached with class counsel at a mediation concluded in August 2016, and approved at a settlement hearing before the Ontario Superior Court on November 15, 2016. The settlement provides for a voluntary settlement payment by 407 ETR of \$8.0 on an all-inclusive basis. Subject to the opt-out process, which will conclude in March 2017, the settlement amounts will be distributed to eligible class members, net of proposed class counsel fees of \$2.9 (inclusive of disbursements and taxes) and class administration fees of \$0.6. The settlement also includes refinements to 407 ETR's business practices for bankruptcies and consumer proposals. The amount available per eligible class member will be determined by eligibility and compensation criteria to be applied by class counsel, with accountability to the Court. Distribution of settlement funds will be undertaken by class counsel and is expected to conclude by July 2017.

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

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18. COMMITMENTS AND CONTINGENCIES (continued)

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

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

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

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

19. CASH AND CASH EQUIVALENTS

	As at	
	December 31, 2016	December 31, 2015
Cash and cash equivalents consist of:		
Cash	\$ 393.7	\$ 260.7
Government Treasury Bills	44.9	72.5
Provincial Promissory Notes	119.0	43.7
	<u>\$ 557.6</u>	<u>\$ 376.9</u>

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20. RELATED PARTY TRANSACTIONS

The following are the shareholders of the Company as at December 31, 2016:

- 4352238 Canada Inc., a wholly-owned subsidiary of Cintra Global Holding Limited (“Cintra”)
- MICI Inc., a subsidiary of Canada Pension Plan Investment Board (“CPPIB”)
- SNC-Lavalin Highway Holdings Inc., a wholly-owned subsidiary of SNC-Lavalin Group Inc.
- 7577702 Canada Inc., a subsidiary of CPPIB

The Company entered into the following transactions with related parties:

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

The transactions with related parties were measured at the exchange amounts, which is the consideration agreed to by the parties.

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

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

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20. RELATED PARTY TRANSACTIONS (continued)

The following are the wholly-owned subsidiaries of the Company as at December 31, 2016:

- 407 ETR
- Cantoll
- 9665641 Inc.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

21. GUARANTEES

In the normal course of business, the Company, including certain of its subsidiaries, enters into agreements that may involve providing certain guarantees or indemnifications to third parties and others. These include, but are not limited to:

a) Director/officer indemnification agreements

The Company entered into indemnification agreements with current and former directors and officers to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit, or any judicial, administrative, or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of the indemnification agreements prevents Management from making a reasonable estimate of the maximum potential amount the Company could be required to pay counterparties. The Company has purchased directors' and officers' liability insurance.

b) Other indemnification agreements

The Company provides indemnification agreements to counterparties in transactions such as purchase contracts, service agreements, design-build agreements, and licensing agreements. These indemnification agreements require the Company to compensate the counterparties for costs incurred as a result of litigation claims that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based on the contract. The nature of the indemnification agreements prevents Management from making a reasonable estimate of the maximum potential amount the Company may be required to pay to counterparties because such limits are not set out in the agreements with these counterparties. Management attempts to limit its liability in respect of indemnifications provided to third parties in its contractual agreements.