

This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence. The securities being offered hereby have not been and will not be registered under the United States Securities Act of 1933 (the "1933 Act"), as amended, and accordingly, will only be offered or sold within the United States of America in certain limited circumstances. See "Plan of Distribution".

New Issue

May 24, 2000

## 407 INTERNATIONAL INC.

### \$300,000,000 9.00% Subordinated Bonds, Series 00-C1, Due August 15, 2007

The 9.00% Subordinated Bonds, Series 00-C1 (the "Bonds") being offered hereby are being issued by 407 International Inc. (the "Company") in accordance with the Company's Capital Markets Platform. The net proceeds from the sale of the Bonds will be used primarily to repay a portion of the indebtedness owing to SNC-Lavalin Inc., Cintra Concesiones de Infraestructuras de Transporte, S.A., Grupo Ferroviario, S.A. and Capital d'Amérique CDPQ Inc. which the Company incurred in connection with its acquisition in May 1999 of 407 ETR Concession Company Limited and to fund a reserve account required in connection with the Bonds.

Interest on the Bonds will be payable semi-annually on February 15 and August 15 of each year until maturity, commencing August 15, 2000.

The Bonds will generally rank subordinate to all present and future senior and junior indebtedness secured pursuant to the Indenture and will generally rank *pari passu* with all present and future subordinated indebtedness of the Company secured pursuant to the Indenture, including the Subordinated Term Credit Facility, except that the Bonds will rank in priority to the Subordinated Debt arising pursuant to the Sponsors Subordinated Credit Facility. See "Capital Markets Platform", "Existing Indebtedness" and "Details of the Offering".

**There is currently no market through which the Bonds may be sold and no assurances can be given that such a market will develop. The interest rate, offering price and redemption features of the Bonds have been determined by arm's length negotiation between the Company and the Underwriters. See "Risk Factors" for a discussion of certain factors which should be considered by prospective purchasers of the Bonds. After giving effect to the sale of the Bonds and the application of the use of proceeds therefrom, the consolidated net income of the Company on a pro forma basis for the year ended December 31, 1999 and the 12-month period ended March 31, 2000, before interest on consolidated long-term debt and income taxes, would have been insufficient to cover the interest expense on consolidated long-term debt of the Company for such period.**

In the opinions of Fraser Milner and Davies, Ward & Beck, subject to certain qualifications, the Bonds will, at the date of issuance, be qualified investments for certain deferred income plans and will not constitute "foreign property" for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans as set out under "Canadian Federal Income Tax Considerations" and will not be precluded as investments pursuant to certain statutes as set out under "Eligibility for Investment".

	Price to Public	Underwriters' Fee <sup>(1)</sup>	Net Proceeds to the Company <sup>(2)(3)</sup>
Per \$1,000 principal amount Series 00-C1 . . . . .	Non-Fixed Price	\$12.50	\$989.67

- (1) The Underwriters' overall compensation will increase or decrease by the amount by which the aggregate price paid for the Bonds by purchasers exceeds or is less than the aggregate price paid by the Underwriters to the Company for such Bonds.
- (2) Before deducting expenses of the offering estimated to be \$1,750,000 which, together with the Underwriters' fee, will be paid by the Company out of the proceeds of the offering.
- (3) Plus accrued interest, if any, from May 31, 2000 to the date of delivery.

The Underwriters have agreed to purchase the Bonds from the Company at 100.217% of their principal amount, plus accrued interest, if any, from May 31, 2000 to the date of delivery subject to the terms and conditions set forth in the underwriting agreement referred to under "Plan of Distribution", and will receive a fixed fee of \$3,750,000. The Bonds will be offered to the public at prices to be negotiated by the Underwriters with purchasers. Accordingly, the price at which the Bonds will be offered and sold to the public may vary as between purchasers and during the period of distribution of the Bonds.

The Underwriters, as principal, conditionally offer the Bonds, subject to prior sale, if, as and when issued by the Company and accepted by the Underwriters in accordance with the conditions contained in the underwriting agreement referred to under "Plan of Distribution" and subject to the approval of all legal matters on behalf of the Company by Fraser Milner and on behalf of the Underwriters by Davies, Ward & Beck.

Subscriptions for the Bonds will be received subject to rejection or allotment, in whole or in part, and the Underwriters reserve the right to close the subscription books at any time without notice. It is expected that the Bonds will be ready for delivery, in book-entry form only, through the facilities of The Canadian Depository for Securities Limited in Toronto on the closing, which is expected to occur on or about May 31, 2000 but not later than July 5, 2000.



- Highway 407 West Extension
- Highway 407 Central
- Highway 407 East Partial Extension

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## PROSPECTUS SUMMARY

*The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and the financial data and operating data appearing elsewhere in this prospectus. Terms not otherwise defined herein are defined in the Glossary appearing elsewhere in this prospectus. All references to dollars in this prospectus are to Canadian dollars unless otherwise indicated.*

### THE COMPANY

407 International Inc. (the “Company”) was incorporated on March 17, 1999 under the *Business Corporations Act* (Ontario) (“OBCA”), for the purpose of submitting a bid to the Government of the Province of Ontario (the “Province”) for the purchase from the Province of all of the issued and outstanding shares of 407 ETR Concession Company Limited (the “Concessionaire”). This bid was accepted and the purchase was completed on May 5, 1999. The Concessionaire is party to a 99-year concession and ground lease agreement (the “Concession Agreement”) with the Province which, together with the *407 Act*, establishes the Concessionaire’s principal rights and obligations with respect to Highway 407.

### BUSINESS OF THE COMPANY

The principal business of the Company is the ownership of the Concessionaire and, through the Concessionaire, the operation, maintenance and management of Highway 407 Central and the construction, operation, maintenance and management of the Highway 407 Central Deferred Interchanges, 407 West Extension and 407 East Partial Extension.

Highway 407 is the world’s first all-electronic, open-access toll highway. When construction is completed, Highway 407 will be a 108-kilometre highway traversing the Greater Toronto Area (“GTA”), Canada’s largest urban centre, and will consist of three segments: the 69-kilometre Highway 407 Central, the 24-kilometre Highway 407 West Extension and the 15-kilometre Highway 407 East Partial Extension. Highway 407 Central has been open and operating since June 7, 1997. During the first four months of operation no tolls were charged and average weekday trips on Highway 407 Central exceeded 300,000. When tolls were imposed in October 1997, weekday trips on Highway 407 Central declined to approximately 100,000. Average weekday trips rose to approximately 267,000 in October 1999 but, due to expected seasonal variation, declined to approximately 255,000 in April 2000 (which represents a 14.1% increase over the April 1999 figure). As of April 30, 2000, the number of transponders in distribution has reached approximately 366,500. Increases in average weekday trips are attributable to the opening of new sections of Highway 407 and the growing acceptance of the tollroad concept by the travelling public within the GTA and surrounding regions.

Toll collection on Highway 407 is accomplished via an all-electronic system which relies upon either vehicle mounted transponders or video licence plate imaging to identify vehicles for the purposes of billing. This system was designed based on the following concepts:

- **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. To pay tolls, motorists are not required to stop or slow down nor are they lane restricted.
- **Open Access Highway:** All vehicles are able to travel on Highway 407. Users are either identified for billing purposes through video-based licence plate identification or by a transponder.
- **Revenue Maximization:** Variable tolling will maximize revenue by allowing the operator of Highway 407 to charge based on usage, by time of day (i.e., day time and night time effective May 1, 2000), by vehicle type and by section of Highway 407.

As a vehicle enters or exits Highway 407, vehicle information is gathered either by reading a vehicle mounted transponder or by recording the licence plate as a video image. This information is transmitted to the 407 ETR operations centre where an entry and an exit are matched to generate a complete trip. Tolls are calculated and billed to the user’s account. In the case of a first-time non-transponder user, name and address information for Ontario residents is obtained from the Ontario Ministry of Transportation licence plate database in order to create an account. Tolls are accumulated and invoices are then prepared and sent on a monthly basis.

The rights and obligations of the Concessionaire with respect to Highway 407 are governed by the *407 Act* and the Concession Agreement. The Concession Agreement grants the Concessionaire a 99-year ground lease (which commenced on April 6, 1999) of the Project Lands, which are owned by the Province, and grants the Concessionaire an exclusive concession with respect to Highway 407.

As permitted under the *407 Act*, the Concession Agreement authorizes the Concessionaire to charge and collect tolls, administration fees and interest in connection with Highway 407. The rights to non-toll revenues have been retained by the Province. The range and scope of the tolls which may be charged by the Concessionaire are set out in the Tolling Agreement.

Under the Concession Agreement, the Concessionaire is required to develop, design and build Highway 407 West Extension, 407 East Partial Extension and the 407 Central Deferred Interchanges and to finance, operate, manage, maintain, repair and toll the Project all in accordance with specified standards. The Highway 407 Central Deferred Interchanges and 407 East Partial Extension (with the exception of certain deferred interchanges) are required to be commissioned and opened by December 31, 2001. Highway 407 West Extension is required to be commissioned and opened by July 31, 2001. The design and construction of the Highway 407 Central Deferred Interchanges, 407 West Extension and 407 East Partial Extension (with the exception of certain deferred interchanges) will be completed pursuant to a Design Build Agreement with a joint venture comprised of SNC-Lavalin Inc. and Ferrovial Agroman, S.A. (a successor to Ferrovial-Agroman Internacional, S.A.). Under the terms of the Design Build Agreement, the joint venture has agreed to perform all of the obligations of the Concessionaire required under the Concession Agreement in connection with this construction, excluding the supply and installation of the tolling system.

The Concessionaire is obligated, at its expense, to ensure that Highway 407 complies at all times with the safety standards established generally for controlled access highways by the Province.

#### THE OFFERING

<b>Issue:</b>	9.00% Subordinated Bonds, Series 00-C1 (the “Bonds”)
<b>Aggregate Principal Amount:</b>	\$300,000,000
<b>Date of Issuance:</b>	May 31, 2000
<b>Maturity Date:</b>	August 15, 2007
<b>Interest Rate:</b>	9.00%
<b>Payment Dates:</b>	Interest on the Bonds will be payable semi-annually on February 15 and August 15 of each year until maturity, commencing August 15, 2000.
<b>Redemption:</b>	The Bonds may be redeemed in whole or in part at the option of the Company upon not less than 30 days’ and not more than 60 days’ notice at the greater of: (i) the face amount of the Bond to be redeemed and (ii) the Canada Yield Price, plus in each case any accrued and unpaid interest. See “Details of the Offering — Redemption”.
<b>Prepaid Interest Reserve Account:</b>	The Prepaid Interest Reserve Account for the Bonds will be an amount equal to two full years of interest payable on the Bonds, being the aggregate amount of interest payable on the Bonds for the first four semi-annual interest payment dates commencing on August 15, 2000 and ending on February 15, 2002 and a portion of the semi-annual interest payment on August 15, 2002, being, in the aggregate, \$54 million, which will be pre-funded from the net proceeds from the sale of the Bonds. Amounts in the Prepaid Interest Reserve Account will be used to fund the semi-annual interest payments due on the Bonds. The Company shall be entitled to pay interest on the Bonds out of amounts available in the Prepaid Interest Reserve Account notwithstanding that such payment would otherwise be restricted pursuant to the terms of the Supplemental Indenture for the Bonds. Upon the occurrence of an Event of Default under the Indenture, any amounts

remaining in the Prepaid Interest Reserve Account will be available to fund interest payments on the Bonds.

**Series Reserve Account:**

No Series Reserve Account will be established for the Bonds.

**Covenants:**

The Supplemental Indenture for the Bonds prohibits the Company from making any payments of principal or interest on account of the Bonds, other than interest payments on the Bonds from the Prepaid Interest Reserve Account, or from the net proceeds of Subordinated Debt issued to one or more of SNC-Lavalin Inc., Capital d'Amérique CDPQ Inc., Cintra Concesiones de Infraestructuras de Transporte, S.A. or Grupo Ferrovial, S.A. (or any of their respective subsidiaries or affiliates) (the "Principal Sponsors") which is further subordinated to the indebtedness under the Bonds ("Permitted Sponsor Subordinated Debt"), or from the issue of any equity securities of the Company, unless:

- (i) estimated Net Revenues, on the basis of reasonable and prudent projections, assumptions and hypotheses, for the next 12 calendar months, will be at least equal to 135% of the Annual Senior Debt Service for such 12 month period;
- (ii) Net Revenues for the 12 calendar months most recently ended were at least equal to 135% of the Annual Senior Debt Service for such 12 month period; and
- (iii) the Company is in compliance with the financial tests set forth in the Rate Covenant (See "Capital Markets Platform — Rate Covenant").

Notwithstanding such restriction on payment, interest, including interest on overdue interest, will continue to accrue on the Bonds until paid.

**Additional Restrictions:**

In addition to the covenants in the Indenture, the Supplemental Indenture for the Bonds shall restrict the issue of any additional Senior Bonds if such issue would result in a withdrawal or reduction of the then current ratings on the Bonds and shall restrict the Company from issuing to any of the Principal Sponsors any Subordinated Debt other than Permitted Sponsor Subordinated Debt.

**Security and Ranking:**

The Bonds all constitute direct obligations of the Company, will generally rank subordinate to all present and future senior and junior indebtedness secured pursuant to the Indenture and will generally rank *pari passu* with all present and future subordinated indebtedness of the Company secured pursuant to the Indenture, including the Subordinated Term Credit Facility, except that the Bonds will rank in priority to the Subordinated Debt arising pursuant to the Sponsors Subordinated Credit Facility (See "Existing Indebtedness — Sponsors Subordinated Credit Facility"). The Bonds are secured principally by a leasehold mortgage on the Concessionaire's leasehold interest in and to the Highway 407 Lands, a security interest in all real and personal property of the Company and a security interest in all real and personal property of the Concessionaire related to the Project. Such security interest includes: (i) a specific assignment of each of the Company's and the Concessionaire'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 the Concessionaire owned by the Company.

In addition, the Bonds will be secured, *pari passu* with obligations under the Subordinated Term Credit Facility, by a first priority lien and security interest in

the shares and the convertible debenture of the Company (the “Sponsor Collateral”) held by SNC-Lavalin Inc., 407 Toronto Highway, B.V. (an indirect wholly owned subsidiary of Cintra Concesiones de Infraestructuras de Transporte, S.A.) and Capital d’Amérique CDPQ Inc. (collectively, the “Sponsors”), pursuant to various pledge agreements and similar instruments in favour of the Security Agent under the Master Security Agreement (collectively, the “Sponsors Pledge Security”). This security is for the benefit of the holders of the Bonds and the lenders under the Subordinated Term Credit Facility, and the rights and obligations of the holders of the Bonds and the Subordinated Bank Lenders with respect to the Sponsor Collateral are governed by an agreement (the “Master Security Agreement”) between the Company, the Sponsors, the administrative agent under the Subordinated Term Credit Agreement, as agent for the Subordinated Bank Lenders, the Trustee, as agent for the Bondholders, and the security agent appointed as the holder of the security interest in the Sponsor Collateral held for the benefit of the Bondholders and the Subordinated Bank Lenders. This security may be partially released upon the satisfaction of certain conditions. See “Capital Markets Platform — Nature of Obligations Issued and Secured”, “Existing Indebtedness — Subordinated Term Credit Facility”, “Details of the Offering — Additional Security” and “Details of the Offering — Release of Additional Security”.

**Remedies:**

The Bonds are subject to certain limitations and restrictions generally applicable to Subordinated Bonds, set forth in the Indenture. In particular, holders of Bonds are not entitled to 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 senior and junior indebtedness issued by the Company pursuant to the Indenture have enforced their rights and remedies pursuant to the provisions thereof.

However, following the occurrence and continuance of an event of default under the Master Security Agreement, the holders of the Bonds are entitled to enforce their rights and remedies under the Sponsors Pledge Security, subject to certain restrictions and limitations.

See “Capital Markets Platform — Subordinated Bonds”, “Details of the Offering — Additional Security” and “Details of the Offering — Remedies”.

**CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

A holder of Bonds who is a resident of Canada will be required, among other things, to include as income interest on the Bonds that has accrued thereon in the circumstances prescribed by the *Income Tax Act* (Canada) (the “Tax Act”). Interest on the Bonds payable to a non-resident who deals at arm’s length with the Company will not be subject to withholding tax under the Tax Act. See “Canadian Federal Income Tax Considerations”.

**USE OF PROCEEDS**

The net proceeds from the sale of the Bonds offered hereby are estimated to be \$295.2 million, after deducting the Underwriters’ fee and the expenses of this offering, estimated to be \$5.5 million. These proceeds will be used as to approximately \$241.2 million to repay to SNC Lavalin Inc., Cintra Concesiones de Infraestructuras de Transporte, S.A., Grupo Ferrovial, S.A. and Capital d’Amérique CDPQ Inc. a portion of the outstanding indebtedness under the Sponsors Subordinated Credit Facility incurred for the purpose of financing the Company’s acquisition of the Concessionaire, and as to approximately \$54 million to fund the deposits required to be made to the Prepaid Interest Reserve Account for the Bonds.

**RISK FACTORS**

The investment in the Bonds is subject to a number of risk factors. Prospective purchasers should consider all of the information set forth in this prospectus, including the discussion set forth under “Risk Factors”. Risk factors include the subordination of the Bonds to the senior and junior indebtedness, restrictions on payments on account of principal and interest on the Bonds, certain restrictions upon realization on the Sponsors Pledge Security, levels of toll revenues, possible transportation improvements, construction risks, level of operating and maintenance expenses, availability of adequate insurance, ownership of intellectual property, year 2000 issue, impact of default under the Concession Agreement, timing and availability of required regulatory approvals, changes in tax laws and that no market for the securities may develop.

**RATINGS**

Standard & Poor’s Rating Service . . . . .	BBB
Canadian Bond Rating Service Inc. . . . .	BBB
Dominion Bond Rating Service Limited . . . . .	BBB



## THE COMPANY

407 International Inc. (the “Company”) was incorporated on March 17, 1999 under the *Business Corporations Act* (Ontario) (the “OBCA”), on the initiative of SNC-Lavalin Inc. (“SNC-Lavalin”) and Cintra Concesiones de Infraestructuras de Transporte, S.A. (“CINTRA”), for the purpose of submitting a bid to the Government of the Province of Ontario (the “Province”) for the purchase from the Province of all of the issued and outstanding shares of 407 ETR Concession Company Limited (the “Concessionaire”). See “Subordinated Lenders and Contractors” below. This bid was accepted and the purchase was completed on May 5, 1999. The registered office and principal executive office of the Company, and the head office of the Concessionaire, are located at 6300 Steeles Avenue West, Woodbridge, Ontario.

The Concessionaire was established by the Province in 1993 as a Crown agency under the name Ontario Transportation Capital Corporation (“OTCC”) to oversee the design, construction, operation, maintenance, management and financing of Highway 407. On April 6, 1999, OTCC was continued by the Province as a share capital corporation under the OBCA under the name 407 ETR Concession Company Limited and entered into a 99-year concession and ground lease agreement (the “Concession Agreement”) with the Province. Together with the *407 Act*, this agreement establishes the Concessionaire’s principal rights and obligations with respect to Highway 407. See “Business of the Company — Concession and Ground Lease Agreement”.

The Company has no direct or indirect subsidiaries other than the Concessionaire and the Company’s sole business is conducted through the Concessionaire. On November 1, 1999, the Concessionaire acquired all the shares of 1054381 Ontario Inc. (formerly Canadian Highways Management Corporation), and on January 1, 2000, the Concessionaire amalgamated with 1054381 Ontario Inc. under the provisions of the OBCA to continue as 407 ETR Concession Company Limited. References in this prospectus to “OTCC” refer to the Concessionaire prior to its acquisition by the Company and references to the “Concessionaire” refer to (i) prior to January 1, 2000, 407 ETR Concession Company Limited, the corporation continued under the provisions of the OBCA, following its acquisition by the Company and (ii) on or after January 1, 2000, 407 ETR Concession Company Limited, a company amalgamated under the provisions of the OBCA.

## BUSINESS OF THE COMPANY

### Introduction

The principal business of the Company is the ownership of the Concessionaire and, through the Concessionaire, the operation, maintenance and management of Highway 407 Central and the construction, operation, maintenance and management of the Highway 407 Central Deferred Interchanges, 407 West Extension and 407 East Partial Extension.

Highway 407 has been incorporated into the planning of major transportation and land use decisions for the GTA from as early as the 1950s. The planning process for a major thoroughfare of the scale of Highway 407 may take 20 years or more and the process of assembling contiguous land parcels, obtaining environmental permits and all requisite municipal and provincial approvals may extend this time frame by an additional 10 to 15 years. Accordingly, it was not until 1993 that the Province established OTCC for the purpose of overseeing the design, construction, operation, maintenance, management and financing of Highway 407. In that same year, OTCC awarded the right to design, construct, operate and maintain Highway 407 Central to Canadian Highways International Corporation (“CHIC”). Highway 407 Central was opened to traffic in June 1997 and commenced tolling as the world’s first all electronic, open-access toll highway in October 1997.

The decision to sell OTCC and thereby privatize Highway 407 was announced by the Province on February 20, 1998. The Province subsequently enacted the *407 Act* to authorize and facilitate the privatization. Under the provisions of the *407 Act*, OTCC and the Province entered into the Concession Agreement which, in combination with the *407 Act*, authorizes the Concessionaire to establish, collect and enforce payment of tolls and obliges the Concessionaire to manage, maintain, repair and toll Highway 407 as well as construct certain extensions and expansions thereto. See “— Concession and Ground Lease Agreement” and “— Construction of Extensions and Deferred Interchanges” below.

The Company participated in the competitive bid process established by the Province for the sale of Highway 407 and the design and construction of the Highway 407 Central Deferred Interchanges, 407 West

Extension and 407 East Partial Extension. Following the Company's selection as the successful bidder, on April 12, 1999 the Province, the Company, Grupo Ferrovial, S.A. ("Grupo Ferrovial"), SNC-Lavalin and CINTRA (Grupo Ferrovial, SNC-Lavalin and CINTRA being referred to herein collectively as the "Equity Participants"), entered into a share purchase agreement (the "Share Purchase Agreement") pursuant to which, on May 5, 1999, the Company acquired all of the issued and outstanding shares of the Concessionaire for a purchase price of \$3.113 billion. The total cost of the acquisition, including acquisition costs and preliminary working capital adjustment, is approximately \$3.198 billion, subject to finalization of the working capital adjustment. Prior to the acquisition of the Concessionaire on May 5, 1999, Grupo Ferrovial transferred all of the shares it held in the Company to CINTRA.

### **Demand for Highway 407**

Ontario's population currently exceeds 11 million, which is more than one-third of Canada's total population. It is centrally located in North America, with easy access to the United States market and covers an area nearly as large as France, Germany and Italy combined. Ontario is Canada's most industrialized province and is the country's business and financial centre. Ontario generated approximately 40% of Canada's gross domestic product during 1998.

Based on a 1996 census of Ontario, the population of the GTA and Hamilton-Wentworth exceeded five million in that year. According to the January 2000 Strategic Transportation Plan developed and prepared for the GTA and Hamilton-Wentworth by the Greater Toronto Services Board (the "Strategic Transportation Plan"), the population in these areas is projected to exceed seven million by the year 2021. This plan also reports that in 1996, there were about 2.8 million jobs in the GTA and Hamilton-Wentworth and projects that by the end of 2021 there will be more than four million jobs. The Strategic Transportation Plan is a publicly available document.

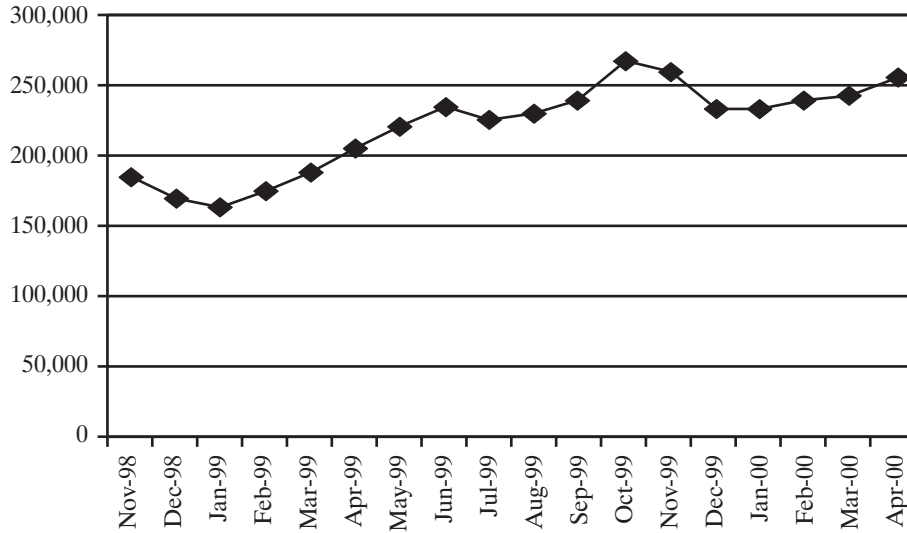
Originally constructed as a by-pass of the urban center of the City of Toronto, Highway 401, together with the Queen Elizabeth Way (the "QEW"), now constitute the principal commercial and commuter traffic arteries traversing the densely populated and industrialized corridor stretching from Windsor, Ontario in the southwest through to the eastern extremities of the GTA. The heavy use of Highway 401 and the QEW by both local commuters and commercial traffic has resulted in significant congestion on those highways. The Strategic Transportation Plan estimates that this congestion in the GTA and Hamilton-Wentworth is costing \$2 billion annually, due primarily to time delays. This congestion can only worsen with the growth of the population base in the GTA and in Hamilton-Wentworth. The Strategic Transportation Plan also projects that over the next two decades, the GTA and Hamilton-Wentworth will see more than four million vehicles making, in the aggregate, 15 million trips per day. In addition, travel patterns are shifting as more people and companies choose to locate in suburban regions.

In order to alleviate this congestion, the Province decided to proceed with the development of Highway 407. Highway 407, when complete, will provide an alternate transportation corridor for both current users of the existing highway network and for future users in the growth areas of the GTA. Highway 407 is expected to reduce congestion levels on both the existing highway system in the GTA and those municipal roadways immediately within the Highway 407 corridor.

Highway 407 Central has been open and operating since June 7, 1997. During the first four months of operation no tolls were charged and average weekday trips on Highway 407 Central exceeded 300,000. When tolls were imposed in October 1997, weekday trips on Highway 407 Central declined to approximately 100,000. Average weekday trips rose to approximately 267,000 in October 1999 but, due to expected seasonal variation, declined to approximately 255,000 in April 2000 (which represents a 14.1% increase over the April 1999 figure). As of April 30, 2000, the number of transponders in distribution has reached approximately 366,500. Increases in average weekday trips are attributable to the opening of new sections of Highway 407 and the growing

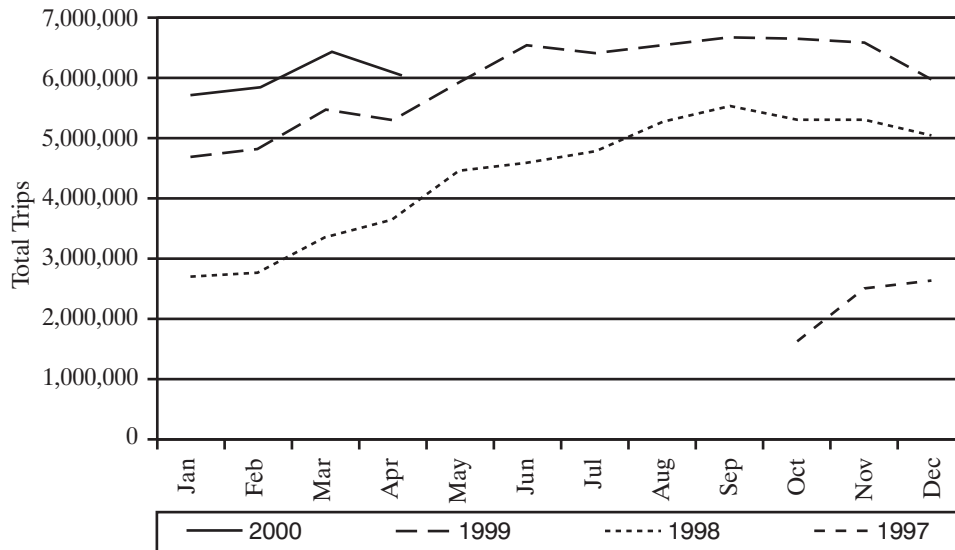
acceptance of the tollroad concept by the travelling public within the GTA and surrounding regions. The following chart indicates average weekday trips for the preceding 18 months:

**Historic Average Weekday Trips**



The following chart indicates the continued year over year growth in total monthly trips since tolling began in October 1997 through to April 2000:

**Historic Total Monthly Trips**



**Description of Highway 407**

Highway 407 is the world’s first all-electronic, open-access toll highway and traverses the GTA, Canada’s largest urban centre. When the current construction obligations (imposed under the Concession Agreement) of the Concessionaire are completed, Highway 407 will be a 108-kilometre highway from the QEW/Highway 403 junction in Burlington to Highway 7 east of Brock Road in Pickering and will then consist of three main sections: Highway 407 Central, 407 West Extension and 407 East Partial Extension. Highway 407 Central runs, and 407 East Partial Extension, when constructed, will run, primarily north of and parallel to Highway 401, one of

North America's busiest highways with average weekday volumes of approximately 400,000 vehicles. Highway 407 West Extension, when constructed, will run primarily north of and parallel to the QEW.

### ***Highway 407 Central***

Highway 407 Central consists of four and six-lane sections (expandable to eight and ten lanes) from Highway 403 in Oakville to Highway 48 in Markham for a distance of 69 kilometres. Highway 407 Central was developed, designed and built in four stages with completion dates ranging from June 7, 1997 to September 4, 1998 and is currently operational. Tolls have been charged on Highway 407 Central since October 14, 1997. During the period from May 5, 1999 to April 30, 2000, Highway 407 Central attracted over 74 million trips.

### ***Highway 407 Central Deferred Interchanges***

Seven interchanges, which were originally contemplated for Highway 407 Central, were deferred during its initial construction; three of which were fully deferred and four of which were partially built. The Concessionaire is now required, pursuant to the terms of the Concession Agreement, to construct or complete the Highway 407 Central Deferred Interchanges by December 31, 2001. See “— Concession and Ground Lease Agreement” below.

### ***Highway 407 West Extension***

Highway 407 West Extension will be constructed as a six-lane highway (expandable to eight lanes) from the junction of the QEW and Highway 403 in Burlington to the existing terminus of Highway 407 Central at Highway 403 in Oakville, a distance of approximately 24 kilometres. The Concessionaire commenced construction in mid-September 1999 and is required, pursuant to the Concession Agreement, to complete the construction of the extension by July 31, 2001. See “— Concession and Ground Lease Agreement” and “— Environmental Matters” below.

The Company has completed pre-engineering work and a base design for Highway 407 West Extension. The Company commenced the detailed engineering design work in stages which allowed construction to commence in mid-September 1999, immediately following receipt of environmental approval under *Canadian Environmental Assessment Act* (“CEAA”). It is expected that all engineering and design work will be completed in 10 to 12 months. Certain structures, including certain interchanges and bridges, were previously built by the Province. The Province has acquired all of the land it initially committed to acquire under the Concession Agreement for the construction of Highway 407 West Extension.

Due to favorable weather conditions experienced in the fall and winter of 1999, Highway 407 West Extension is now well under construction and, in light of the current status of construction, the Company expects to meet the construction deadline of July 31, 2001.

### ***Highway 407 East Partial Extension***

Highway 407 East Partial Extension will be constructed as a four-lane highway (expandable to ten lanes) from the existing easterly terminus of Highway 407 Central at Highway 48 to Highway 7 east of Brock Road, a distance of approximately 15 kilometres. The Concessionaire received environmental approval under the CEAA for the construction of Highway 407 East Partial Extension on April 13, 2000 and immediately commenced construction. The Concessionaire is required, pursuant to the Concession Agreement, to complete the construction of the extension by December 31, 2001. See “— Concession and Ground Lease Agreement” and “— Environmental Matters” below.

The Company has already completed pre-engineering work and a base design for Highway 407 East Partial Extension. The Company commenced the detailed engineering design work in stages before receiving approval under the CEAA, which allowed construction to commence as soon as such approval was received. Detailed engineering design work on Highway 407 East Partial Extension is approximately 75% complete. The remaining design work will be finished during the construction of Highway 407 East Partial Extension in order to permit completion of the extension by December 31, 2001. The Province has acquired all of the land it initially committed to acquire under the Concession Agreement for the construction of Highway 407 East Partial

Extension. As a result of the detailed engineering design work prepared to date the Company has requested that the Province acquire additional lands. The Province is expected to acquire such lands at its cost, and this process is not expected to delay construction. These lands will form part of the property subject to the lease by the Concessionaire under the Concession Agreement.

### **Concession and Ground Lease Agreement**

*The following summary of some of the principal provisions contained in the Concession Agreement is qualified in its entirety by reference to the Concession Agreement. This overview summarizes certain complex provisions of the Concession Agreement and omits descriptions of many provisions which may be considered to be of a customary nature. For full particulars of the Concessionaire's rights and obligations under the Concession Agreement, potential investors should refer to the Concession Agreement, copies of which may be inspected at the head office of the Company during normal business hours at any time during the period of distribution. Certain defined terms contained in this section of the prospectus are more fully defined in the Concession Agreement, and potential investors should refer to the Concession Agreement for the precise definitions.*

#### ***Grant of Concession***

Together with the *407 Act*, the Concession Agreement is the key agreement which governs the Concessionaire's rights and obligations with respect to Highway 407 and regulates the relationship between the Province and the Concessionaire. It grants the Concessionaire 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 the Concessionaire in its entirety for those 99 years. It further grants the Concessionaire the exclusive concession to develop, design and build the Highway 407 Central Deferred Interchanges, 407 West Extension and 407 East Partial Extension and obliges the Concessionaire to finance, operate, manage, maintain, rehabilitate and toll the Project in accordance with the provisions of the Concession Agreement.

Pursuant to the terms of the Concession Agreement, the Province transferred to the Concessionaire all of its right, title and interest in and to the Existing Improvements, but not 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 the Concessionaire all of the Province's right, title and interest in the permits and authorizations applicable to Highway 407. To the extent that such permits and authorizations are not assignable or are not assignable without consent, the Province, at the request of the Concessionaire, shall extend or make available such permits and authorizations to the extent permitted or feasible in the circumstances.

Notwithstanding the lease of the Highway 407 Lands to the Concessionaire, the Province has retained the right: (i) for transitways (for public or private mass transit) on corridor lands (being lands and rights that are adjacent to, over or under Highway 407 Lands, and which are owned by the Province and not leased to the Concessionaire) and portions of the Highway 407 Lands; (ii) for inspection stations on corridor lands and/or the Highway 407 Lands; and (iii) to install utilities in, along, under, across and through the Highway 407 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 or the expansion or extension of Highway 407 as required or permitted under the Concession Agreement.

#### ***Revenues***

As permitted under the *407 Act*, the Concession Agreement authorizes the Concessionaire to charge and collect tolls, administration fees and interest ("Toll Revenues") in connection with Highway 407. All Toll Revenues are the property of the Concessionaire while non-toll revenues are the property of the Province and the Concessionaire has no rights to such non-toll revenues. The range and scope of the tolls which may be charged by the Concessionaire are set out in the Tolling, Congestion Relief and Expansion Agreement (the "Tolling Agreement") dated as of April 6, 1999 between the Province and the Concessionaire and which permits tolls to be raised without limit in certain circumstances. Certain of the rights and obligations of the Company

under the Concession Agreement with respect to tolls are detailed in the Tolling Agreement. See “— Tolling and Billing System — Tolling, Congestion Relief and Expansion Agreement” below.

### ***Principal Obligations of the Concessionaire***

Under the Concession Agreement, the Concessionaire is required at its expense to develop, design, build and finance the development, design and building of Highway 407 West Extension, 407 East Partial Extension and the 407 Central Deferred Interchanges and to finance, operate, manage, maintain, rehabilitate and toll the Project, all in accordance with specified standards. The Concessionaire is obligated, at its expense, to ensure that Highway 407 complies at all times 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 the Concessionaire 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, the Concessionaire must expand (i.e. by adding lanes to an existing segment) (see “— Tolling and Billing System — Tolling, Congestion Relief and Expansion Agreement”) or, upon receipt of a change order from the Province, extend (i.e. by adding linear extensions) Highway 407. The Concessionaire may also initiate a voluntary expansion or extension of Highway 407 beyond that required by and 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 which will be borne by the Province or, in the case of a voluntary expansion or extension, the allocation of the cost of expropriation will be negotiated by the Province and the Concessionaire.

The Concessionaire is responsible for financing the performance of its obligations under the Concession Agreement, and satisfying debt service or repayment obligations related to such financing. The Concessionaire is also responsible for making all payments required in connection with the operation of Highway 407 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 the Concessionaire; and (iii) the cost of insurance coverage required by the Concession Agreement.

### ***Construction Delays***

With respect to the construction of Highway 407 West Extension and 407 East Partial Extension, the Concessionaire is required to ensure that these extensions are commissioned and opened by July 31, 2001 and December 31, 2001, respectively. A delay in the commissioning and opening of Highway 407 West Extension or 407 East Partial Extension (excluding the toll system) will result in liquidated damages becoming payable to the Province by the Concessionaire equal to \$60,000 per day of delay in the opening of Highway 407 West Extension and \$23,000 per day of delay in the opening of Highway 407 East Partial Extension. The Contractor under the Design Build Agreement (as defined below) will indemnify the Concessionaire against any such liquidated damages payable by the Concessionaire arising by virtue of such delay. See “— Construction of Extensions and Deferred Interchanges”.

If a delay to the completion of the scheduled obligations of the Concessionaire under the Concession Agreement, including the construction of Highway 407 West Extension and 407 East Partial Extension, is the result of certain specified delay events the Concessionaire is excused from performance within the originally specified time requirements as set out in the Concession Agreement, provided that the Concessionaire gives notice of such events to the Province. Such delay events include *force majeure* (as defined in the Concession Agreement), and other events such as delays beyond the control of the Concessionaire in obtaining federal or provincial environmental approvals or the introduction by the Province of higher safety standards during construction, which would delay the performance of any obligation under the Concession Agreement, but do not include normal weather conditions or labour disputes involving the Concessionaire or its representatives or subcontractors.

### ***Termination***

The Province and the Concessionaire 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 which result in a delay in the performance of material obligations, damage to Highway 407 or the suspension of toll collection. In such an event, the Province shall pay to the Concessionaire an amount equal to the principal, accrued interest and breakage costs on any leasehold mortgages the Concessionaire may have granted with respect to Highway 407 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 the Concessionaire as a result of termination less any insurance and expropriation proceeds.

Certain events of default by the Concessionaire under the Concession Agreement give the Province the right to exercise certain 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. These events of default include: (i) the failure to make payment on any amounts due to the Province under any material agreements to which the Province and the Concessionaire are parties; (ii) any material representation or warranty made by the Concessionaire 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 to which the Province is a party; (v) the bankruptcy or insolvency of the Concessionaire; or (vi) a breach of the Restriction Agreement.

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 the Concessionaire if the Concessionaire does not rectify certain 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 the Concessionaire 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 the Concessionaire to comply with the provisions of the Concession Agreement relating to provincial highway safety standards. Any Leasehold Mortgagee (as defined and contemplated in the Concession Agreement) has the right to cure, within applicable periods, such defaults prior to the Province exercising any such right of termination. Also, 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 the Concessionaire (both as described above), it will be required to pay to the Concessionaire compensation equal to the reasonable costs of termination incurred by the Concessionaire 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 the Concessionaire 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 the Concessionaire 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 the Concessionaire 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, the Concessionaire may seek compensation or may

terminate the Concession Agreement and receive compensation as described above. The *407 Act* exempts Highway 407 and the Highway 407 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.

### ***Transfers/Encumbrances***

The Company's right to transfer or encumber any of its interests is restricted by a restriction on transfer agreement (the "Restriction Agreement") entered into by the Province, the Company, the Concessionaire and the Equity Participants on April 12, 1999 and the Concession Agreement. The Restriction Agreement provides, among other things, that prior to May 5, 2004: (i) subject to limited exceptions, the Company may not sell or otherwise transfer any equity or voting securities of the Concessionaire or permit the Concessionaire to issue any equity or voting securities to any parties other than the Equity Participants and their affiliates; (ii) subject to limited exceptions, the Company may not issue any equity or voting securities to any parties other than the Equity Participants and their affiliates; (iii) a majority of the voting power of the Company may not be sold or otherwise transferred to any person who is not or is not controlled by an Equity Participant; and (iv) subject to limited exceptions, the Concessionaire may not dispose of its interest in Highway 407, the Highway 407 Lands or certain of the agreements relating thereto. The Restriction Agreement permits security (which must also conform to the provisions of the Concession Agreement) to be granted by the Company and the Concessionaire to secure performance by the Company of its obligations with respect to the Bonds. See "Capital Markets Platform — Security" below.

### **Construction of Extensions and Deferred Interchanges**

The completion of the construction of Highway 407 West Extension, 407 East Partial Extension and the 407 Central Deferred Interchanges is the responsibility of the Concessionaire under the terms of the Concession Agreement. The Concessionaire has entered into a fixed price design-build agreement (the "Design Build Agreement") with a joint venture comprised of SNC-Lavalin Inc. and Ferrovial Agroman, S.A. (being the successor to Ferrovial-Agroman Internacional, S.A.) (collectively, the "Contractor"). Both Agroman and SNC-Lavalin have been active in the execution of large infrastructure projects around the world during the last 30 years. Ferrovial-Agroman, S.A., the largest construction company in Spain, and SNC-Lavalin, the largest Canadian engineering firm, have between them the resources and experience to execute the project in accordance with the Design Build Agreement.

Under the terms of the Design Build Agreement, the Contractor has agreed to perform all of the obligations of the Concessionaire under the Concession Agreement in connection with the design and construction of Highway 407 West Extension, 407 East Partial Extension (save and except for certain deferred interchanges which must be built within five to 10 years, contracts for which have not yet been awarded) and the 407 Central Deferred Interchanges (collectively, the "Improvements") excluding the supply and installation of the tolling system, all in accordance with the terms of the Concession Agreement. Subject to the indemnity discussed below, the Concessionaire remains liable to the Province for any breach of the terms of the Concession Agreement with respect to the construction.

The Design Build Agreement is a fixed price contract in the amount of \$422,358,930, which amount includes \$104,100 for the relocation of a gas line at Brant Street to be funded by the Province and is payable in installments. The Company has put in place sufficient financing to satisfy the Concessionaire's financial obligations under the Design Build Agreement and to satisfy potential claims from the Contractor thereunder. The Contractor has provided performance bonds, together with labour and material payment bonds, securing the payment by the Contractor and its consultants and subcontractors of all labour and material supplied to or in respect of the Improvements. Each such bond names the Concessionaire as beneficiary and all such bonds having an aggregate value of not less than 50% of the total contract price. The performance bonds shall remain in place for one year following the date upon which the portion of the Improvements, for which the performance bond was issued or required, is commissioned and opened. Each labour and material payment bond shall remain in place for a period of 120 days after the commissioning and opening of the Improvements for which such labour and material payment bond was issued, provided that all applicable lien periods have expired and no



notice of claim shall have been given in connection with such Improvements. The credit ratings of the performance bonds will equal or exceed the credit ratings of the Bonds.

The Contractor and the Concessionaire have provided indemnities to each other in respect of third party claims; however, in no circumstances will either party be liable to the other on account of any loss of business, revenue, profits or reputation, or for any indirect, consequential, incidental, punitive or exemplary damages, howsoever caused. Notwithstanding the foregoing, while the Contractor will not be directly liable to the Province for any liquidated damages payable by the Concessionaire arising from a delay in the completion dates of construction of Highway 407 West Extension or 407 East Partial Extension, the Contractor is liable to indemnify the Concessionaire for such payments required to be made by the Concessionaire to the Province under the Concession Agreement.

The Design Build Agreement may be terminated by either party if, among other things and subject to applicable cure periods, the other party fails to perform any of its obligations under the Design Build Agreement. In addition, the Concessionaire may suspend payment and the Contractor may suspend performance if an event of default (as that term is defined therein) occurs and is not cured within the requisite time period. The Concessionaire may also suspend work and/or terminate the Design Build Agreement without cause, upon notice to the Contractor. In the event that the Concessionaire terminates the Design Build Agreement for any reason other than for an event of default, the Concessionaire will be required to pay the Contractor the actual cost of the cancellation of contracts and agreements, together with an amount equal to 5% of the unpaid portion of the fixed contract price.

## **Tolling and Billing System**

### *Introduction*

Highway 407 was designed to provide open, unimpeded access to all users. The toll system for Highway 407 Central uses a combination of transponder and video-based systems with toll reading points at all entrances and exits. A transponder is a portable electronic device located inside a vehicle which transmits a unique short-range electronic signature which indicates the points at which the vehicle enters and exits the Highway.

The system was designed based on the following concepts:

- **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. To pay tolls, motorists are not required to stop or slow down nor are they lane restricted.
- **Open Access Highway:** All vehicles are able to travel on the Highway. Users are either identified for billing purposes through video-based licence plate identification or by a transponder.
- **Revenue Maximization:** Variable tolling will maximize revenue by allowing the operator of the Highway to charge based on usage, by time of day (i.e., day time and night time effective May 1, 2000), by vehicle type and by section of the Highway.

### *Operational Overview*

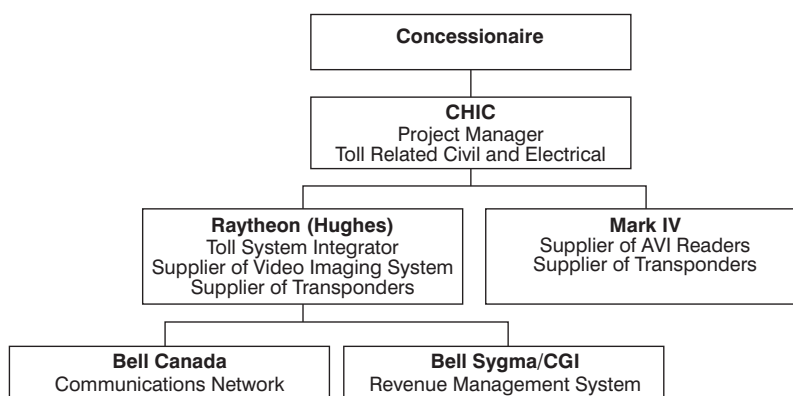
As a vehicle approaches a collection point, the toll system: (i) detects the presence of the vehicle; (ii) determines its classification; and (iii) either reads its transponder (which stores the user's registered toll account number) if it is so equipped, or activates cameras which record the vehicle's licence plate as a video image. The information collected at the tolling point, including location, time of entry/exit, vehicle classification and either transponder information or a licence plate image is transmitted via a fibre optic network to the 407 ETR operations centre where it is further processed. Entry and exit information is matched to generate a complete trip and a toll is calculated based on the distance travelled in each tolling section and vehicle type. In the case of a first-time non-transponder user, name and address information for Ontario residents is obtained from the MTO licence plate database in order to create an account. The Company has negotiated agreements for the provision of similar information for residents of Quebec, Newfoundland, the Yukon Territory and certain states in the United States of America. See "— Toll Enforcement and Collection" below. Unlike other toll roads where payment is due at the time of passage, tolls for the use of Highway 407 are accumulated for individual accounts and invoices are then prepared and sent on a monthly basis.

The Concessionaire’s operations are currently governed by long term operational agreements (described below) which generally may be terminated prior to the expiry of their term upon the payment of agreed amounts. The contracts are at normal commercial rates, determined on a cost reimbursable, management fee, cost plus or fixed price basis, as negotiated with the Concessionaire. All costs derived from these contracts have been provided for in the forecast consolidated statements of operations prepared by the Company. See “Financial Statements — Forecast Consolidated Statements of Operations”.

***Toll System Development and Installation***

The toll collection system for Highway 407 Central was provided by a group of companies led by Hughes Aircraft Canada Limited (“Hughes”) and including Bell Canada, Bell Sygma Inc. (“Bell Sygma”) and Mark IV Industries Ltd. (“Mark IV”) (collectively, the “Developers”). Hughes has subsequently been acquired by Raytheon Systems Canada Ltd. (“Raytheon”) and CGI Information Systems and Management Consultants Inc. (“CGI”) has assumed portions of Bell Sygma’s obligations. The following diagram outlines the relationships and responsibilities of the toll system suppliers at the time the supply was delivered for Highway 407 Central:

**Relationships with Toll System Suppliers**



The Concessionaire is currently the owner of the delivered system. It does not, however, own the intellectual property or designs of the system elements as they remain the property of those Developers that supplied the applicable intellectual property. The Concessionaire has been granted from the respective Developers non-exclusive, non-transferable licences to use the software, delivered and/or developed, necessary for the operation of the toll system. In addition, the intellectual property, including the designs, specifications, source code and documentation for the software, have been deposited with an escrow agent. The licenses to use the software will terminate upon a breach by the Concessionaire of the applicable governing agreement. The events of default which, if any one occurred, will allow the applicable Developer to terminate its license, are similar in each of the licenses, and include: (i) failure to pay damages awarded against the Concessionaire; (ii) termination of the governing supply agreement due to a default by the Concessionaire or the applicable Developer; (iii) failure of a claim for an injunction by the applicable Developer due to the Concessionaire having immunity from such relief; (iv) failure by the Concessionaire to observe its obligations under the applicable license and any other material agreement which may affect the applicable Developer’s proprietary and confidential information; and (v) insolvency, bankruptcy, dissolution, liquidation or wind-up of the Concessionaire. The licenses do not require any further payments by the Concessionaire to use the intellectual property; however, the licenses apply only to Highway 407 Central, 407 East Partial Extension and 407 West Extension.

The Concessionaire and Raytheon entered into an agreement (the “Extension Toll Supply Agreement”) dated October 4, 1999, which sets out the terms and conditions for the supply of the electronic tolling system for Highway 407 West Extension, 407 East Partial Extension and 407 Central Deferred Interchanges and for an upgrade of the toll system for Highway 407 Central to increase capacity and to accommodate the extensions. The agreement provides for, among other things: (i) a fixed price; (ii) guaranteed levels of system performance;

(iii) delivery dates; (iv) statement of work and specifications; and (v) the obligation to extend the intellectual property licences to Highway 407 West Extension, 407 East Partial Extension, and the 407 Central Deferred Interchanges and enhancements. The Concessionaire has purchased the fibre optic network for the tolling system extensions directly from Bell Advanced Communications (1998) Inc., based on specifications provided by Raytheon, and Raytheon will be responsible for the fibre optic network operation as part of the toll systems after acceptance.

The overall cost for the Extension Toll Supply Agreement will exceed the \$85 million originally anticipated by approximately 15% as a result of the requirement for (i) additional toll equipment for the 407 Central Deferred Interchanges, which were not included in the March 4, 1999 Extension Toll Supply Letter Agreement, (ii) additional enhancements required by the Concessionaire, and (iii) the acquisition of the assets of ATMC (defined below) by the Concessionaire. See “— Toll System Operating, Maintenance, Management, Marketing and Rehabilitation Agreement.”

The Developers have deposited with an escrow agent certain source codes and other intellectual property designed to permit the Concessionaire to maintain the originally licensed intellectual property in the event that an event of default by the successor to a Developer in performance of a maintenance subcontract results in an event of default by the Concessionaire (as successor to ATMC (as defined below)) under the ATMC OMM Agreement (defined below). The escrow agreements underlying the Concessionaire’s licences to use the intellectual property relating to the toll system will terminate upon the termination of the agreements with Mark IV, CGI and/or Raytheon, as the case may be, relating to their Highway 407 maintenance obligations provided such termination does not arise from a default by Mark IV, CGI and/or Raytheon, as the case may be. See “Risk Factors”. In certain circumstances, including a cessation of support for the intellectual property without commercially reasonable alternatives, the intellectual property will be released from escrow to the Concessionaire.

The Concessionaire, Raytheon Company, Raytheon and Data Securities International Inc. have entered into an Amendment to Escrow and License Agreement dated October 4, 1999, which provides for the deposit with the escrow agent of source codes and other intellectual property for the toll system enhancements to be provided pursuant to the Extension Toll Supply Agreement.

Hughes and Mark IV provided a limited warranty for their respective portions of the toll system for one year after system acceptance, which warranty period expired in September 1999. The Extension Toll Supply Agreement provides for a one year warranty after system acceptance for the extensions and enhancements.

The initial supply of transponders was delivered by Hughes and Mark IV. The Concessionaire has ordered an additional 50,000 transponders from Mark IV. Mark IV provides a limited warranty for each transponder for two years after delivery.

Under the terms of the Share Purchase Agreement, the Province will indemnify the Company for losses, in the aggregate, above \$5 million but not exceeding \$50 million in total, incurred by the Company during the nine month period following January 1, 2000 as a result of the failure of the existing toll system to be year 2000 compliant.

#### ***Toll System Operating, Maintenance, Management, Marketing and Rehabilitation Agreement***

OTCC, Advanced Toll Management Corporation (a joint venture of Raytheon, Bell Canada and associated entities) (“ATMC”), Canadian Highways Management Corporation (which changed its name to 1054381 Ontario Inc. and following the purchase by the Concessionaire, was amalgamated with the Concessionaire on January 1, 2000) (“CHMC”), Bell Sygma and Raytheon entered into a Toll System Operating, Maintenance, Management, Marketing and Rehabilitation Agreement (the “ATMC OMM Agreement”) on April 1, 1997, which sets out the terms and conditions upon which ATMC was engaged to operate, maintain, manage and rehabilitate specified portions of the toll system for Highway 407 Central.

Effective January 1, 2000, the Concessionaire acquired the assets of ATMC for a price of \$1.5 million pursuant to an asset purchase agreement (the “ATMC Asset Purchase Agreement”), and succeeded to the obligations of ATMC under the ATMC OMM Agreement.

Most employees of ATMC have accepted employment with the Concessionaire. These employees will continue to perform the billing, customer service, transponder distribution and customer account management services previously provided by ATMC under the ATMC OMM Agreement but such services will now be performed directly by the Concessionaire under the supervision of the Concessionaire's management team.

Contemporaneously with the acquisition of the assets of ATMC, the Concessionaire and Raytheon entered into an interim maintenance agreement effective January 1, 2000 pursuant to which Raytheon has assumed responsibility for the management of the Mark IV Maintenance Agreement and Raytheon and CGI maintenance subcontracts, described below, concerning the provision of maintenance service in respect of the toll system. The interim maintenance agreement will be in effect until such time as a definitive maintenance agreement is consummated.

#### ***Mark IV Electronic Toll Equipment Maintenance Agreement***

The Mark IV Electronic Toll Equipment Maintenance Agreement (the "Mark IV Maintenance Agreement") was made as of April 1, 1997 among OTCC, Mark IV and CHMC and sets out the terms and conditions upon which Mark IV has been engaged and retained by CHMC to maintain portions of the toll system supplied by Mark IV (i.e., transponders, roadside antennas and readers) for Highway 407 Central. The agreement terminates on March 31, 2002, subject to renewal or earlier termination in accordance with the provisions of the agreement. Mark IV offers limited indemnities and warranties in respect of its maintenance work.

#### ***Raytheon and CGI Maintenance Subcontracts***

ATMC has entered into maintenance subcontracts with each of Raytheon and CGI whereby each of Raytheon and CGI has been retained by ATMC to perform certain subcontracted work for which ATMC is responsible under the terms of the ATMC OMM Agreement. Specifically, Raytheon is to maintain those portions of the tolling system supplied by it while CGI is to maintain those portions of the tolling system supplied by Bell Sygma. The contracts took effect on April 1, 1997 and have been assigned to the Concessionaire under the ATMC Asset Purchase Agreement. Neither CGI nor Raytheon has granted any warranty in respect of its toll system maintenance work, but has provided limited indemnities for negligence and breach of the maintenance contracts. This liability is capped. The escrow agreements underlying the Concessionaire's licences to use the intellectual property relating to the toll system will terminate upon the termination of the agreements with CGI and/or Raytheon, as the case may be, relating to their Highway 407 maintenance obligations. See "— Toll System Development and Installation" above.

### ***Toll Structure***

The toll structure includes a flat monthly account fee (currently set at \$2.00 per month for non-transponder equipped vehicles as well as \$2.00 per month for transponder accounts for the first transponder and \$1.00 for each additional transponder) plus a charge based on the distance travelled. The following table sets out the toll schedule effective May 1, 2000:

<b>Vehicle Class</b>	<b>Day Rate</b> Weekdays, Saturdays, Sundays and Holidays 6:00 A.M. – 11:00 P.M.	<b>Night Rate</b> Weekdays, Saturdays, Sundays and Holidays 11:00 P.M. – 6:00 A.M.
<b>Light</b> (5,000 kg and under) Passenger cars, vans, limousines, station wagons, pickup trucks, sport utility vehicles, light duty trucks	\$0.105 per kilometre \$1.50 extra per trip without transponder	\$0.05 per kilometre \$1.50 extra per trip without transponder
<b>Heavy Single Unit</b> (over 5,000 kg) Single unit trucks, tractors, school buses, transit buses, inter-city buses	\$0.21 per kilometre	\$0.10 per kilometre
<b>Heavy Multi-Units</b> Trucks and tractors with one or two trailers	\$0.315 per kilometre	\$0.15 per kilometre

Vehicles over 5,000 kg are legally required to be equipped with a transponder and there is an additional \$25 toll for usage of the Highway by these vehicles without a transponder. Also, light vehicle video users are charged a \$1.50 per trip premium in recognition of the added costs involved with processing video transactions and billing infrequent users. Under current law, tolls are not subject to Canadian federal goods and services tax, although administration fees are subject to such tax. The Ontario Ministry of Finance Retail Sales Tax Branch advised the Concessionaire on April 12, 2000 that Ontario Retail Sales Tax should be charged on the lease charge for the lease of the transponder device. It is expected that the transponder account fee of \$2.00 per month will be reduced to \$1.00 per month before June 30, 2000. Concurrent with the reduction of the monthly transponder account fee, the Company will introduce a fee of \$1.00 per month for each transponder leased from the Company. Ontario retail sales tax will be charged on the monthly transponder lease fee. The Company currently owes no Ontario retail sales tax under its existing transponder account arrangements.

### ***Toll Enforcement and Collection***

The *407 Act* authorizes electronic tolling on Highway 407. The *Highway Traffic Act* (Ontario) 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 kg registered gross vehicle weight on Highway 407 without a 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. The *407 Act* provides that if tolls remain unpaid for longer than 90 days after notice of non-payment is given, the Concessionaire may notify the Ontario Registrar of Motor Vehicles of non-payment and the Registrar will deny the renewal of Ontario

licence plates for the vehicle in question. Under Ontario law, licence plate holders must renew the plates either every year or every two years. On February 24, 2000, the Concessionaire voluntarily agreed to temporarily suspend its enforcement right of licence plate denials under the *407 Act* until such time as certain customer service initiatives have been implemented and additional internal controls have been established as agreed to with the MTO. These initiatives and controls are expected to be in place before the end of the second quarter of 2000. In the meantime, the payment of outstanding tolls continues to be enforced by third party collection agencies.

Prior to the sale of all of the shares of the Concessionaire by the Province to the Company, the Province was party to arrangements with all Canadian jurisdictions other than Manitoba and the Northwest Territories, and with the states of Ohio, New York, Pennsylvania and Michigan permitting the Province, on behalf of the Concessionaire, to request information needed to bill out-of-province users based on their licence plate information. These agreements were personal to the Province and were not transferred as part of the sale of the Concessionaire. The Concessionaire has been negotiating for suitable replacement arrangements. The provinces of Nova Scotia, New Brunswick, Prince Edward Island, Manitoba, Saskatchewan, Alberta, British Columbia and the Northwest Territories have declined to participate in such arrangements with the Concessionaire. The provinces of Québec and Newfoundland and the Yukon Territory have agreed to provide this information to the Concessionaire. In addition, the Concessionaire has agreed to enter into an agreement with a private company in the United States of America to obtain from such company, information needed to bill U.S. users. In the past, the consenting jurisdictions accounted for more than 70% of the out-of-province traffic and less than 10% of all unbillable transactions (see “— Unbillable Transactions” below) are attributed to out-of-province users.

#### ***Unbillable Transactions***

Toll revenues are not collected for some of the trips made on Highway 407. In addition to travel by official vehicles exempt from tolls, such as police cars and fire fighting equipment, tolls are not collected for transactions that are unbillable. These unbillable trips generally constitute approximately 7% of total trips. These trips represent potential lost revenue and may represent a cost to the system to the extent that time is spent trying to identify and bill these users. It is important to note that loss of potential revenue by a toll highway is not unique to Highway 407, but is a typical downside of the industry.

Unbillable transactions include: (i) those trips that are identified at both entry and exit points but relate to a vehicle registered in a jurisdiction with which there is no agreement to provide vehicle registration information and therefore no way to identify the vehicle ownership; (ii) those trips which are classified as “half trips”, for which only an entry or an exit point has been identified; and (iii) unreadable trips. Unreadable trips refer to those video-based transactions for which a licence plate image was not captured, either due to weather conditions or because the licence plate was either missing, obstructed, very dirty or damaged, or in a location that the cameras cannot photograph. The Concessionaire is currently billing “half trips” in certain circumstances.

The Company intends to attempt to reduce the number of unbillable trips through technology improvements, more reliable transponder transactions and increased enforcement efforts.

#### ***Tolling, Congestion Relief and Expansion Agreement***

*The following summary of some of the principal provisions contained in the Tolling Agreement is qualified in its entirety by reference to the Tolling Agreement. This overview summarizes certain complex provisions of the Tolling Agreement and omits descriptions of many provisions which may be considered to be of a customary nature. For full particulars of the Concessionaire’s rights and obligations under the Tolling Agreement, potential investors should refer to the Tolling Agreement, copies of which may be inspected at the head office of the Company during normal business hours at any time during the period of distribution. Certain defined terms contained in this section of the prospectus are more fully defined in the Tolling Agreement and potential investors should refer to the applicable agreement for the precise definitions.*

The Tolling Agreement between the Concessionaire and the Province will remain in effect throughout the term of the Concession Agreement and will affect the range and scope of the tolls which may be charged by the Concessionaire. The Tolling Agreement’s primary purpose is to regulate toll levels in relation to traffic flow,

allowing for toll increases provided certain traffic thresholds are met. As well, the agreement sets forth the requirement for lane expansions once certain traffic levels are exceeded.

The Province has provided in the Tolling Agreement for a maximum toll for calendar year 1999 (the “Toll Threshold”) equal to \$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, to a total increase (before inflation) of not more than 30%. Until such time as Highway 407 West Extension and 407 East Partial Extension are both commissioned and opened, toll increases will be limited to the Toll Threshold. Once the two extensions have been commissioned and opened, a base traffic flow (the “Traffic Threshold”) will be established based upon peak-hour traffic over the year. This Traffic Threshold will then grow at a rate of between 1% and 3% per year, depending upon the Traffic Threshold level in the prior year, to a maximum of 1,500 vehicles per lane per hour. Provided observed peak hour traffic flows during the year are greater than the Traffic Threshold, tolls may be raised without limit; however, if traffic levels are below the Traffic Threshold, toll rates will be regulated through the imposition of penalties. As such, if actual toll rates are above the Toll Threshold, the Tolling Agreement provides for the payment of penalties to the Province equal to two times the excess of toll revenue charges over the Toll Threshold.

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

- (a) average administration fees payable by transponder-equipped vehicles exceed \$60 per annum (in 1999 dollars);
- (b) video surcharges exceed a threshold equal to \$1.00 per trip, escalating by \$0.50 per annum to 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) Night rate toll charges are set at higher levels than day rate toll charges.

The Tolling Agreement also provides that the Concessionaire is required to expand certain segments of Highway 407 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. The Province cannot require the Concessionaire to expand more than one segment of the Highway in any given year, or to expand by more than one lane in either direction.

## **Facility Operating Agreements**

### ***Facility Operating, Maintenance, Management, Marketing and Rehabilitation Agreement***

The Facility Operating, Maintenance, Management, Marketing and Rehabilitation Agreement (the “Facility OMM Agreement”) dated as of April 1, 1997 among the Concessionaire, CHIC and CHMC sets out the respective rights and obligations of the Concessionaire, CHIC and CHMC with respect to CHMC’s operation, maintenance, management, marketing and rehabilitation of Highway 407 Central. Subject to earlier termination, the Facility OMM Agreement will terminate on January 1, 2020.

Pursuant to the Facility OMM Agreement, CHMC is obliged, among other things, to: (i) maintain, operate, manage and rehabilitate Highway 407 Central; (ii) subcontract and oversee the operation, management, maintenance and rehabilitation of the Highway 407 Central toll system; (iii) obtain and maintain all necessary government and other authorizations; (iv) ensure compliance with applicable environmental laws; (v) arrange the provision of emergency services; (vi) co-ordinate utility, road and railway relocation; and (vii) negotiate required agreements with governmental authorities. CHMC is to ensure that Highway 407 Central is operated 24 hours a day, every day, except only for closures or stoppages expressly permitted pursuant to the operating plan or arising as a result of *force majeure*.

The Concessionaire purchased all the shares of CHMC from Canadian Highways Investment Corporation effective November 1, 1999. CHMC’s obligations under the Facility OMM Agreement will now be carried out directly by the Concessionaire.

### ***Police Services Agreement***

In connection with the Concession Agreement, the Province and the Concessionaire entered into a Police Services Agreement, which provides for the provision of police services from the Ontario Provincial Police (the "OPP") on Highway 407, in accordance with the policing requirements determined by the OPP. Under the five-year term of the Police Services Agreement, the OPP shall be 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. The Concessionaire is responsible for the payment to the Province for the police services provided under the agreement on a cost recovery basis, currently estimated for the 2000 calendar year to be approximately \$2.1 million. An annual budget for services shall be provided in advance by the Province to the Company. In the event that any expansion, extension or alteration of Highway 407 necessitates a change in police services, such determination would be solely at the discretion of the OPP, and a corresponding change will be made in costs to be paid by the Company. All vehicles and equipment reasonably necessary and appropriate for the use of the OPP shall be provided by the Province at the Province's cost. The agreement may be terminated by the Province or the Concessionaire 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 shall continue to be responsible to provide police services, and the Concessionaire shall continue to be obligated to pay for the cost of providing those services, all in accordance with the *407 Act*.

### ***Authorized Requester Electronic Data Services Agreement***

In connection with the Concession Agreement, the Province and the Concessionaire entered into an Authorized Requester Electronic Data Transfer Agreement (the "Requester Agreement"). The Province, through the MTO, maintains a computer data base containing information pertaining to driver and vehicle records (the "Information Products"), which information is remotely accessible by the Concessionaire pursuant to the terms of the Requester Agreement. The information obtained by the Concessionaire shall remain confidential and shall only be used: (i) in connection with the collection and enforcement of tolls, fees and other charges owing with respect to Highway 407; (ii) to assist in traffic planning and revenue management with respect to Highway 407; (iii) to assist in communicating with users of Highway 407; and (iv) to assist the government of a province of Canada or a state of the United States of America with whom the Concessionaire has an agreement relating to the collection and enforcement of tolls in that jurisdiction.

The Requester Agreement provides the Concessionaire with a non-exclusive, non-assignable and non-transferable licence to access and use the Information Products, for a base fee of \$5 million per annum, which will be adjusted from time to time in accordance with a formula based upon the Consumer Price Index. The Province, on the second anniversary of the commissioning and opening of the Highway 407 West Extension and 407 East Partial Extension, and every five years thereafter, may elect to not be paid the base fee and to proceed on a cost recovery basis.

### ***MTO Enforcement Services Memorandum***

Pursuant to the Concession Agreement, both the Province and the Concessionaire have obligations with respect to enforcing vehicle licensing and vehicle safety standards on Highway 407 as if it were a provincially-run highway. Under the *407 Act*, the Province is permitted to charge the Concessionaire for the reasonable costs of providing enforcement services on a full cost recovery basis. The Province has agreed to provide enforcement officers appointed to enforce vehicle licensing and safety standards who will provide routine enforcement duties on Highway 407, and the Concessionaire will provide the Province with all information necessary to complete these duties. The Concessionaire 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 shall be the same as those for comparable controlled access highways, unless the Concessionaire and the Province agree to a higher level of enforcement.



## **Environmental Matters**

The Concessionaire is obligated pursuant to the Concession Agreement to ensure that Highway 407 is built and operated in a manner that meets provincial and federal standards and is in compliance with environmental laws.

The Concessionaire has developed environmental management plans covering the development, construction and operation of the Highway. Appropriate levels of environmental protection, mitigation and compensation have been developed for the 407 West Extension and the 407 East Partial Extension. Appropriate levels of governmental and public input into the design and construction process will be ensured through consultation with applicable stakeholders. The status of the provincial environmental assessment for the initial construction of Highway 407 is as follows:

- Highway 407 Central and 407 West Extension were conditionally exempted from the formal review and approval requirements of the *Environmental Assessment Act* (Ontario). With respect to Highway 407 West Extension, the MTO has partially satisfied the conditions of the exemption declaration and the Concessionaire has substantially completed the necessary documentation to complete the prescribed obligations. The *407 Act* also permits the provincial Minister of the Environment to reject the environmental documentation if it is found to be inadequate.
- Highway 407 East Partial Extension received formal conditional approval under the *Environmental Assessment Act* (Ontario) in June 1998. The environmental assessment approval imposes design, construction and consultation requirements. The Concessionaire has substantially completed the implementation of plans to comply with the conditions of that approval. If stakeholders become concerned with significant changes to either the building of Highway 407 East Partial Extension or to any commitments made by the Concessionaire with respect to Highway 407 East Partial Extension or with any effects flowing from the building process, they may address these concerns through the design and construction consultation process. If this process does not satisfactorily address such concerns, the conditions of the environmental assessment approval include provisions for entering into a formal process to obtain approval under the *Environmental Assessment Act* for the proposed change. The *407 Act* imposes some standards on the associated environmental assessment work.

At the federal level, timely approvals are required under the *Fisheries Act* and *Navigable Waters Protection Act* and may be required under the *Railway Safety Act* and *Canada Transportation Act*. Highway 407 Central has approval for the work completed to date. The Concessionaire received CEAA approval for Highway 407 West Extension on September 14, 1999 and for Highway 407 East Partial Extension on April 13, 2000.

Archaeological studies have been carried out on Highway 407 West Extension, 407 Central and 407 East Partial Extension.

Limited contaminant assessments have been undertaken to date, however the technically preferred alignments for all sections of the Highway pass predominantly through undeveloped/agricultural lands. Therefore, the probability for encountering highly contaminated sites is low. There is always the possibility of finding buried wastes during construction which would require clean-up. The Concessionaire will be responsible for the clean-up cost of all contaminated sites.

## **Properties**

The Highway 407 operations centre, located at 6300 Steeles Avenue West near the junction of Highway 407 and Highway 427, is the focal point of all road-related activity. The hub of the operations centre is equipped with a state-of-the-art control room. This control room is used to monitor the performance of the toll system, roadside hardware, and computer systems. The operations centre provides customer service, accounting, reporting and audit functions for the toll system. On January 7, 2000, the Concessionaire moved its head office to the operations centre to facilitate the management and integration of CHMC's, ATMC's and the Concessionaire's resources.

There are two patrol yards from where the operator co-ordinates management activities for the Highway and from where winter maintenance operations are dispatched. One patrol yard is located adjacent to the operations centre and the other is located at the southwest corner of Derry Road and Highway 407.

### **Risk Management and Insurance**

The Concessionaire is obligated under the Concession Agreement 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 and that revenues be insured by way of a business interruption coverage. In compliance with this obligation, the Concessionaire has secured combined coverage in the amount of \$250 million.

The Concessionaire is also obligated to insure its liability to third parties in general and to motorists. In compliance with this obligation, various limits of comprehensive general liability insurance in excess of \$100 million were purchased.

The Concessionaire also 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 the Concessionaire from any adverse losses.

## CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Company as at March 31, 2000 and April 30, 2000, and as at April 30, 2000 after giving effect to this offering, the refinancing of the Junior Bridge Credit Agreement with the Junior Term Credit Facility and the refinancing of a portion of the Sponsors Subordinated Credit Facility with the Subordinated Term Credit Facility. This table should be read in conjunction with the financial statements, including the notes thereto, appearing elsewhere in this prospectus:

<u>Designation</u>	<u>Principal amount authorized</u>	<u>Amount outstanding at March 31, 2000<sup>(1)</sup></u>	<u>Amount outstanding at April 30, 2000</u>	<u>Amount outstanding as at April 30, 2000 after Giving Effect to the above-noted Transactions and the Application of the Proceeds Therefrom</u>
<b>Liabilities</b>				
Senior Bridge Credit Facility . . . . .	\$2,300,000,000	\$ 0	\$ 0	\$ 0
Junior Bridge Credit Facility . . . . .	\$ 150,000,000	\$148,820,000 <sup>(2)</sup>	\$148,776,000 <sup>(2)</sup>	\$ 0
Junior Term Credit Facility <sup>(3)</sup> . . . . .	\$ 149,500,000	\$ 0	\$ 0	\$148,776,000
Sponsors Subordinated Credit Facility . . . . .	\$ 775,000,000 <sup>(4)</sup>	\$221,344,000 <sup>(4)</sup>	\$234,511,000 <sup>(5)</sup>	\$ 0 <sup>(5)(6)</sup>
Subordinated Term Credit Facility <sup>(7)</sup> . . . . .	\$ 425,000,000	\$ 0	\$ 0	\$ 0 <sup>(5)</sup>
Other Debt . . . . .	\$ 2,892,000 <sup>(8)</sup>	\$ 2,850,000 <sup>(8)</sup>	\$ 2,786,000 <sup>(8)</sup>	\$ 2,786,000 <sup>(8)</sup>
6.05% Senior Bonds Series 99-A1 . . . . .	\$ 400,000,000	\$399,392,000	\$399,398,000	\$399,398,000
6.47% Senior Bonds Series 99-A2 . . . . .	\$ 400,000,000	\$398,409,000	\$398,414,000	\$398,414,000
6.75% Senior Bonds Series 99-A3 . . . . .	\$ 300,000,000	\$225,127,000	\$226,376,000	\$226,376,000
5.328% Senior Bonds Series 99-A4 . . . . .	\$ 162,500,000	\$132,231,000	\$133,101,000	\$133,101,000
5.328% Senior Bonds Series 99-A5 . . . . .	\$ 162,500,000	\$132,054,000	\$132,896,000	\$132,896,000
5.328% Senior Bonds Series 99-A6 . . . . .	\$ 162,500,000	\$131,896,000	\$132,711,000	\$132,711,000
5.328% Senior Bonds Series 99-A7 . . . . .	\$ 162,500,000	\$131,752,000	\$132,546,000	\$132,546,000
6.55% Senior Bonds Series 99-A8 . . . . .	\$ 400,000,000	\$399,126,000	\$399,136,000	\$399,136,000
5.29% Senior Bonds Series 00-A2 . . . . .	\$ 325,000,000	\$255,318,000	\$256,768,000	\$256,768,000
6.90% Senior Bonds Series 00-A3 . . . . .	\$ 430,000,000 <sup>(9)</sup>	\$436,048,000 <sup>(9)</sup>	\$435,977,000 <sup>(9)</sup>	\$435,977,000 <sup>(9)</sup>
9.00% Subordinated Bonds Series 00-C1 . . . . .	\$ 300,000,000 <sup>(6)</sup>	\$ 0 <sup>(6)</sup>	\$ 0 <sup>(6)</sup>	\$300,651,000 <sup>(6)</sup>
Liability component of Subordinated Convertible Debenture	\$ 125,000,000 <sup>(4)(10)</sup>	\$ 95,381,000 <sup>(4)(10)</sup>	\$ 96,292,000 <sup>(4)(10)</sup>	\$ 96,292,000 <sup>(4)(10)</sup>
<b>Shareholders' Equity</b>				
Equity component of Subordinated Convertible Debenture .	\$ 39,243,000 <sup>(4)(10)</sup>	\$ 39,243,000 <sup>(4)(10)</sup>	\$ 39,243,000 <sup>(4)(10)</sup>	\$ 39,243,000 <sup>(4)(10)</sup>
Common Shares . . . . .	unlimited	\$650,000,003 <sup>(11)</sup>	\$650,000,003 <sup>(11)</sup>	\$650,000,003 <sup>(11)</sup>
Deficit . . . . .	—	\$ (71,100,000)	\$ (71,100,000) <sup>(12)</sup>	\$ (71,100,000) <sup>(12)</sup>

- (1) The amounts set forth in this column are derived from the balance sheet of the Company as at March 31, 2000 appearing elsewhere in this prospectus.
- (2) Net of prepaid interest as at March 31, 2000 and April 30, 2000.
- (3) The Company and a Canadian chartered bank have agreed in principle regarding the establishment of a non-revolving term junior credit facility which will be used to refinance amounts outstanding under the Junior Bridge Credit Facility prior to or on the completion of this offering.
- (4) Both the Sponsors Subordinated Credit Facility and the Subordinated Convertible Debenture are not currently payable obligations and contain provisions for the conversion of amounts outstanding into common shares of the Company. See "Existing Indebtedness" and "Principal Holders of Securities". These amounts represent principal and accrued interest.
- (5) A further \$608,571,000 is available in the form of letters of credit under the Sponsors Subordinated Credit Facility as at April 30, 2000; however this amount will be refinanced in full under the Subordinated Term Credit Facility, with the exception of approximately \$233,866,000 available in the form of letters of credit, which the Company anticipates will be distributed to the Sponsors upon satisfaction of the restrictions on distributions from the general fund under each of the supplemental indentures issued pursuant to the Indenture.
- (6) The net proceeds from this offering after deducting the Underwriters' fee and estimated expenses of this offering will be used to repay a portion of the outstanding indebtedness under the Sponsors Subordinated Credit Facility.
- (7) The Company and a Canadian chartered bank have agreed in principle regarding the establishment of a non-revolving term subordinated credit facility which will be used to refinance amounts outstanding under the Sponsors Subordinated Credit Facility on or about the completion of this offering.

- (8) Other debt represents amounts owing to a municipality for the acquisition of lands for the purpose of the toll highway. The repayment of this obligation is related to toll revenues of the relevant interchange. Interest at the prime rate plus 3% is due on amounts outstanding once the obligation to pay in accordance with the revenue formula arises.
- (9) All or any portion of the principal amount represented by the Series 00-A3 Bonds may be exchanged, at the option of the holder, for the same principal amount of Series 00-A4 Bonds by the holder giving notice to the Company prior to 5:00 p.m. (Toronto time) on February 22, 2001. The Series 00-A3 Bonds and the Series 00-A4 Bonds are identical in all respects except for their respective maturity dates and redemption features.
- (10) The Company has issued an unsecured subordinate convertible debenture for \$125,000,000. As required by Canadian generally accepted accounting principles, the Company has separated the liability and equity components. Using an effective interest rate of 12%, the fair value of the liability was determined to be \$85,757,000 as at May 5, 1999. Interest at a rate of 12% is accrued on the liability component over its term to a maximum \$125,000,000. The amounts outstanding as at March 31, 2000 and April 30, 2000, including accrued interest, are \$95,381,000 and \$96,292,000, respectively.
- (11) The number of common shares outstanding does not take into account the conversion options outlined in note 4 above.
- (12) As at March 31, 2000.

## **INTEREST AND ASSET COVERAGES**

After giving effect to the sale of the Bonds and the application of the use of proceeds therefrom, the consolidated net income of the Company on a pro forma basis for the year ended December 31, 1999 and the 12-month period ended March 31, 2000, before interest on consolidated long-term debt and income taxes, would have been insufficient to cover the interest expense of \$176.1 million and \$223.8 million, respectively, on consolidated long-term debt of the Company. The consolidated net income of the Company for the year ended December 31, 1999 and the 12-month period ended March 31, 2000, before interest on consolidated long-term debt and income taxes was \$51.0 million and \$65.6 million, respectively, which was insufficient to cover the interest expenses for the respective periods of \$176.2 million and \$237.7 million on consolidated long-term debt of the Company.

The consolidated net tangible assets of the Company as at December 31, 1999 and March 31, 2000, before deducting consolidated long-term debt would have been 0.71 times and 0.70 times, respectively, the principal amount of such long-term debt after giving effect to this offering and the application of the net proceeds therefrom.

## **CAPITAL MARKETS PLATFORM**

The Company's acquisition of the Concessionaire in May 1999 was, and the operation, maintenance and development of Highway 407 will be, partially financed with debt. In conjunction with its financial advisors, the Company has developed a financing plan referred to from time to time in this prospectus as the "Capital Markets Platform". This 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, the Concessionaire and The Trust Company of Bank of Montreal, 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 the Concessionaire for the benefit of all of their creditors under the Capital Markets Platform. Bonds are to be 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"), to be held by the holder as security for the indebtedness specified in the pledge. It is expected that publicly issued and privately placed debt securities will be in the form of Obligation Bonds, whereas all other indebtedness of the Company under the Capital Markets Platform, including the indebtedness described below under "Existing Indebtedness", commercial paper, medium-term notes, and Swap Agreements, will be secured by Pledged Bonds. 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 to be set forth in the Supplemental Indenture authorizing that Series.

### **Indenture**

*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 which may be considered to be of a customary nature. For full particulars of the Company and the Concessionaire's obligations and the rights of the Bondholders under the Indenture potential investors should refer to the Indenture, copies of which may be inspected at the head office of the Company during normal business hours at any time during the period of distribution. Certain defined terms contained in this section of the prospectus are more fully defined in the Indenture and potential investors should refer to the Indenture for the precise definitions.*

### **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"). The Bonds may be issued as Obligation Bonds, which evidence direct borrowings by the Company, or Pledged Bonds 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. The Indenture authorizes the issuance of three Classes of Bonds: (i) Senior Bonds, (ii) Junior Bonds, and (iii) Subordinated Bonds, and the issuance of different Series of Bonds within each Class. 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 Series of Bonds shall be created by the execution and delivery of a Supplemental Indenture. 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. The principal terms for each Series of Bonds may include the following terms affecting such Series:

- (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, the Concessionaire 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.

### **Issuance of Refunding Bonds**

On May 5, 1999, the Company issued four Series of Pledged Bonds which secured the following indebtedness of the Company: (i) Senior Debt under the Senior Bridge Credit Facility in an aggregate principal amount of \$2.3 billion, (ii) Junior Debt under the Junior Bridge Credit Facility (described below in greater detail under “Existing Indebtedness”) in an aggregate principal amount of \$150 million, (iii) Subordinated Debt under the Sponsors Subordinated Credit Facility (described below in greater detail under “Existing Indebtedness”) in an aggregate principal amount of \$775 million, and (iv) indebtedness to counterparties under Swap Agreements entered into in connection with hedging floating interest rate risk under the Senior Bridge Credit Facility and the Junior Bridge Credit Facility. These credit facilities were primarily used by the Company to fund the acquisition of the Concessionaire, to establish certain Series Reserve Accounts and to support an interest rate hedging program in connection with indebtedness under the Senior Bridge Credit Facility and the Junior Bridge Credit Facility. As of March 15, 2000, the Company has repaid in full all amounts borrowed and owing under the Senior Bridge Credit Facility. The Bonds offered hereby are Obligation Bonds, representing direct obligations of the Company, and the net proceeds from this offering will be used primarily to repay a portion of the indebtedness under the Sponsors Subordinated Credit Facility which is secured by one of the Series of such Pledged Bonds. In addition, on or before the completion of this offering, the Company will refinance the Junior Bridge Credit Facility with the Junior Term Credit Facility and, it is expected that a portion of the Sponsors Subordinated Credit Facility will be refinanced with the Subordinated Term Credit Facility.

Refunding Bonds issued for the purpose of refinancing or repaying indebtedness may be issued by the Company without the Company being required to satisfy the conditions imposed by the Additional Indebtedness covenant (described below under “— Additional Indebtedness Covenant”).

### **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 the Concessionaire 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 issuance 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.

In addition, in order to issue any Additional Indebtedness, other than Additional Indebtedness under Subordinated Bonds, Refunding Bonds or Completion Bonds (described below under “— 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, for the period from and including the first full fiscal year following the issuance of such Additional Indebtedness and in each of the following five fiscal years, estimated Revenues (as defined below under “— Indenture Terms Glossary”) and Net Revenues, based on reasonable and prudent

projections, assumptions and hypotheses, in each such fiscal year will be at least sufficient to satisfy the following:

- (i) in the case of the issue of Additional Indebtedness which is Senior Debt, 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;
  - (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
- (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;
  - (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.

Upon the first issue by the Company of Bonds evidencing or securing Additional Indebtedness (other than Refunding Bonds, Completion Bonds or Subordinated Bonds), the Consultant shall issue the certificate specified above, which may be replaced from time to time at the request of the Company, indicating that the Company will be able to comply with the requirements for the issuance of such a certificate if it has outstanding a specified amount of Certified Indebtedness. For the purposes of the Indenture, “Certified Indebtedness” means, at any time, the amount of Indebtedness which the Consultant has certified may be incurred by the Company and secured under the Indenture, whether or not the Company has incurred such amount. Once the Consultant has determined the amount of such permitted Certified Indebtedness, the Company may borrow and reborrow or otherwise secure liabilities within this limit, including, without limitation, pursuant to borrowings under bank credit facilities and commercial paper, medium-term note programs and liabilities in respect of letters of credit and derivatives. If the Company requires greater financing capacity for such purposes, it must obtain a new certificate from the Consultant 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 the Concessionaire 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 and the toll system and for services rendered by the Company, the Concessionaire and any other Subsidiaries in connection with Highway 407 (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, the Concessionaire and any other Subsidiary; and
  - (ii) all other payments required to be made by the Company, the Concessionaire 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, the Concessionaire 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 if either the Company or the Concessionaire 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 the Concessionaire have promptly taken, prior to or during the next succeeding fiscal year (to the extent the Concessionaire 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.

### **Completion Bonds**

Notwithstanding the Additional Indebtedness covenant, the Company may issue Completion Bonds or incur Additional Indebtedness in an amount not exceeding 10% of the original estimated cost of the Project or any Development Project in order to finance the completion of such a 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.

### **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 Subsections (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. No Debt Service Reserve Fund will be established for the Bonds other than the Prepaid Interest Reserve Account for the Bonds which will be pre-funded from the proceeds of the sale of the 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, the Concessionaire or any Subsidiary or for any part of the property of the Company, the Concessionaire or any Subsidiary or any other proceeding relating to the Company, the Concessionaire 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.

Notwithstanding these restrictions, the holders of the Bonds are entitled to enforce their rights and remedies in connection with the Sponsors Pledge Security. See “Details of the Offering — Additional Security”.

- (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 hereunder 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 and the Concessionaire under the Indenture (the “Security”), the Trustee has been granted a leasehold mortgage on the Concessionaire’s leasehold interest in and

to the Highway 407 Lands, a security interest in all real and personal property of the Company, and a security interest in all real and personal property of the Concessionaire related to the Project. Such security interest includes: (i) a specific assignment of each of the Company's and the Concessionaire'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 the Concessionaire 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.

### **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.

### **Flow of Funds**

The Indenture requires the Company or the Concessionaire 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, the Concessionaire 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 the Concessionaire. 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 installment 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 fulfil 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, which is currently being 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 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, the Concessionaire 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, the Concessionaire 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 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, the Concessionaire 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 installment 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 Bonds and 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 the Concessionaire for any lawful purpose of the Company or the Concessionaire, including payments on Subordinated Debt or distributions to shareholders of the Company, subject to the restrictions on such payments and distributions described under “Details of the Offering—Restriction on Payments on the Bonds”.

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 funds under the control of the Company or the Concessionaire but are subject to the terms of the Indenture and a security interest in favour of the Trustee on behalf of the Bondholders.

#### **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, the Concessionaire and any other Subsidiary:

- (a) All Bonds shall be secured by a guarantee given by the Concessionaire to the Trustee under the Indenture and the security therefor.
- (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 the Concessionaire 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, the Concessionaire or another Subsidiary and Permitted Distributions.
- (d) Neither the Company nor the Concessionaire 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 the Concessionaire will, and the Company will cause each other Subsidiary to, maintain insurance coverage for Highway 407, the Project, and any Development Project and operations of the Company, the Concessionaire and any other Subsidiary, customarily held by similar companies engaged in the same or similar business.
- (f) Each of the Company and the Concessionaire 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 the Concessionaire 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 the Concessionaire) which may reasonably be expected to have a material adverse effect on the ability of the Company or the Concessionaire 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 the Concessionaire will, nor will the Company allow any Subsidiary to, create any Guarantee (other than the Concessionaire 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, the Concessionaire and any other Subsidiary may deal with its assets in the ordinary course of business, provided that neither the Company nor the Concessionaire 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 the Concessionaire will, nor permit any Subsidiary to, sell, lease, license or otherwise dispose of any of their respective interests in any portion of Highway 407, the Highway 407 Lands, the Concessionaire'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 the Concessionaire 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 the Concessionaire shall, and the Company shall not permit any Subsidiary to make any material change in its business. The sole business of the Company and the Concessionaire (other than any business carried on by a Subsidiary) shall be the acquisition, operation, design, maintenance, development, repair, rehabilitation and management of Highway 407 (and any expansions and extensions thereto), the toll system and the Project. The Concessionaire shall not own any real or personal property which is not related to the Project. All of the business of the Company and the Concessionaire 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 the Concessionaire directly.
- (l) The Concessionaire shall comply with the terms of the Concession Agreement and each of the Company and the Concessionaire, to the extent that it is a party, shall comply with the terms of all other Project Agreements in all material respects. The Concessionaire will not surrender the Concession Agreement, voluntarily terminate, voluntarily forfeit or voluntarily cancel the Concession Agreement or the Concessionaire'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 the Concessionaire 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 the Concessionaire's interest in the Concession Agreement or result in a reduction of toll revenue or impair the ability of the Concessionaire 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 the Concessionaire under the Concession Agreement or amounts payable under any other Project Agreement unless the Company or the Concessionaire 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 the Concessionaire on users of Highway 407.

- (n) The Concessionaire 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 the Concessionaire 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 the Concessionaire will enter into any leasehold mortgage other than with the Trustee or as otherwise permitted under the Indenture.
- (q) The Company and the Concessionaire will ensure that any lien or encumbrance complies with the provisions of the Concession Agreement.
- (r) The Concessionaire 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 the Concessionaire 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 the Concessionaire 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 the Concessionaire 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 the Concessionaire 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, the Concessionaire and each Subsidiary shall comply in all material respects with all material agreements and neither the Company nor the Concessionaire nor any Subsidiary will amend, terminate, waive or otherwise modify any provision of any material agreement.
- (u) The Company shall promptly give written notice to the Trustee of any event of default under or termination of any material agreement.
- (v) The Company and the Concessionaire will at all times take such steps as may be necessary to ensure that the toll system performs satisfactorily in order to ensure that the Concessionaire complies with all of the requirements of the Concession Agreement.
- (w) Neither the Company, the Concessionaire, nor any Subsidiary shall conduct non-arm's length transactions except at prices and on terms not less favourable to the Company, the Concessionaire 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 the Concessionaire have amalgamated, the Company shall at all times own and control all of the issued and outstanding shares of the Concessionaire and any outstanding rights, options or other securities capable of becoming a share of the Concessionaire.
- (y) The Company and the Concessionaire will 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, the Concessionaire or any Subsidiary to comply with any material covenant, representation or warranty contained in the Indenture, the Supplemental Indenture, the leasehold mortgage granted to the Trustee or, in the case of a Subsidiary, the 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 the Rate Covenant in the next succeeding fiscal year;
- (d) if proceedings are commenced for the dissolution, liquidation or winding-up of the Company, the Concessionaire or any other Subsidiary or for the suspension of their operations unless such proceedings are being actively and diligently contested by the Company, the Concessionaire 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, the Concessionaire or any other Subsidiary and any such receivership or trusteeship remains undischarged for a period of 60 days;
- (f) if the Company, the Concessionaire or any other Subsidiary becomes bankrupt or is adjudged to be bankrupt;
- (g) the making by the Company, the Concessionaire or any other Subsidiary of an assignment for the benefit of its creditors, or if the Company, the Concessionaire 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 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 "Existing Indebtedness");
- (i) a default by the Company, the Concessionaire or any other Subsidiary under any other Indebtedness provided in a principal amount of not less 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, the Concessionaire 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, the Concessionaire 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 the Concessionaire 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 as a result of a Concessionaire's Default and the Concessionaire is not disputing the right of the Province to take such action;
- (m) the Concession Agreement has been terminated or the Concessionaire'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, the Concessionaire 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 Concessionaire 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 Concessionaire or shall cease to be in full force and effect or the Company or the Concessionaire shall have contested the validity of the Indenture, any Supplemental Indenture or the leasehold mortgage or denied that it has any liability thereunder 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, other than an event of default (an "Acceleration Event of Default") under items (g), (h) and (m) above, or under item (f) above determined by a court or tribunal of competent jurisdiction, Indebtedness outstanding under the Indenture will not be accelerated but, instead, will become due in accordance with its terms and revenues and any monies received or collected by the Trustee, the Company, the Concessionaire or any other Subsidiary shall be applied as follows:

- (a) the balances in each of the funds and reserve funds shall first be applied pro rata to the payment of the Trustee's expenses incurred in the performance of its duties under the Indenture;
- (b) the balance in each Sinking Fund shall be applied to the repayment of principal due in respect of any 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 first to the payment of interest and secondly to the payment of principal on the Bonds (or secured Indebtedness) 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 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 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 Trustee, if directed by Extraordinary Resolution of the Bondholders of Senior Bonds (or, in the case of an Acceleration Event of Default pursuant to item (h) under “— Events of Default”, by Extraordinary Resolution of the Senior Bank Lenders, being the holders of the Series of Pledged Bonds in respect of which the Acceleration Event of Default has arisen), shall 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 the Concessionaire to the Trustee or a foreclosure or sale of the shares and convertible debentures of the Company or a foreclosure or sale of the shares of the Concessionaire.

Upon the occurrence of an uncured Event of Default, the Security shall become immediately enforceable and the Trustee may, in its discretion, and shall upon receipt of a Bondholders’ Request (or, in the case of an Event of Default pursuant to item (h) under “— Events of Default”, by an Extraordinary Resolution of the holders of the Senior Bank Lenders, being the holders of the Series of Pledged Bonds in respect of which such Event of Default has arisen) proceed to protect and enforce its rights and the rights of the Bondholders under the Indenture, all Supplemental Indentures, if any, any Subsidiary Guarantee and the leasehold mortgage given by the Concessionaire to the Trustee (but excluding the exercise of any rights of foreclosure or sale under the leasehold mortgage and excluding any right of foreclosure or sale of the shares or convertible debentures of the Concessionaire 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 an Event of Default pursuant to item (h) under “— Events of Default” may be waived by Extraordinary Resolution of the holders of Senior Bonds. An Event of Default pursuant to item (h) may be waived only by a Threshold Waiver Resolution passed by the holders of Senior Bonds (as described under “— Meeting of Bondholders”).

### **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 outstanding principal amount of Obligation Bonds and \$1,000 of the lesser of the principal amount of outstanding Indebtedness collaterally secured by a Pledged Bond and the principal amount of such Pledged Bond (the “Voting Amount”). 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 principal amount in respect of outstanding Obligation Bonds of each Class and Series of Bonds for which the meeting has been called and the aggregate principal amount of outstanding Indebtedness collaterally secured by Pledged Bonds. 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 or 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 Senior Bonds or the Series of Senior Bonds for which the meeting has been called, and in the case of a Threshold Waiver Resolution, such resolution shall be effective if the holders of not less than 67% of the Voting Amount vote in favour of such Threshold Waiver Resolution and such 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 and, in the case of a Special Bondholders’ Resolution, such resolution shall be effective if the holders of not less than 67% of the Voting Amount of the Senior Bonds, or the Series of Senior Bonds vote in favour of such Special Bondholders’ Resolution and such holders of not more than 5% of the Voting Amount vote against such Special Bondholders’ Resolution.

The Bondholders may by Extraordinary Resolution, amend, vary or modify the Indenture or the Series Supplements as well as direct the Trustee to waive any Event of Default or exercise or refrain from exercising any power under the Indenture (except as described above under “Events of Default”). A Special Bondholders’ Resolution is required in order to amend or otherwise vary certain defined terms, section 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 by any of the Subordinated Lenders or for the benefit of one Series only) or the *pari passu* ranking of each Series of Bonds within a Class. 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 or 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 principal obligations in respect of Indebtedness which do not provide for either principal amortization or sinking fund payments prior to the maturity date of the relevant Indebtedness 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 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 the Concessionaire.

“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 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 the Concessionaire from time to time. As at the date hereof, no such Highway Consultant has been selected and employed by the Company or the Concessionaire.

“Net Revenues” means, for any fiscal year, the Revenues of the Company, the Concessionaire 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, the Concessionaire and its Subsidiaries.

“Operating and Maintenance Expenses” means, for any fiscal year, the costs incurred by the Company, the Concessionaire and any other Subsidiary in operating and maintaining the Highway 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, the Concessionaire 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, the Concessionaire 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 receipts under Swap Agreements), 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, the Concessionaire or any other Subsidiary (other than the Construction Fund and the General Fund), toll revenues, any licence fees paid to the Company, the Concessionaire 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 the Highway in accordance with generally accepted accounting principles, all of which shall be determined on a consolidated basis for the Company, the Concessionaire and the other Subsidiaries but excluding (i) other non-toll revenues which are for the account of the Province, (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 principal 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.

## EXISTING INDEBTEDNESS

### 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, the Concessionaire and the Trustee. The aggregate cash proceeds from the sale of July 1999 Bonds (after underwriting and issue costs) were \$993.3 million, which were used as to approximately \$81.9 million to fund the initial deposits required to be made under the Series Reserve Accounts for the July 1999 Bonds and as to approximately \$911.4 million 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 and 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 and no cash interest will be paid on the Series 99-A3 Bonds until July 27, 2004. 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.

### Real Return Bonds

In August 1999, the Company completed a private placement of \$162,500,000 principal amount of 5.328% Real Return Senior Bonds, Series 99-A4, due December 1, 2016, \$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, the Concessionaire 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 were used as to approximately \$43.6 million to fund the initial deposits required to be made under the Series Reserve Accounts for the Real Return Bonds and as to approximately \$455.8 million 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 no cash interest will be paid on the Real Return Bonds prior to June 1, 2004. Thereafter, the 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, 2004. The interest payable on the Real Return Bonds will be adjusted for inflation or deflation based on changes in the Consumer Price Index (the “CPI Index”) for Canada in the manner described in the 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 Consumer Price Index (the “CPI Index”) on such date and the denominator of which is the reference CPI Index 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 Index”. 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 Sixth Supplemental Indenture.

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

### **October 1999 Bonds**

In October 1999, the Company issued \$400,000,000 principal amount of 6.55% Senior Bonds, Series 99-A8, due October 18, 2006 (the “October 1999 Bonds”) pursuant to the Indenture and a supplemental indenture (the “Seventh Supplemental Indenture”) dated October 8, 1999 among the Company, the Concessionaire and the Trustee. The aggregate cash proceeds from the sale of the October 1999 Bonds (after underwriting and issue costs) were \$392.8 million, which were used as to approximately \$83.3 million to fund the initial deposits required to be made under the Prepaid Interest Reserve Account and the Series Reserve Account for the October 1999 Bonds and as to approximately \$309.5 million to repay indebtedness under the Senior Bridge Credit Agreement. The October 1999 Bonds are Obligation Bonds and are redeemable in whole or in part at the option of the Company.

The October 1999 Bonds were issued at a discount to their principal amount and bear interest at an annual rate of 6.55%, payable semi-annually on April 18 and October 18 of each year until maturity, commencing April 18, 2000.

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

### **Amortizing Real Return Replacement 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 (the “Ninth Supplemental Indenture”) dated February 2, 2000 among the Company, the Concessionaire and the Trustee. 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 were used as to approximately \$20.5 million to fund the initial deposits required to be made under the Series Reserve Account for the Replaceable Bonds and as to approximately \$228.2 million 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, 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 Index applicable to such date divided by the reference CPI Index 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 Index applicable to such date divided by the reference CPI Index 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.

### **March 2000 Bonds**

In March 2000, the Company issued \$430,000,000 principal amount of 6.90% Senior Bonds, Series 00-A3, due December 17, 2007 (the "March 2000 Bonds") exchangeable for 6.90% Senior Bonds, Series 00-A4, due December 17, 2030 (the "Exchange Bonds") pursuant to the Indenture and a supplemental indenture (the "Tenth Supplemental Indenture") dated March 15, 2000 among the Company, the Concessionaire and the Trustee. The aggregate cash proceeds from the sale of the March 2000 Bonds (after underwriting and issue costs) were \$430.4 million, which were used as to approximately \$34.1 million to fund the initial deposits required to be made under the Series Reserve Account for the March 2000 Bonds and as to approximately \$396.2 million to repay the remaining outstanding indebtedness under the Senior Bridge Credit Agreement (remaining excess funds were applied to the indebtedness outstanding under the Junior Bridge Credit Agreement). The March 2000 Bonds are Obligation Bonds and are redeemable in whole or in part at any time after the Exchange Date (as hereinafter defined) at the option of the Company.

All or any portion of the principal amount represented by the March 2000 Bonds may be exchanged, at the option of the holder (the "Exchange Option"), for the same principal amount of the Exchange Bonds by the holder giving written notice to the Company prior to 5:00 p.m. (Toronto time) on February 22, 2001. The date upon which such March 2000 Bonds will be exchanged for the Exchange Bonds will occur on March 8, 2001 (the "Exchange Date"). The Exchange Bonds will be issued in full satisfaction of the principal amount of the March 2000 Bonds in respect of which the Exchange Option is exercised and, as a consequence thereof, the Company will not make, and will not be required to make, any payment in cash to repay the principal amount of the March 2000 Bonds in respect of which the Exchange Option has been exercised. The March 2000 Bonds and the Exchange Bonds are identical in all respects except for their respective maturity dates and redemption features.

The March 2000 Bonds were issued at a premium to their principal amount and bear interest at an annual rate of 6.90%, payable semi-annually on June 17 and December 17 of each year until maturity, commencing June 17, 2000. The Exchange Bonds, if issued, will bear interest at an annual rate of 6.90%, payable semi-annually on June 17 and December 17 of each year until maturity, commencing June 17, 2001.

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

### **Loan Facilities**

*The following summary of the principal provisions contained in each of the Junior Bridge Credit Agreement and the Sponsors Subordinated Credit Agreement is qualified in its entirety by reference to such agreements. This overview summarizes certain complex provisions of these agreements and omits descriptions of many provisions which may be considered to be of a customary nature. For full particulars of the Company's rights and obligations under each of the Junior Bridge Credit Agreement and the Sponsors Subordinated Credit Agreement, potential investors should refer to such agreements, copies of which may be inspected at the head office of the Company during normal business hours at any time during the period of distribution. Certain defined terms contained in this section of the prospectus are*



*more fully defined in the applicable agreement, and potential investors should refer to the applicable agreement for the precise definitions.*

In funding the acquisition of all of the shares of the Concessionaire from the Province, the Company used monies borrowed from or credit facilities made available by the following groups of lenders to fund, in part, the cash required to complete the acquisition:

- (a) loans of \$2.3 billion originally advanced by a syndicate of Canadian and foreign banks pursuant to the senior bridge credit agreement dated as of May 5, 1999 as amended and restated by agreement dated as of July 19, 1999, which were repaid in full as at March 15, 2000;
- (b) loans of \$150 million advanced by a Canadian chartered bank pursuant to the Junior Bridge Credit Agreement (as hereinafter defined); which prior to or upon the completion of this offering will be repaid in full and replaced by the Junior Term Credit Facility (as hereinafter defined); and
- (c) credit facilities (including letters of credit available for drawdown) in an aggregate amount of \$775 million made available by the Sponsors pursuant to the Sponsors Subordinated Credit Agreement (as hereinafter defined) of which \$241,151,000 will be repaid from the net proceeds of this offering. On or about the time of the completion of this offering, the Sponsors Subordinated Credit Facility will be further reduced by amounts advanced pursuant to the Subordinated Term Credit Facility.

Also, three Canadian chartered banks provided credit support to the Company in respect of the interest rate hedging program established by the Company in connection with the acquisition.

#### **Junior Bridge Credit Facility**

Pursuant to a credit agreement dated May 5, 1999 as amended and restated by agreement dated as of July 19, 1999 (the "Junior Bridge Credit Agreement"), a Canadian chartered bank (the "Junior Bank Lender") advanced an aggregate amount of \$150 million on May 5, 1999 (the "Junior Bridge Credit Facility"). As at April 30, 2000, the principal amount of approximately \$149.5 million was outstanding under the Junior Bridge Credit Facility.

In support of interest payment obligations under the Junior Bridge Credit Facility, the Company has delivered irrevocable letters of credit arranged by the Sponsors in the aggregate amount of \$54 million and has entered into a Swap Agreement to hedge the floating interest rate risk. All receipts under such Swap Agreement are deposited directly into the Series Reserve Account for the benefit of the Junior Bank Lender. Obligations of the Company under such Swap Agreement are secured by a Pledged Bond. The Company is entitled to direct payment from such letters of credit to provide credit support for negative mark-to-market variances with such Swap Agreement and, following the occurrence and continuance of an Event of Default, such letters of credit can be applied to the payment of all amounts due and payable under the Junior Bridge Credit Agreement. The obligations of the Company under the Junior Bridge Credit Facility are subordinated to the obligations of the Company under any Senior Debt. Interest payments on the amounts outstanding under the Junior Bridge Credit Facility will be made by drawings under the letters of credit and from the receipts under the Swap Agreements.

The Junior Bridge Credit Facility matures on November 5, 2002.

Amounts outstanding under the Junior Bridge Credit Facility bear interest at floating rates based, at the option of the Company, on the prime rate for Canadian dollar loans, the interbank bid rate for Canadian dollar bankers' acceptances, and the Eurodollar rates for Canadian dollar deposits, in each case plus the margin then applicable to such rates, which margin varies during the term of the Junior Bridge Credit Facility from 4.25% to 7.50% for Eurodollar rates and Canadian dollar bankers' acceptances and 3.50% to 6.75% for prime rate Canadian dollar loans. If the Junior Bridge Credit Facility is not repaid in full at maturity and there are no arrears of principal or interest at that time, then the pricing will be the applicable rate on November 5, 2002 plus an additional 1% for each quarter thereafter (with each increase to apply at the commencement of each such quarter).

The Junior Bridge Credit Facility is secured by a \$300 million Junior Pledged Bond issued under the second Supplemental Indenture; however, the Company is not obliged to fund the Debt Service Fund with respect to any principal or interest owing under the Junior Bridge Credit Agreement. Mandatory repayments of

the principal amount outstanding under the Junior Bridge Credit Agreement are required to be made by the Company under certain circumstances, and may be made only after the prior application thereof to the repayment of any other indebtedness ranking in priority in right of payment to the principal amount outstanding under the Junior Bridge Credit Agreement, except that principal amounts outstanding under the Junior Bridge Credit Agreement may be made out of net proceeds, up to a maximum of \$150 million, from the issue of Junior Bonds or Subordinated Debt.

As discussed in the following section, on or before the completion of this offering, the Junior Bridge Credit Facility will be refinanced and repaid in full out of the proceeds of the Junior Term Credit Facility. In connection with the refinancing of the Junior Bridge Credit Facility, the irrevocable letters of credit arranged by the Sponsors in the aggregate amount of \$54 million currently held by the Junior Bank Lender will be returned to the Company.

### **Junior Term Credit Facility**

The Company and a Canadian chartered bank have agreed in principle regarding the establishment of a non-revolving term junior credit facility (the “Junior Term Credit Facility”) which will be used to refinance amounts outstanding under the Junior Bridge Credit Facility prior to or on the completion of this offering. The terms of such Junior Term Credit Facility are currently being finalized and must comply with the provisions of the Indenture. The loans advanced under this Junior Term Credit Facility will initially be made by a single lender (the “Junior Lender”) in the aggregate principal amount of approximately \$149.5 million and will have a maximum seven year term. The Junior Term Credit Facility will rank subordinate to all present and future senior indebtedness secured under the Indenture and in priority to all present and future subordinated indebtedness of the Company secured pursuant to the Indenture. The following is a summary of the principal provisions anticipated to govern the Junior Term Credit Facility. These provisions may change during the process of negotiation of the credit agreement in respect of the Junior Term Credit Facility (the “Junior Term Credit Agreement”).

Amounts outstanding under the Junior Term Credit Facility will bear interest at floating rates based, at the option of the Company, on the prime rate for Canadian dollar loans, the interbank bid rate for Canadian dollar bankers’ acceptances, and the Eurodollar rates for Canadian dollar deposits, in each case plus the margin then applicable to such rates. It is expected that if the Junior Term Credit Facility is not repaid in full within the first 12 months of the term, the Junior Lender will have the right at any time thereafter to convert all or a part of the principal amount remaining outstanding under the Junior Term Credit Facility into a Junior Bond issued under the Indenture in an equivalent principal amount which principal amount is payable on the tenth anniversary of the issuance thereof, and bearing interest at a rate per annum equal to the yield to maturity of 1.25% over the yield to maturity of a Senior Bond having a similar maturity and issued in the same principal amount. The Junior Lender agrees not to sell any such Junior Bond until the expiry of 24 months from the date of closing.

Loans advanced under the Junior Term Credit Facility will be secured by a Junior Pledged Bond. It is expected that the Company will not be obliged to fund the Debt Service Fund with respect to any principal or interest owing under the Junior Term Credit Agreement.

The terms of the Junior Term Credit Facility will include conditions precedent to the initial funding that are usual and customary of a transaction of this nature. In addition, the terms of the Junior Term Credit Facility will require that, before an advance thereunder, the Company obtain a minimum rating from a certain rating agency on the debt to be advanced under the Junior Term Credit Facility, and obtain a highly confident letter from a major investment dealer with respect to the issuance of Junior Bonds within the first five months of the term of the Junior Term Credit Facility.

The terms of the Junior Term Credit Agreement will include usual and customary covenants. In addition to customary negative covenants, so long as any amount owing under the Junior Term Credit Facility remains unpaid, it is expected that the Company will agree, subject to certain exceptions, that it will not modify, change, alter or vary or permit any of its Subsidiaries to modify, change, alter or vary the terms of any permitted debt (including any Junior Bond if any and when issued, debt secured by permitted liens, the Indenture, or any security entered into pursuant to the Indenture). In addition, the covenants include restrictions on capital expenditures (other than permitted capital expenditures including capital expenditures in connection with

completion of Highway 407 West Extension, Highway 407 East Partial Extension and Highway 407 Central Deferred Interchanges and capital expenditures funded out of the Renewal and Replacement Fund).

In addition to customary positive covenants, the Company will be required to comply with and perform, and cause each of its Subsidiaries including the Concessionaire to comply with and perform its obligations under, the Concession Agreement, the Tolling Agreement, the Share Purchase Agreement, the Restriction Agreement, the Police Services Agreement and the Requester Agreement.

The Junior Term Credit Agreement is expected to provide for usual and customary events of default and certain additional events of default including the Company ceasing to be controlled by at least one or more of the Sponsors which occurs without the prior written consent of the Junior Lender (or the Majority Lenders as defined in the Junior Term Credit Agreement). Certain events of default under the Junior Term Credit Agreement are expected to incorporate a cure or grace period to remedy the subject action, event or development.

If for any reason the Subordinated Term Credit Facility (as defined below) is not successfully closed, the pricing of the loans under the Junior Term Credit Facility, which is more favourable to the Company than under the Junior Bridge Credit Facility, will revert to the pricing under the Junior Bridge Credit Facility.

### **Sponsors Subordinated Credit Facility**

On May 3, 1999, the Company entered into a term credit agreement (the “Sponsors Subordinated Credit Agreement”) with respect to a non-revolving term loan facility (the “Sponsors Subordinated Credit Facility”) with the Sponsors, in the maximum aggregate principal amount of \$775 million (the “Sponsors Subordinated Debt”). While the obligations of the Sponsors in relation to the Sponsors Subordinated Credit Facility are several (and not joint and several), the obligations of CINTRA and Grupo Ferrovial are joint and several as between themselves. The Sponsors Subordinated Credit Facility was used by the Company exclusively to: (i) finance the acquisition of the shares of the Concessionaire; (ii) facilitate the issue of letters of credit in favour of, among others, the Junior Bank Lender in the aggregate amount of \$254 million; (iii) pay the costs and expenses incurred by the Company with respect to the acquisition of the Concessionaire; and (iv) finance the direct and indirect costs incurred by the Company to complete the construction of the Highway 407 East Partial Extension, the Highway 407 West Extension and the Highway 407 Central Deferred Interchanges in the aggregate amount of \$507,407,000, which amount provided the initial funding under the Construction Fund established under the Indenture.

Pursuant to the terms of the Sponsors Subordinated Credit Agreement, the Sponsors extended credit and other financial accommodation to the Company in the following principal amounts: (i) CINTRA/Grupo Ferrovial: \$475 million; (ii) SNC-Lavalin: \$175 million; and (iii) CDPQ: \$125 million.

Borrowings under the Sponsors Subordinated Credit Facility were made available to the Company by way of: (i) Canadian dollar loans (made by way of direct cash advances); and (ii) the issuance and delivery (for use by or for the benefit of the Company) of bank letters of credit, as arranged by the Sponsors. All Canadian dollar loan advances made to the Company by the Sponsors on closing were made on a pro rata basis and all draws made under any of the credit issued under the Sponsors Subordinated Credit Facility shall, to the extent possible, also be made on a pro rata basis until the aggregate principal amount of the credit extended by the Sponsors under the Sponsors Subordinated Credit Facility equals \$625 million, at which time all further draws pursuant to letters of credit will be made solely by letters of credit arranged by CINTRA and Grupo Ferrovial.

Interest shall accrue to the Sponsors on all amounts outstanding during each interest period (generally between 30 to 90 days) at a floating rate of interest that is calculated by adding the applicable margin (generally between 4% to 6%, depending upon the applicable period to maturity) to the then applicable bankers’ acceptance rate for Canadian dollar-denominated bankers’ acceptances, such interest to be calculated on the last day of each interest period.

The Sponsors Subordinated Credit Facility is secured by \$1.55 billion principal amount of Subordinated Pledged Bonds (the “Subordinated Security”) issued under the third Supplemental Indenture to the Indenture.

The Sponsors Subordinated Debt is fully subordinated in right of payment to the indebtedness under the Junior Bridge Credit Facility, and has been pledged by the Sponsors to the Trustee as security for obligations under the Bonds and the Indenture, but only for so long as any amounts drawn under the Junior Bridge Credit Facility remain outstanding, as described above under “Capital Markets Platform — Security”. The Sponsors may not take any action or authorize any action to be taken in respect of the Subordinated Debt or to realize against the Subordinated Security, until such time as the amounts owing under the Junior Bridge Credit Facility have been paid in full and the commitments under the Junior Bridge Credit Facility have been terminated. In addition, payments on the Sponsors Subordinated Debt may only be made out of the General Fund (see “Capital Markets Platform — Flow of Funds” above). It is expected that the Junior Bridge Credit Facility and the Sponsors Subordinated Credit Facility will be refinanced and repaid (as described above).

Each of the Sponsors earned an arrangement fee of 3% of the total principal amount committed by such Sponsors under the Sponsors Subordinated Credit Facility. Such arrangement fees are accrued and can only be paid in accordance with the Sponsors Subordinated Credit Facility. In addition, the Company will pay to each of the Sponsors a standby fee from the date of the issuance of all letters of credit required under the Sponsors Subordinated Credit Facility. All such standby fees shall be calculated monthly, not in advance, at a rate of 4% per annum, calculated on the daily average during such month of the undrawn amount under such letters of credit. All interest, arrangement fees and standby fees will be paid by the Company only when excess cash is available after service of all other debts of the Company (except for the Convertible Debenture) and fulfillment of all obligations under the Indenture and Supplemental Indentures.

The Sponsors Subordinated Credit Facility shall mature on the eighth anniversary date thereof. In the event that any of the Sponsors Subordinated Debt remains outstanding as at such maturity date, then such maturity date shall automatically be extended to December 31, 2045 without payment of an extension fee or similar compensation to the Sponsors, provided that no event of default has occurred and is continuing as at the original maturity date.

In the event that there are funds available for the repayment of all or any portion of the Sponsors Subordinated Debt, the Sponsors may elect to apply those amounts to the repayment of the Sponsors Subordinated Debt then outstanding.

If any portion of the Sponsors Subordinated Debt remains outstanding on December 31, 2006, the Sponsors shall have the option (exercisable prior to December 17, 2007) to convert the amount then owing to them into common shares of the Company at a conversion price equal to the fair market value per common share and calculated in accordance with the provisions of the Sponsors Subordinated Credit Facility.

### **Subordinated Term Credit Facility**

The Company and a Canadian chartered bank have agreed in principle regarding the establishment of a non-revolving term subordinated credit facility (the “Subordinated Term Credit Facility”) which will be used to refinance amounts outstanding under the Sponsors Subordinated Credit Facility on or about the completion of this offering. The terms of such Subordinated Term Credit Facility are currently being finalized and must comply with the provisions of the Indenture. Loans advanced under this Subordinated Term Credit Facility will be made by a syndicate of banks (the “Subordinated Bank Lenders”) in the aggregate principal amount of approximately \$425 million in the following three tranches: (a) loans or letters of credit in the aggregate principal amount of \$200 million with a term of three years (“Tranche A Credit Facility”); (b) loans or letters of credit in the aggregate principal amount of \$189 million with a term of five years (“Tranche B Credit Facility”); and (c) loans in the aggregate principal amount of \$36 million with a term of five years (“Tranche C Credit Facility”). The Tranche A Credit Facility and the Tranche B Credit Facility will be available primarily for the purpose of funding payments owing under the Design Build Agreement and the Extension Toll Supply Agreement and payable out of the Construction Fund as required under the terms of the Indenture. The Tranche C Credit Facility will be available for the purpose of funding interest payments on the Subordinated Term Credit Facility and certain fees and costs under the Subordinated Term Credit Facility. The Tranche A Credit Facility and Tranche B Credit Facility will refinance that portion of the Sponsors Subordinated Credit Facility which is currently available under the Construction Fund to fund payments owing under the Design Build Agreement and the Extension Toll Supply Agreement. Such loans will rank subordinate to all present and

future senior and junior indebtedness secured under the Indenture and *pari passu* with all present and future subordinated indebtedness of the Company secured pursuant to the Indenture, except that it will rank in priority to the Subordinated Debt arising pursuant to the Sponsors Subordinated Credit Facility to the extent any amounts thereunder have not been refinanced and to any additional subordinated debt which the Sponsors may advance to the Company during the term of the Subordinated Term Credit Agreement. The following is a summary of the principal provisions anticipated to govern the Subordinated Term Credit Facility. These provisions may change during the process of negotiation of the credit agreement in respect of the Subordinated Term Credit Facility (the “Subordinated Term Credit Agreement”).

Amounts advanced and outstanding under the Subordinated Term Credit Facility will bear interest at floating rates based, at the option of the Company, on the specified prime rate for Canadian dollar loans, the interbank bid rate for Canadian dollar bankers’ acceptances, and the specified Eurodollar rates for Canadian dollar deposits, in each case plus the margin then applicable to such rates. To the extent permitted by law, the applicable interest rate will increase by 1% per annum at any time that an event of default has occurred and is continuing under the Subordinated Term Credit Agreement and a further 1% per annum at the end of each ninety (90) day period thereafter.

The Company is limited in its ability to make payments of principal or interest on account of Subordinated Debt, however, the Company will establish a reserve fund for the benefit of the Subordinated Bank Lenders only, which will be funded by loans advanced under the Tranche C Credit Facility, the aggregate principal amount of credit available thereunder representing the amount equal to approximately one year of interest payable under the Subordinated Term Credit Facility, and which will be used in support of the interest payment obligations under the Subordinated Term Credit Agreement. This reserve fund, financed under the Tranche C Credit Facility, will be available to fund interest payments on the Subordinated Term Credit Facility notwithstanding that the Company may be otherwise restricted on substantially the same terms applicable to the Bonds from making interest payments under the Subordinated Term Credit Agreement. See “Details of the Offering — Restriction on Payments on the Bonds”.

The Subordinated Term Credit Facility will be secured by a Subordinated Pledged Bond. The Company will not be obligated to fund the Debt Service Fund with respect to any principal amount or interest owing under the Subordinated Term Credit Agreement; however mandatory prepayments of the loans advanced under the Subordinated Term Credit Facility are required to be made by the Company from certain sources including from amounts representing Excess Cash Flow (as defined therein) from the operation of Highway 407, which payment may be reduced if certain conditions are satisfied and subject to the terms of the Indenture. Such prepayments will be made out of monies in the General Fund.

In addition to the security granted pursuant to the Indenture, the Subordinated Term Credit Facility will be secured pursuant to a lien on the Sponsor Collateral pursuant to the Sponsors Pledge Security. The rights and obligations of the Subordinated Bank Lenders and the holders of the Bonds with respect to the Sponsor Collateral will be governed by the Master Security Agreement. See “Capital Markets Platform — Security” and “Details of the Offering — Additional Security”, “Details of the Offering — Release of Additional Security” and “Details of the Offering — Remedies”.

The terms of the Subordinated Term Credit Agreement will include usual and customary covenants. In addition to customary negative covenants, so long as any amount owing under the Subordinated Term Credit Facility remains unpaid, the Company may not, subject to certain exceptions, create or permit the creation of any debt or any guarantees other than certain permitted debt.

In addition to customary positive covenants, the Company will be required to comply with and perform, and cause each of its Subsidiaries including the Concessionaire to comply with and perform, its obligations under, among other agreements, the Concession Agreement, the Tolling Agreement, the Restriction Agreement, the Police Services Agreement and the Requester Agreement.

It is also expected, in connection with the Subordinated Term Credit Agreement, that an agreement (the “Cost Over-Run Funding Agreement”) will be entered into between the Contractor, the Company and the Concessionaire, wherein, in general, the Contractor agrees not to request payment from the Concessionaire for, and to fund, if necessary, any cost-overruns payable by Concessionaire to the Contractor under the Design Build

Agreement until such time when all indebtedness owing to the Subordinated Bank Lenders has been repaid in full, provided that the Concessionaire is not otherwise in default of its payment obligations under the Design Build Agreement.

The Subordinated Term Credit Agreement is expected to provide for usual and customary events of default, including the non-payment of principal thereunder, the non-payment of interest thereunder for a period of three business days, the non-payment of principal or interest under the Bonds, the occurrence of an event of default under the Indenture or under the Master Security Agreement and the Company ceasing to be controlled by at least one or more of the Sponsors which occurs without the prior written consent of the Majority Subordinated Lenders (as such term is defined in the Subordinated Term Credit Agreement). However, the Subordinated Bank Lenders will be subject to the limitations and restrictions applicable to Subordinated Bonds set forth in the Indenture with respect to their rights and remedies of enforcement thereunder. In particular, notwithstanding the occurrence and continuance of an event of default under the Subordinated Term Credit Agreement, the Subordinated Bank Lenders will not be entitled to enforce their rights upon the occurrence of an Event of Default or an Acceleration Event of Default pursuant to the provisions of the Indenture (which may occur as a result of an event of default under the Subordinated Term Credit Agreement) unless and only to the extent that holders of Senior and Junior Debt issued by the Company pursuant to the Capital Markets Platform enforce their rights pursuant to the provisions thereof. See “Capital Markets Platform — Subordinated Bonds”.

Upon the occurrence and continuance of an event of default under the Subordinated Term Credit Agreement, the Subordinated Majority Lenders will be restricted from declaring all amounts owing thereunder immediately due and payable and realizing against any of the Sponsor Collateral under the Sponsors Pledge Security:

- (a) for a period of 90 days following the occurrence of such an event of default; or
- (b) for a period of 180 days following the occurrence of such an event of default if the aggregate amount outstanding under the Subordinated Term Credit Facility (including the amounts committed and undrawn under any letters of credit issued thereunder and hedging agreements thereunder) is less than 10% of the aggregate Total Subordinated Debt (as defined below but excluding any redemption premium on the Bonds),

provided however that these restrictions will not apply in certain circumstances, including (i) the dissolution, liquidation, winding-up, insolvency or bankruptcy of the Company, (ii) the termination of the Concession Agreement or the termination of the Concessionaire’s interest therein, or (iii) if the failure to pay interest owing under the Subordinated Term Credit Facility or the Bonds occurs more than twice over the term thereof. These restrictions do not restrict or limit the ability of the Security Agent, following an event of default under the Master Security Agreement, to begin enforcement proceedings for the purposes of preparing for realization on or against any of the Sponsor Collateral.

“Total Subordinated Debt” means, at any time, the total of (a) the sum of (i) the aggregate committed and undrawn principal amount of the Tranche A Credit Facility and the Tranche B Credit Facility at that time, being originally \$389 million, as the same may be reduced from time to time by cancellation or drawdown, and (ii) the principal amount outstanding and accrued and unpaid interest under the Tranche A Credit Facility, the Tranche B Credit Facility and the Tranche C Credit Facility at that time, and (iii) the amount payable on termination of any hedging agreements entered into pursuant to the Subordinated Term Credit Facility as if terminated at that time, and (b) the sum of (i) the outstanding principal amount and accrued and unpaid interest on the Bonds at that time, and (ii) in general, the amount, if any, by which the redemption price of the Bonds (if redeemed at that time) would exceed the outstanding principal amount of the Bonds at that time.

Also, an event of default under the Cost Over-Run Funding Agreement or under the Design Build Agreement will constitute an event of default under the Subordinated Term Credit Agreement, but will only grant the Subordinated Bank Lenders the right to realize on the Sponsor Collateral pledged by SNC-Lavalin Inc. and/or 407 Toronto Highway, B.V. See “Details of the Offering — Additional Security”.

### **Subordinated Convertible Debenture**

The Company has issued to CDPQ, in exchange for an investment of \$125 million, an unsecured subordinated convertible debenture (the “Convertible Debenture”) maturing on December 31, 2045 and bearing interest at the rate of 6% per annum until May 5, 2005, which rate of interest will increase by one-quarter of one percent at the end of each six months thereafter up to a maximum of 8% per annum from November 5, 2008, calculated and compounded semi-annually. The principal and interest shall not be payable prior to May 5, 2005, and, from that date, shall only be payable in the event that the Company has monies on hand which it shall not be required to pay or retain to avoid default under the terms and conditions of the Junior Bridge Credit Facility and the Sponsors Subordinated Credit Facility. During the period of twelve months from May 5, 2004, CDPQ has the option to convert all or a portion of the principal amount of the Convertible Debenture into common shares of the Company on the basis of one common share for each dollar of the principal amount of the Debenture, with such conversion price being subject to adjustment.

The Convertible Debenture has been pledged by CDPQ as security for the obligations under the Bonds and the Indenture, but only for so long as any amounts drawn under the Junior Bridge Credit Facility remain outstanding.

## **DETAILS OF THE OFFERING**

### **The Bonds**

The securities offered by this prospectus are \$300,000,000 in principal amount of 9.00% 407 Capital Markets Platform Subordinated Bonds, Series 00-C1, due August 15, 2007 (the “Bonds”). The Bonds are being issued as part of the Capital Markets Platform described under “Capital Markets Platform” and are governed by the Indenture, the Twelfth Supplemental Indenture (defined below) and the Master Security Agreement (defined below). The following is a summary of the material attributes and characteristics of the Bonds which does not purport to be complete. For full particulars, reference should be made to the Indenture, the Twelfth Supplemental Indenture and the Master Security Agreement.

### **General**

The Bonds will be issued pursuant to the supplemental indenture dated May 31, 2000 between the Company, the Concessionaire and the Trustee (the “Twelfth Supplemental Indenture”) providing for the creation and issue of the Bonds. The aggregate principal amount of the Bonds which may be issued under the Twelfth Supplemental Indenture is limited to \$300,000,000. The Bonds will be direct obligations of the Company secured in the manner provided for under the Indenture and, in addition, will be secured by the Sponsor Collateral pursuant to the Sponsors Pledge Security as described below. See “Capital Markets Platform — Security” and “Details of the Offering — Additional Security”. As Indebtedness under the Capital Markets Platform, the Bonds will generally rank subordinate to all present and future senior and junior indebtedness of the Company secured pursuant to the Indenture, and will generally rank *pari passu* with all present and future subordinated indebtedness of the Company secured pursuant to the Indenture, including the Subordinated Term Credit Facility, subject to any sinking fund reserves or Series Reserve Accounts established for any particular Series of Subordinated Bonds. The Bonds will rank in priority to the Subordinated Debt arising pursuant to the Sponsors Subordinated Credit Facility as a consequence of the subordination agreement to be entered into between the Trustee, the Subordinated Bank Lenders and the Sponsors.

The Bonds will be dated May 31, 2000, will bear interest at the rate of 9.00% per annum from and including the date of issue of such Bonds, payable on February 15 and August 15 of each year, commencing on August 15, 2000, and will mature on August 15, 2007.

### **Form and Denomination**

The Bonds will be issued in the form of a global bond (the “Global Bond”), registered in the name of CDS & Co., as nominee of The Canadian Depository for Securities Limited (“CDS”) and held by CDS. The beneficial interest in the Global Bond will be represented through book-entry accounts to be established and maintained by CDS for financial institutions acting on behalf of beneficial owners as direct and indirect

participants of CDS. Investors may elect to hold interests in the Global Bond directly through CDS in Canada, or Cedelbank (or its successor) or Euroclear in Europe, if they are participants of such systems or indirectly through organizations which are participants in such systems. Cedelbank (or its successor) or Euroclear will hold interests on behalf of their participants through customers' securities accounts in Cedelbank (or its successor) or Euroclear's respective names on the books of a Canadian Schedule 1 chartered bank, which in turn will hold such interests in customers' securities accounts in the name of the Canadian Schedule 1 chartered bank on the books of CDS.

### **Redemption**

Under the Twelfth Supplemental Indenture, the Bonds may be redeemed in whole or in part at the option of the Company at any time, upon not less than 30 days' and not more than 60 days' notice to the holders of the Bonds to be redeemed, and upon deposit with the Trustee or CDS, on the redemption date, of the redemption price. The redemption price is calculated as the greater of: (i) the face amount of the Bond to be redeemed; and (ii) that price which will provide a yield to the maturity of such Bond equal to the average of the yields to maturity calculated by two investment dealers selected by the Company, on the business day preceding the day on which the notice of redemption is given, of a Government of Canada bond with a similar term to maturity (calculated from the redemption date) plus 0.65% (the "Canada Yield Price") plus in each case any accrued and unpaid interest on the Bonds.

The Twelfth Supplemental Indenture provides that if less than all the Bonds of a Series are to be redeemed, the Bonds of the Series to be redeemed shall be redeemed on a pro rata basis based on the principal amount of the Bonds of that Series held by each Bondholder; provided, however, that no such partial redemption shall reduce the portion of the principal amount of such Bond not redeemed to less than the minimum authorized denomination for Bonds of that Series.

### **Prepaid Interest Reserve Account**

An amount equal to two full years of interest payable on the Bonds will be deposited into the Prepaid Interest Reserve Account for the Bonds being an amount equal to the aggregate amount of interest payable on the Bonds for the first four semi-annual interest payment dates commencing on August 15, 2000 and ending on February 15, 2002 and a portion of the fifth semi-annual interest payment date on August 15, 2002 being, in the aggregate, \$54 million, which will be pre-funded from the net proceeds from the sale of the Bonds. Amounts in the Prepaid Interest Reserve Account will be used to fund the semi-annual interest payments due on the Bonds. The Company shall be entitled to pay interest on the Bonds out of amounts available in the Prepaid Interest Reserve Account notwithstanding that such payment would otherwise be restricted pursuant to the terms of the Twelfth Supplemental Indenture. See "Details of the Offering — Restriction on Payments on the Bonds". Upon the occurrence of an Event of Default under the Indenture, any amount remaining in the Prepaid Interest Reserve Account for the Bonds will be available to fund interest payments on the Bonds.

### **Series Reserve Account**

No Series Reserve Account will be established for the Bonds. In addition, the Company shall not be required to deposit any amount into the Junior/Subordinated Debt Service Fund in respect of interest on the Bonds until February 15, 2002 when amounts in the Prepaid Interest Reserve Account shall no longer be sufficient to fully pay the next semi-annual interest payment on the Bonds.

### **Restriction on Payments on the Bonds**

The Twelfth Supplemental Indenture prohibits the Company from making any payments of principal or interest on account of the Bonds, other than interest payments on the Bonds from the Prepaid Interest Reserve Account, or from the net proceeds of Subordinated Debt issued to one or more of SNC-Lavalin Inc., Capital d'Amérique CDPQ Inc., Cintra Concesiones de Infraestructuras de Transporte, S.A. or Grupo Ferrovial, S.A. (or any of their respective subsidiaries or affiliates) (the "Principal Sponsors") which is further subordinated to



the indebtedness under the Bonds (“Permitted Sponsor Subordinated Debt”), or from the issue of any equity securities of the Company, unless the Company delivers to the Trustee the following certificates:

- (i) a certificate from the Consultant (as defined above under “Capital Markets Platform — Indenture Terms Glossary”) certifying, at the applicable time, that the estimated Net Revenues, on the basis of reasonable and prudent projections, assumptions and hypotheses, for the next 12 calendar months will be at least equal to 135% of the Annual Senior Debt Service for such 12-month period;
- (ii) an Officers’ Certificate certifying, at the applicable time, that Net Revenues for the 12 calendar months most recently ended were at least equal to 135% of the Annual Senior Debt Service for such 12-month period; and
- (iii) an Officers’ Certificate certifying, at the applicable time, that the Company is in compliance with the financial tests set forth in the Rate Covenant (as described above under “Capital Markets Platform — Rate Covenant”).

Notwithstanding such restriction on payment, interest, including interest on overdue interest, will continue to accrue on the Bonds until paid.

### **Additional Restrictions**

In addition to the covenants in the Indenture, the Twelfth Supplemental Indenture for the Bonds shall restrict the issue of any additional Senior Bonds if such issue would result in a withdrawal or reduction of the then current ratings on the Bonds and shall restrict the Company from issuing to any of the Principal Sponsors any Subordinated Debt other than Permitted Sponsor Subordinated Debt.

### **Covenants**

The Twelfth Supplemental Indenture incorporates by reference all of the covenants contained in the Indenture.

### **Additional Security**

In addition to the security granted pursuant to the Indenture, the Bonds will be secured, *pari passu* with obligations under the Subordinated Term Credit Facility, by a first priority lien and security interest in the shares and the convertible debenture of the Company (the “Sponsor Collateral”) held by SNC-Lavalin, 407 Toronto Highway, B.V. (“407 B.V.”) (an indirect wholly owned subsidiary of CINTRA) and CDPQ (collectively, the “Sponsors”), pursuant to various pledge agreements and similar instruments in favour of the security agent under the Master Security Agreement (such pledge agreements or similar instruments are collectively referred to as the “Sponsors Pledge Security”). The Sponsors Pledge Security is for the benefit of the holders of the Bonds and for the lenders under the Subordinated Term Credit Facility. The rights and obligations of the holders of the Bonds and the Subordinated Bank Lenders with respect to the Sponsor Collateral are governed by an agreement (the “Master Security Agreement”) between the Company, the Sponsors, the administrative agent under the Subordinated Term Credit Agreement, as agent for the Subordinated Bank Lenders (the “Administrative Agent”), the Trustee, as agent for Bondholders, and the security agent (the “Security Agent”) appointed as the holder of the security interest in the Sponsor Collateral held for the benefit of the Bondholders and the Subordinated Bank Lenders. See “Existing Indebtedness — Subordinated Term Credit Facility”.

The Master Security Agreement contains usual and customary covenants of an agreement of this nature and provides, in general, that any proceeds arising from the realization of all or any part of the Sponsor Collateral pursuant to the exercise of any enforcement right shall be distributed on a *pro rata* basis between the Subordinated Bank Lenders and the holders of the Bonds, based on the aggregate amount of the Total Subordinated Debt held by each such group.

Upon the occurrence of an event of default under the Master Security Agreement, either the Administrative Agent or the Trustee can elect to instruct the Security Agent to take action against the Sponsor Collateral pursuant to the Sponsors Pledge Security if so directed by, in the case of the Bondholders, a favourable vote, by written instrument, executed by holders representing not less than 25% of the outstanding

principal amount of the Bonds or, in the case of the Subordinated Bank Lenders, a favourable vote of the Majority Subordinated Lenders (as such term is defined in the Subordinated Term Credit Agreement). However, the Security Agent is only entitled to realize on the Sponsor Collateral pledged pursuant to the Sponsors Pledge Security in accordance with their terms at the expiry of 90 days following the occurrence of such an event of defaults, except in the circumstances involving (i) the dissolution, liquidation, winding-up, insolvency or bankruptcy of the Company, (ii) the termination of the Concession Agreement or the termination of the Concessionaire's interest therein, or (iii) the failure to pay interest owing under the Bonds or under the Subordinated Credit Agreement within three business days when due, where such failure has occurred more than twice, or the failure to pay principal owing under the Bonds when due. Also, in the event that the aggregate amount owing to the Subordinated Bank Lenders (including any amount payable on termination of hedging agreements thereunder) is less than 10% of the sum of the Total Subordinated Debt, the Administrative Agent is prohibited from instructing the Security Agent to enforce on or against any or all of the Sponsor Collateral pursuant to any of the Sponsors Pledge Security for an additional 90 day period unless certain events occur, in which case this restriction applicable to the Subordinated Bank Lenders will not apply, including (a) the dissolution, liquidation, winding-up, insolvency or bankruptcy of the Company, or (b) the termination of the Concession Agreement or the termination of the Concessionaire's interest therein. These restrictions do not restrict or limit the ability of the Security Agent, following an event of default under the Master Security Agreement, to begin enforcement proceedings for the purposes of preparing for realization on or against any of the Sponsor Collateral.

The events of default under the Master Security Agreement include:

- (a) in the case of the Administrative Agent, an event of default under the Subordinated Term Credit Agreement and, in the case of the Trustee, an event of default under the Subordinated Term Credit Agreement which has resulted in the acceleration of amounts due thereunder or a payment event of default under the Subordinated Term Credit Agreement has occurred;
- (b) an event of default under the Indenture or the Twelfth Supplemental Indenture;
- (c) a breach by a Sponsor under the Master Security Agreement or any of the Sponsors Pledge Security (including any representation or warranty therein), the dissolution, liquidation, winding-up, insolvency or bankruptcy of a Sponsor, or with respect to SNC-Lavalin Inc. and 407 B.V. only, a breach by any such Sponsor under the Cost Over-Run Funding Agreement (a "Sponsor Event of Default"); and
- (d) the failure to pay principal when due under the Bonds or the failure to pay interest or any other amounts owing under the Bonds within three business days when due, notwithstanding that the Company may not be required or entitled to make any such payment under the Indenture or the Twelfth Supplemental Indenture, and notwithstanding that such non-payment may not constitute an event of default thereunder.

Subject to the rights of the Subordinated Bank Lenders, if an event of default under the Master Security Agreement has occurred and is continuing, Bondholders may, by written instrument, direct the Trustee to waive such an event of default or annul any action, or refrain from taking any action which may be permitted to be taken under the Master Security Agreement or under any of the Sponsors Pledge Security, by a favourable vote in this regard by Bondholders representing not less than 50% of the outstanding principal amount of the Bonds.

If the event of default under the Master Security Agreement constitutes a Sponsor Event of Default, then no action can be taken to enforce or realize on or against any of the Sponsor Collateral pledged pursuant to any of the Sponsors Pledge Security given by any other Sponsor to whom the Sponsor Event of Default does not apply. In addition, with respect to the Sponsor to whom the Sponsor Event of Default applies, if the Sponsor Event of Default constitutes, in general, the dissolution, liquidation, winding-up, insolvency or bankruptcy of a Sponsor or a breach by a Sponsor under the Master Security Agreement or any of the Sponsors Pledge Security, the Security Agent is only entitled to take all necessary proceedings to protect and preserve the priority and perfection of its security interest in the subject Sponsor Collateral. If an event of default occurs under the Cost Over-Run Funding Agreement, which has not been cured or waived, the Security Agent may, only at the written direction of the Administrative Agent and subject to the provisions of the Master Security Agreement, realize on or against the Sponsor Collateral pledged by SNC-Lavalin Inc. and/or 407 B.V. See "Existing Indebtedness —

Subordinated Term Credit Facility”. In connection with the enforcement or realization on or against any of the subject Sponsor Collateral of a particular Sponsor as a consequence of a Sponsor Event of Default of such Sponsor, the Security Agent will, in general, recognize any purchase rights granted pursuant to the Shareholders’ Agreement.

In the event that the holders of Bonds realize against the securities of the Company which constitute part of the Sponsor Collateral, in whole or in part, prior to May 5, 2004, such shares will continue to be subject to the terms and conditions of the Restriction Agreement. Realization by way of foreclosure on all or any part of the Sponsor Collateral must be approved both by the Subordinated Bank Lenders and by the holders of the Bonds by Extraordinary Resolution of such holders. Either the Subordinated Bank Lenders or the holders of the Bonds may, by approval of the requisite percentage of such Subordinated Bank Lenders or the holders of the Bonds, require the Security Agent to commence realization by way of sale. Realization by way of sale of all or any part of the Sponsor Collateral may require consents under the Restriction Agreement. The Restriction Agreement restricts the right of a holder of shares of the Company to transfer or encumber its interests therein. See “Business of the Company — Concession and Ground Lease Agreement — Transfers/Encumbrances”.

Under the provisions of the Master Security Agreement, the Administrative Agent has agreed that if an event of default has occurred and is continuing under the Master Security Agreement, at the request of one or more of the Sponsors, the Subordinated Bank Lenders will assign and transfer to the Sponsors, or any one or more of them, all of the rights of the Subordinated Bank Lenders under the Subordinated Term Credit Agreement for an amount equal to the sum of (i) the outstanding principal amount under the Subordinated Term Credit Agreement, (ii) all accrued and unpaid interest and all other amounts payable thereunder, (iii) the amount equal to the aggregate amount of committed and undrawn available credit under the Tranche A Credit Facility and the Tranche B Credit Facility, and (iv) the amount payable in connection with termination of the hedging agreements under the Subordinated Term Credit Agreement (or for such other amount as may be agreed to between such assignee Sponsor(s) and the Subordinated Bank Lenders) provided that the Subordinated Bank Lenders and the Administrative Agent are released from their obligations under the Subordinated Term Credit Agreement.

#### **Release of Additional Security**

Under the provisions of the Master Security Agreement, and after May 5, 2004, upon meeting certain conditions, SNC-Lavalin, 407 B.V. and CDPQ shall be entitled to have a portion of the Sponsor Collateral (calculated as a percentage) released so that after giving effect to such release, the appraised value of the remaining Sponsor Collateral (the “Remaining Sponsor Collateral”) which is subject to the Sponsors Pledge Security is twice the amount of the Total Subordinated Debt (calculated excluding any accrued and unpaid interest and excluding any redemption premium on the Bonds) then outstanding at the time of such release, such conditions to include the following:

- (a) a written instrument of the Sponsors requesting the release of the Sponsor Collateral;
- (b) an Officer’s Certificate of the Company certifying that at the date of such request:
  - (i) estimated Net Revenues, on the basis of reasonable and prudent projections, assumptions and hypotheses, for the next twelve (12) calendar months will be at least equal to one hundred and thirty five percent (135%) of the Annual Senior Debt Service for such twelve (12) month period;
  - (ii) Net Revenues for the twelve (12) calendar months most recently ended were at least equal to one hundred and thirty five percent (135%) of the Annual Senior Debt Service for such twelve (12) month period; and
  - (iii) the Company is in compliance with the Rate Covenant;

- (c) written confirmation from each Rating Agency that then has a current rating on any of the then outstanding Bonds that the release of the Sponsor Collateral will not result in a withdrawal or reduction of the then current rating on the Bonds;
- (d) written confirmation from a specified Appraiser of the appraised value of the Remaining Sponsor Collateral, such appraised value to be determined not earlier than ninety (90) days prior to the date of such release; and
- (e) an Officer's Certificate of the Company certifying at the date of such release:
  - (i) the amount of Total Subordinated Debt (calculated excluding accrued and unpaid interest and excluding any redemption premium on the Bonds), and
  - (ii) to the effect that the appraised value of the Remaining Sponsor Collateral is at least twice the amount of the Total Subordinated Debt (calculated excluding accrued and unpaid interest and excluding any redemption premium on the Bonds).

In addition, the right of SNC-Lavalin, 407 B.V. and CDPQ to have a portion of the Sponsors Collateral released will be subject to the following additional conditions for the benefit of the Subordinated Bank Lenders, which conditions may be unilaterally waived by the Administrative Agent on behalf of the Subordinated Bank Lenders:

- (a) the sum of the outstanding principal amount, the committed, and undrawn amount, under the Tranche B Credit Facility, if any, and accrued and unpaid interest under the Subordinated Term Credit Facility and amounts payable on termination of hedging agreements entered into thereunder is not more than \$40 million;
- (b) the Company having issued additional Senior Bonds having a rating of A or better by a certain Rating Agency with the net proceeds thereto to the Company (after deduction of all costs, expenses, commissions, debt service reserve amounts and similar amounts) being not less than \$200,000,000;
- (c) the Tranche A Credit Facility has been repaid in full; and
- (d) on the later of clauses (b) and (c), an updated version of the revenue projection model of an independent traffic consultant confirming that the Project (as defined in the Indenture) is financially performing and projected to perform at least as well as projected as of such date in the May, 1999 version of the said model; and
- (e) no default or event of default exists under the Subordinated Term Credit Agreement.

If the foregoing is satisfied, the Sponsor Collateral will be partially released from the lien of the Sponsors Pledge Security to result in the security maintaining a lien in respect of the Remaining Sponsor Collateral only.

### **Remedies**

The limitations and restrictions generally applicable to Subordinated Bonds are described in the Indenture. See "Capital Markets Platform — Subordinated Bonds". In particular, holders of Bonds are not entitled to 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 senior and junior indebtedness issued by the Company pursuant to the Indenture have enforced their rights and remedies pursuant to the provisions thereof.

However, following the occurrence and continuance of an event of default under the Master Security Agreement, the holders of the Bonds are entitled to enforce their rights and remedies under the Sponsors Pledge Security, subject to certain restrictions and limitations. See "Details of the Offering — Additional Security". Such rights and remedies under the Sponsors Pledge Security include the right to realize against the Sponsor Collateral, in whole or in part, and other usual and customary rights and remedies, and the rights and remedies of the Security Agent against any Sponsor under the Sponsors Pledge Security is limited to such Sponsor's interest in the Sponsor Collateral.

## MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis by management of the financial conditions and results of operations of the Company is qualified by and should be read in conjunction with the financial statements and the accompanying notes contained elsewhere in this prospectus and the disclosure contained throughout this prospectus. For the purposes of this section of the prospectus, unless the context otherwise requires, references to the “Company” are to the Company and the Concessionaire on a consolidated basis. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars and determined on the basis of Canadian generally accepted accounting principles.*

### **Background**

407 International Inc. (the “Company”) was incorporated by Cintra Concesiones de Infraestructuras de Transporte, S.A. (“Cintra”) and SNC-Lavalin Inc. (“SNC-Lavalin”) on March 17, 1999 for the purpose of submitting a bid to the Province of Ontario (the “Province”) for the acquisition of 407 ETR Concession Company Limited (the “Concessionaire”). The Company was selected as the successful bidder and on May 5, 1999 it acquired all of the outstanding shares of the Concessionaire.

The Province established Ontario Transportation Capital Corporation (“OTCC”) in 1993 to oversee the design, construction, operation, maintenance and management of Highway 407. Highway 407 was subsequently opened to traffic in June 1997 and commenced tolling as the world’s first all electronic, open-access toll highway in October 1997. The average weekday trips have since increased from approximately 100,000 to 243,000 by March 31, 2000.

The decision to sell and thereby privatize Highway 407 was announced by the Province on February 20, 1998. On April 6, 1999, OTCC was continued by the Province as a share capital corporation under the *Business Corporations Act* (Ontario) under the name 407 ETR Concession Company Limited and entered into a 99-year concession and ground lease agreement (the “Concession Agreement”) with the Province. Together with the 407 Act, the Concession Agreement establishes the Concessionaire’s principal rights and obligations with respect to Highway 407. Management’s main focus since the acquisition of the Highway has been to effect the transition of the Concessionaire into the private sector while complying with the Concession Agreement and maintaining Highway 407 to safety standards that meet or exceed the standards set by the Ontario Ministry of Transportation (“MTO”).

### **Highway 407**

The Concession Agreement requires the Concessionaire to develop, design and build the Highway 407 Central Deferred Interchanges, Highway 407 West Extension and Highway 407 East Partial Extension. In addition, the Concessionaire is required to finance, operate, rehabilitate and toll Highway 407 Central. When the construction of the extensions is complete, Highway 407 will be approximately 108 kilometres in length.

The 69-kilometres, which is Highway 407 Central, was constructed in three phases. The first phase was opened to traffic in June 1997 and represents 36 kilometres stretching from Highway 410 to Highway 404. Another 12 kilometres from Highway 410 to Highway 401 and 9 kilometres from Highway 404 to Markham Road were completed in December 1997 and February 1998 respectively, and finally the third phase running 12 kilometres from Highway 401 southerly to Highway 403 was open to traffic in September 1998. Highway 407 Central was determined to be substantially complete on April 1, 1998 at which point OTCC began to recognize revenues for accounting purposes.

Prior to the acquisition by the Company on May 5, 1999, the Concessionaire was owned by the Province and operated under the name OTCC. The audited financial statements of OTCC are included in this prospectus for the periods ended March 31, 1997 and 1998. The audited March 31, 1999 financial statements which are included in the prospectus for 407 ETR Concession Company Limited were produced by the Company to reflect its current accounting policies.

The Company’s year end is now December 31 and the audited financial statements for the period between March 17, 1999 and December 31, 1999 including the operations of Concessionaire from May 5, 1999 to

December 31, 1999, as well as the unaudited financial statements for the period between January 1, 2000 and March 31, 2000, including the operations of the Concessionaire, are included in this prospectus. The following analysis reviews the 1999 operations relative to previously published future oriented financial information (“FOFI”) for the same period and provides an outlook on the upcoming year based on FOFI for 2000 which is included in this prospectus. The analysis also reviews the results of operations for the first three months of 2000.

**Financial Results**  
(in thousands of dollars)

	January 1 to March 31, 2000	March 17 to December 31, 1999	
	Actual	Actual	FOFI
Revenues . . . . .	37,019	112,125	102,000
Operating expenses . . . . .	22,487	61,074	55,254
Operating income . . . . .	<u>14,532</u>	<u>51,051</u>	<u>46,746</u>
Operating income/revenues . . . . .	39%	46%	46%

The FOFI for 2000 described below is based upon the assumptions set out in the “Notes to the Forecast Consolidated Statement of Operations” contained elsewhere in this prospectus. The reader is cautioned that some assumptions used in the preparation of the forecast may not materialize and unanticipated events and circumstances may occur subsequent to the date of the forecast. The Company’s outlook for 2000 is based on assumptions at April 14, 2000. Therefore, the actual results achieved during the forecast period will vary from the forecast and the variations may be material. There is no guarantee that the forecast will be achieved in whole or in part.

**Operating Results**

Operating income of \$51.0 million recognized for the 1999 period surpassed 1999 FOFI of \$46.7 million by approximately 9%. Higher revenues and controlled operating margins contributed to this performance. Operating income for the first three months of 2000 was \$14.5 million.

*Revenues*

Revenues are composed of principally toll revenues coupled with amounts charged for, among others, video account surcharges, transponder surcharges and fees on overdue accounts. Toll revenues are generated from both transponder and video users that are charged on a distance traveled, time of day and vehicle classification basis. During the period ended December 31, 1999, approximately 50 million trips were registered surpassing the Company’s FOFI assumption for 1999 by approximately 1 million trips. Higher traffic volumes coupled with greater than anticipated administration fees resulted in an average revenue per trip billed of \$2.38 compared with FOFI for 1999 of \$2.24 per trip. During the first three months of 2000, 18 million trips were registered, and average revenue was \$2.25 per trip.

Transponder distribution rose by 22% during 1999 reaching 346,371 transponders in circulation by December 31, 1999. Transponder penetration, however, remained at approximately 64% despite growth in traffic volumes, illustrating growth in the number of repeat commuters using the highway. As of March 31, 2000, 362,693 transponders were in circulation.

As part of its strategy, effective May 1, 2000, the Concessionaire replaced the day time peak and off-peak rates with a single day rate at \$0.105 per kilometre for light vehicles, \$0.21 per kilometre for heavy single-unit vehicles and \$0.315 per kilometre for heavy multi-unit vehicles. As well, the Concessionaire increased night rate tolls by \$0.01 per kilometre for light vehicles, \$0.02 per kilometre for heavy single-unit vehicles and \$0.03 per kilometre for heavy multi-unit vehicles. The Concessionaire also increased from the charge of \$1.00 to \$1.50 per trip for vehicles travelling without transponders.

Revenues for 2000 are expected to surpass 1999 revenues on an annualized basis mainly due to the Company's expectations for a continued upward trend in traffic volumes due to growth in new accounts and in the number of transponders issued and increases in toll rates.

*Highway Tolling, Maintenance, Administration and Depreciation and Amortization*

The principal operating expenses of the Company relate to the tolling, maintenance, administration and depreciation and amortization of Highway 407 Central. All construction costs (including interest charges) relating to the Highway 407 West Extension and Highway 407 East Partial Extension have been capitalized since construction is ongoing. The following table provides a comparison by type of expense incurred during the 1999 period with 1999 FOFI together with the operating expenses incurred for the first three months of 2000.

**Operating Expenses  
(in thousands of dollars)**

	<u>January 1 to March 31, 2000</u>	<u>March 17 to December 31, 1999</u>	
	<u>Actual</u>	<u>Actual</u>	<u>FOFI</u>
Highway tolling . . . . .	9,275	27,086 <sup>(1)</sup>	22,268 <sup>(1)</sup>
Highway maintenance . . . . .	2,812	5,538 <sup>(1)</sup>	6,244 <sup>(1)</sup>
Administration . . . . .	2,905	8,106 <sup>(1)</sup>	6,469 <sup>(1)</sup>
Depreciation and amortization . . . . .	7,495	20,344	20,273
	<u>22,487</u>	<u>61,074</u>	<u>55,254</u>

(1) The 1999 results for Operating Expenses have been reclassified to be comparable with 2000 presentation.

Tolling expenses include items such as customer service, billing, transponder distribution, customer account management as well as system operations and maintenance which is being performed by the Company's subcontractors (Raytheon Systems Canada Ltd. ("Raytheon"), CGI, and Mark IV). Effective January 1, 2000, customer service, billing, transponder distribution and customer account management is performed directly by the Concessionaire whereas these were subcontracted to Advanced Toll Management Corporation ("ATMC") in 1999. Highway tolling expenses totaling \$27.1 million for the period ended December 31, 1999 are higher than the forecast of \$22.3 million mainly due to greater than anticipated traffic volume with the resulting increases in billing and processing transactions. The toll system was operated and maintained, in 1999, by ATMC, a joint venture of Raytheon and Bell Canada, the suppliers of components of the toll system equipment. The assets of ATMC including the related operating contract were purchased by the Company effective January 1, 2000. Tolling costs for the first three months of 2000 were \$9.3 million.

FOFI 2000 tolling expenses of \$39.8 million are expected to be in-line with 1999 actual expenses, on an annualized basis, as higher costs are expected from the continued increase in the number of transactions processed by the toll system from ongoing traffic growth offset slightly by savings resulting from the acquisition of the assets of ATMC due to foregone management fees and the direct management of its tolling operations.

Tolling costs also include amounts required under the requirements of the Concession Agreement with the Province, in respect of the electronic transfer of information with MTO (required to identify video users for billing purposes), MTO enforcement services and policing costs for the Ontario Provincial Police. The Concessionaire has estimated the amounts to be paid to MTO and the Ontario Provincial Police as \$5 million and \$2.8 million, respectively, for their services in 2000.

Highway maintenance includes routine maintenance activities such as snow removal, landscaping, litter pick-up, light replacement, pavement repairs and other similar activities. This function was previously subcontracted to Canadian Highways Management Corporation ("CHMC"). CHMC was acquired by the Concessionaire on November 1, 1999 and amalgamated with the Concessionaire on January 1, 2000. The total highway maintenance costs for the period ended December 31, 1999 are \$5.5 million compared with FOFI of \$6.2 million. Actual results are slightly favourable compared with FOFI, mainly due to lower than expected winter maintenance costs in 1999 resulting from milder weather conditions than expected, fewer structural

repairs and less general maintenance required on the highway coupled with savings resulting from in-house delivery of traffic control services which were previously subcontracted. Highway maintenance costs for the first three months of 2000 were \$2.8 million.

Forecast highway maintenance costs for the year ending December 31, 2000 are expected to be \$8.2 million. These are expected to be slightly below 1999 on an annualized basis mainly due to efficiencies arising from the Company's strategy to deliver maintenance in-house and other cost savings including management fees that were previously paid to CHMC and no longer required since the acquisition of this company.

Administration costs in 1999 of \$8.1 million are higher than the 1999 FOFI of \$6.5 million. These expenses relate to the operational business management of the Highway. Administration costs are forecasted at \$13.2 million for 2000, and for the first three months of 2000, administration costs were \$2.9 million.

The Concessionaire recorded depreciation and amortization on capital assets being used to generate revenues. Depreciation and amortization expense for the period ended December 31, 1999 is \$20.3 million, which is in line with the FOFI. Depreciation and amortization expense for the first three months of 2000 was \$7.5 million.

Forecast depreciation and amortization expense for the year ending December 31, 2000 is \$34.0 million. This reflects the amortization of goodwill related to the acquisition of CHMC and the assets of ATMC as well as planned improvements to the highway and systems, and the acquisition of additional transponders to meet expected market demands.

#### *Interest and other expenses*

Interest and other expenses for 1999 were \$85.9 million compared with the 1999 FOFI of \$90.7 million. This favourable variance is mainly a result of faster than anticipated refinancing of the Senior Bridge Credit Facility. Interest and other expenses for 2000 are expected to be \$176.3 million. Interest expense in 1999 is net of a \$24.2 million gain relating to interest rate swaps terminated during 1999. These swaps were intended to hedge a U.S. bond issue, which was no longer deemed necessary based on the successful bond issues in 1999, and the current refinancing program does not foresee a U.S. dollar bond issue. The Company received a total \$57.6 million as a result of termination of interest rate forward contract agreements, with \$33.4 million being amortized over the outstanding term to maturity of the underlying debt instruments that were being hedged.

The Company was provided with a Senior Bridge Credit Facility of \$2.3 billion and a Junior Bridge Credit Facility of \$150 million, which were used to fund the acquisition of Highway 407 from the Province. The Company was further provided with a Sponsors Subordinated Credit Facility of \$775 million, to support the interest obligations under the Senior and Junior Credit Facilities, as well as to support the cost to complete the construction of the Highway 407 West Extension, the Highway 407 East Partial Extension, and the Highway 407 Central Deferred Interchanges.

In July 1999, the Company issued \$1.1 billion principal amount of Senior Bonds, representing the largest single corporate bond offering ever issued in the history of the Canadian debt capital markets. Subsequently in August 1999, the Company successfully completed a private placement of \$650 million principal amount of inflation-linked (ie. real return) Senior Bonds with a single investor and in October 1999, the Company issued \$400 million principal amount of Senior Bonds. These Bonds were issued to repay amounts owing under the Senior Bridge Credit Facility at a lower cost of interest to the Company, and consequently, compared to the forecasted interest and other expenses of \$90.7 million, the actual amount is favorable by \$4.8 million.

In 2000, the Company completed the refinancing of its Senior Bridge Credit Facility by issuing \$325 million principal amount of Replaceable Bonds in February and \$430 million principal amount of March 2000 Bonds in March.

The Company intends to make further financing arrangements by issuing Junior Bonds in 2000 to extinguish the Junior Term Credit Facility and replace it with a lower interest cost bond issue. The 2000 forecast interest and other expenses of \$176.3 million is in line with previous FOFI 2000 due to completing the replacement of the Credit Facilities earlier than planned offset by the accelerated expensing of arrangement fees related to the Sponsors Subordinated Credit Facility resulting from the earlier than anticipated refinancing.



## **Capital Programs**

In September 1999, the Concessionaire began construction of the 24 kilometre 407 West Extension from the junction of the QEW and Highway 403 in Burlington to the existing terminus of Highway 407 Central at Highway 403 in Oakville. Construction of the 15 kilometre 407 East Partial Extension from the existing easterly terminus of Highway 407 Central at Highway 48 to Highway 7 east of Brock Road is awaiting federal environmental approval which is expected in February 2000. The Highway 407 West Extension is scheduled for completion by July 31, 2001 and the Highway 407 East Partial Extension is scheduled for completion by August 31, 2001. The extensions are expected to generate a significant portion of total revenues, upon completion of construction, from new traffic on these sections and from greater trip lengths. During the period ended December 31, 1999, \$73.5 million was advanced to the construction company of which \$40 million is included as construction in progress and the remainder being a mobilization advance. The Concessionaire and Raytheon entered into an agreement on October 4, 1999 for the supply of the electronic tolling system for Highway 407 West Extension, Highway 407 East Partial Extension and the Highway 407 Central Deferred Interchanges as well as an upgrade for Highway 407 Central. The contract is for approximately \$80 million plus applicable taxes. Bell Advanced Communications (1998) Inc. and the Concessionaire have agreed to a contract for the fibre optic network for the extensions valued at approximately \$10 million plus taxes. Total capital expansion costs, including both extensions, are forecast to be \$230.7 million for the year ending December 31, 2000. The costs related to construction are currently being funded from the Sponsors Subordinated Credit Facility.

## **Liquidity and Capital Resources**

The net proceeds to the Company from the sale of the Bonds will be used primarily to repay indebtedness under the Sponsors Subordinated Credit Facility incurred in connection with the Company's acquisition of the Concessionaire. The net proceeds will also fund initial deposits required to be made by the Company pursuant to the Indenture established in connection with the Capital Markets Platform, including the Prepaid Interest Reserve Account to be established for the Bonds.

The Capital Markets Platform also provides for the issuance of commercial paper and medium-term notes and obligations under letters of credit and financial product instruments such as interest rate and currency hedging agreements. The Company uses forward interest rate contracts and interest rate swaps to hedge floating interest rate risk and thereby reduce its exposure to changes in interest rates and not for speculative purposes.

## **Year 2000**

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. The effects of the Year 2000 issue could have been experienced before and may be experienced, on, or after January 1, 2000 and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect an entity's ability to conduct normal business operations.

To minimize exposure to this issue, the Concessionaire established a Year 2000 committee, which includes all significant subcontractors, to identify the Year 2000 readiness of its tolling operating systems and its internal and external processes and systems, including dependencies with suppliers.

By September 1998, an assessment was made of the impact of the Year 2000 issues on all significant tolling operating systems, financial systems, electronic interfaces with suppliers, telephone and communications systems and automated security and access systems. Other sources of risk such as dependence on suppliers were assessed.

By January 1999, the Concessionaire completed its detailed analysis, which included detailed costing, prioritization of mission critical applications and components, request for verification of Year 2000 compliance from hardware and software vendors, and assessment of the need for contingency plans.

During 1999, the Concessionaire engaged its subcontractors CHMC, ATMC, Raytheon and CGI to conduct testing of toll operating systems, local area networks, supporting business systems and external suppliers.

The tolling operating systems and related processing systems utilize a significant amount of new operating systems that are Year 2000 compliant. The Concessionaire's major provider of toll equipment and maintenance for the tolling operation system (Raytheon) has indicated that testing has been completed and that the related systems are Year 2000 compliant. In addition, ATMC and its subcontractor CGI have also completed their testing of purchased and supported hardware/software, including all in-house developed applications. CHMC had completed testing of its operating systems and concluded Year 2000 compliance by June 1999. As of August 1999, all major operating systems, were migrated to Year 2000 compliant versions.

Suppliers of all tolling related equipment and services used by the Concessionaire that represent a potential risk have been contacted and asked for a formal statement of compliance. Business partners and customers have also been contacted where appropriate. Conformance by all suppliers was significantly completed by January 1999. The contingency planning relates to securing alternative power supplies for the highway and tolling equipment. Development of the plan was completed in June 1999.

The Concessionaire completed modifications and conversions as required to become internally Year 2000 compliant on a timely basis, without material costs. Costs related to Year 2000 have been immaterial and are expensed as incurred. To date, no material Year 2000 problems have been detected in the operations of the Company although the Company will continue to diligently monitor the situation in the foreseeable future.

Under the terms of the Share Purchase Agreement, the Province indemnifies the Company for losses, in the aggregate, above \$5 million but not exceeding \$50 million in total, incurred by the Company during the nine month period following January 1, 2000 as a result of the failure of the existing toll system to be Year 2000 compliant.

## **CORPORATE GOVERNANCE**

### **Directors and Officers**

The following table sets forth the name, municipalities of residence, office held with the Company (if any) and principal occupation of each of the directors and senior officers of the Company:

<u>Name and Municipality of Residence</u>	<u>Office Held</u>	<u>Principal Occupation</u>
Pierre Anctil <sup>(1)(2)(3)</sup> . . . . . Montréal, Québec	Director	Senior Vice President and General Manager, Equity SNC-Lavalin Group Inc. (engineering and construction firm)
Stanley Beck, Q.C. . . . . Toronto, Ontario	Director	President Granville Arbitrations Limited (arbitration and mediation services)
Santiago Bergareche Busquet . Madrid, Spain	Director	Chief Executive Officer, Grupo Ferrovial, S.A. (engineering and construction firm)
Joseph G. Fogg, III . . . . . Syossett, New York	Director	Chairman and Chief Executive Officer J.G. Fogg & Co., Incorporated (private investment firm)
Ghislain Gauthier <sup>(1)(2)(3)</sup> . . . . . Montréal, Québec	Director	Vice-President Capital d'Amérique CDPQ Inc. (portfolio manager)
Jacques Lamarre . . . . . Montréal, Québec	Director	President and Chief Executive Officer SNC-Lavalin Group Inc.
José Maria López de Fuentes . Toronto, Ontario	President and Chief Executive Officer	President and Chief Executive Officer, 407 ETR Concession Company Limited

<u>Name and Municipality of Residence</u>	<u>Office Held</u>	<u>Principal Occupation</u>
Roger Nichol . . . . . Toronto, Ontario	Director	Group Vice-President SNC-Lavalin Group Inc.
Juan Béjar Ochoa . . . . . Madrid, Spain	Director	Chief Executive Officer Cintra Concesiones de Infraestructuras de Transporte, S.A.
Alan Peters . . . . . Toronto, Ontario	Director	Partner, McCarthy Tétrault (law firm)
Rafael del Pino y Calvo-Sotelo Madrid, Spain	Director	Executive Vice-Chairman, Grupo Ferrovial, S.A.
Alvaro Echániz Urcelay <sup>(1)(2)(3)</sup> . Madrid, Spain	Director	Highway Director for North America and Financial Director Cintra Concesiones de Infraestructuras de Transporte, S.A.
Ken A. Walker . . . . . Toronto, Ontario	Chief Financial Officer and Secretary	Chief Financial Officer and Secretary 407 ETR Concession Company Limited
Peter N.T. Widdrington . . . . . London, Ontario	Director	Chairman of the Board, Laidlaw Inc. (transportation and emergency department management transportation company) Chairman, Talisman Energy Inc. (oil and gas company)

- (1) Denotes member of the Executive Committee.  
(2) Denotes member of the Audit Committee.  
(3) Denotes member of the Corporate Governance and Compensation Committee.

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

*Pierre Anctil* was Senior Vice-President of Société Pellemon (an engineering firm) from 1996 to 1997, Chief of Staff of the Office of the Leader of the Opposition in the Québec Legislative Assembly from 1994 to 1996 and Chief of Staff of the Office of the Premier in the Québec Executive Council in 1994.

*Santiago Bergareche Busquet* was Chairman of Agroman Empresa Constructora S.A. prior to February 1999.

*Jacques Lamarre* was Executive Vice-President of SNC-Lavalin Group Inc. prior to his appointment as President and Chief Executive Officer of SNC-Lavalin Group Inc. in 1996.

*José Maria López de Fuentes* is currently on secondment to the Concessionaire from his position as Portfolio Management Director for CINTRA which he has held since 1997. Prior to 1997, he was General Manager of Eyprosa, S.A., a subsidiary of FCC Group (an industrial installation firm).

*Juan Béjar Ochoa* was Development Manager of Grupo Ferrovial prior to 1998.

*Rafael del Pino y Calvo-Sotelo* was Chief Executive Officer of Grupo Ferrovial, S.A. prior to his appointment as Executive Vice-Chairman of Grupo Ferrovial, S.A. in February 1999.

*Ken A. Walker* is currently on secondment to the Concessionaire from his position as Senior Vice-President of SNC-Lavalin, which he has held since July 1995. Prior to July 1995, he was Vice-President of Bombardier Transportation Inc. (a transit systems design and construction firm).

*Peter N.T. Widdrington* was President and Chief Executive Officer of Cuddy International Corporation from 1996 to June 1999. From February 1994 to 1996 he was Chairman of the Board of Major League Baseball Properties.

## **Committees**

There are currently three committees of the Board: the Executive Committee, the Audit Committee and the Corporate Governance and Compensation Committee. The mandates of each committee of the Board are as follows:

**Executive Committee** — The Executive Committee is empowered to exercise all of the powers, authorities and discretions vested in or to be exercised by the board of directors of the Company subject to the limitations imposed in the Committee's mandate, the limitations set out in the OBCA and the limitations of the Shareholders' Agreement (as hereinafter defined).

**Audit Committee** — The Audit Committee's mandate includes meeting with the Company's auditors and reviewing the consolidated financial statements prior to the submission of the Company's consolidated financial statements to the Board. In so doing, the Committee reviews all aspects of the Company's financial accounting management procedures, including the reporting requirements of the Concessionaire pursuant to the Concession Agreement. In addition, the Committee reviews the risk management and insurance programs to minimize risk and exposure and ensure compliance with the insurance requirements under the Concession Agreement and the Capital Markets Platform.

**Corporate Governance and Compensation Committee** — The Corporate Governance and Compensation Committee is charged with monitoring the relationship between management and the Board, ensuring that the committees of the Board are staffed, reviewing the nominating process for directors and ensuring compliance with corporate governance reporting requirements. In addition, the Committee is responsible for reviewing executive and management compensation arrangements.

## **EXECUTIVE COMPENSATION**

José Maria López de Fuentes and Ken A. Walker are the only executive officers of the Company and are on secondment to the Concessionaire from CINTRA and SNC-Lavalin, respectively. In 1999, Mr. López de Fuentes was compensated in the amount of \$257,900 in salary and \$60,200 in bonus. Of this amount, \$83,000 was received directly from the Concessionaire. His remaining salary and bonus were paid by CINTRA but CINTRA was reimbursed for such aggregate amount by the Concessionaire. Neither the Company nor the Concessionaire provides any direct compensation to Mr. Walker. In 1999, Mr. Walker was compensated directly from SNC Lavalin in the amount of \$92,023 in salary, \$100,000 in bonus and \$20,000 in other compensation. SNC-Lavalin was reimbursed for such aggregate amount of compensation by the Concessionaire. The annual compensation of José Maria López de Fuentes and Ken A. Walker is subject to review by the Corporate Governance and Compensation Committee.

## **Remuneration of Directors**

None of the directors are remunerated by the Company or the Concessionaire for services rendered in their capacity as directors. Certain of the directors will receive reasonable remuneration for their services, commensurate with their duties, from the appropriate Subordinated Lender at whose nomination he or she is a member of the Board of Directors of the Company. The Company will, however, reimburse the directors for all reasonable expenses incurred in the fulfilment of their duties, including travelling expenses.

## **Directors' and Officers' Insurance**

The Company has purchased an appropriate directors' and officers' insurance policy for the benefit of the directors and officers. The Company will pay the premiums required under this insurance plan.

## **INDEBTEDNESS OF DIRECTORS AND SENIOR OFFICERS**

None of the directors or senior or executive officers of the Company, and no associate of any of them, is or has been indebted to the Company or any of its subsidiaries.

## INTERESTS OF MANAGEMENT IN MATERIAL TRANSACTIONS

Except as otherwise disclosed herein, no director, senior or executive officer, or principal shareholder of the Company, and no associate or affiliate of any of them, has any material interest in any transaction or proposed transaction which will materially affect the Company or its subsidiaries.

## PRINCIPAL HOLDERS OF SECURITIES

The following table sets out the number of securities of each class of voting securities of the Company owned of record or beneficially, directly or indirectly, by each person or company who owns of record or who is known to own beneficially, directly or indirectly, more than 10% of any class of such securities as at April 30, 2000.

Name	Designation of Class	Type of Ownership	Number of Securities	Percentage of Class
SNC-Lavalin . . . . .	Common Shares	direct	175,000,001	26.92%
CINTRA <sup>(1)</sup> . . . . .	Common Shares	indirect	475,000,002	73.08%

(1) 407 B.V., a wholly-owned subsidiary of Autopista de Toronto, S.L. Sociedad Unipersonal, which in turn is a wholly-owned subsidiary of CINTRA, is the registered holder of the 475,000,002 common shares. See also "Subordinated Lenders and Contractors" for disclosure regarding ownership of CINTRA.

Upon the conversion of the amount outstanding under the Sponsors Subordinated Credit Facility, Grupo Ferrovial and CDPQ have the potential to each become the beneficial owner of more than 10% of the outstanding shares of the Company. See "Existing Indebtedness".

Upon the conversion by CDPQ of the amount outstanding under the Convertible Debenture held by it, CDPQ has the potential to become the beneficial owner of more than 10% of the outstanding shares of the Company. See "Existing Indebtedness".

### Unanimous Shareholders' Agreement

On April 12, 1999 CDPQ, CINTRA, Grupo Ferrovial and SNC-Lavalin entered into an amended and restated subscription and unanimous shareholders' agreement, as further amended on May 27, 1999 (the "Shareholders' Agreement") pursuant to which the shareholders of the Company agreed upon the terms by which the business and affairs of the Company (together with the interests of the parties therein) will be conducted and governed. The members of the Board of Directors (as disclosed in "Corporate Governance" above) are nominees of CINTRA, Grupo Ferrovial, SNC-Lavalin and CDPQ, as applicable. The Shareholders' Agreement contains provisions regarding restrictions on the transfer of shares of the Company. In addition to general provisions with respect to restrictions on the transfer of shares of the Company, pre-emptive rights exist with respect to the issuances of new shares by the Company. The Shareholders' Agreement also provides for rights of first refusal and piggy-back rights with respect to the transfer to third parties on a private or public basis of previously issued shares. Within the parameters of the rights of first refusal, a priority right of sale is given to CINTRA and a priority right of purchase is given to SNC-Lavalin, with the objective of those two investors attaining an equal voting interest in the Company. CDPQ has also been provided with an anti-dilution right under the Shareholders' Agreement, relative to the potential interest which it could hold upon the conversion of the Convertible Debenture. Certain material decisions which would normally be made by the shareholders or the board of directors of the Company also require the unanimous consent of the parties to the Shareholders' Agreement.

In February 2000, CINTRA transferred all of the shares of the Company held by it to its wholly-owned Spanish subsidiary, Autopista de Toronto, S.L. Sociedad Unipersonal, which company became a party to the Shareholders' Agreement. Such company subsequently transferred all of those shares of the Company to its wholly-owned Dutch subsidiary, 407 Toronto Highway, B.V., which company also became a party to the Shareholders' Agreement.

## **SUBORDINATED LENDERS AND CONTRACTORS**

The following is a brief description of each of the principal contractors to and/or investors in the Company in connection with the acquisition of the Concessionaire.

### **Grupo Ferrovial, S.A.**

Grupo Ferrovial is a Spanish company involved in the design, building, operating, management and maintenance of all infrastructure type, public or private works in Spain and in other countries around the world and has expanded its activities into other areas such as environment, public services, concessions and real estate development. Consisting of approximately 100 companies, Grupo Ferrovial is majority-owned by a small group of private shareholders and has recently completed a public offering for approximately 30% of its equity shares. As at December 31, 1999, Grupo Ferrovial had consolidated total assets of 1,151,008,430,000 pesetas (CDN\$10,048,303,594 as at December 31, 1999) and consolidated gross revenues of 440,090,970,000 pesetas (CDN\$3,841,994,168 as at December 31, 1999).

### **Cintra Concesiones de Infraestructuras de Transporte, S.A.**

CINTRA was created in early 1998 to combine the activities of infrastructure development in Grupo Ferrovial in order to address the growing opportunities in the build/operate/transfer (BOT) infrastructure industry, where a greater capacity to finance and manage infrastructure is necessary. Currently, Grupo Ferrovial owns 67% of CINTRA directly, the other 33% of CINTRA is held by Ferrovial-Agroman, S.A., which is over 95% owned by Grupo Ferrovial. Grupo Ferrovial has transferred to CINTRA its existing portfolio of BOT projects, as well as all of its assets and human and technical resources in this field. CINTRA currently controls and manages 16 other highway (BOT) projects around the world and is involved in many other concession projects, such as airport and parking concessions, in Spain and around the world. As at December 31, 1999, CINTRA had consolidated assets of 740,178,412,000 pesetas (CDN\$6,461,757,529 as at December 31, 1999) and consolidated revenues of 30,893,359,000 pesetas (CDN\$269,699,022 as at December 31, 1999).

### **SNC-Lavalin Inc.**

SNC-Lavalin Inc., a wholly-owned subsidiary of SNC-Lavalin Group Inc. which is a Canadian public company listed on the Toronto Stock Exchange, represents the engineering and construction arm of SNC-Lavalin Group Inc. The SNC-Lavalin group of companies provides engineering, construction and project management services to clients in the municipal, transportation, environmental, industrial, general engineering and power markets. The SNC-Lavalin group of companies is involved in a complete range of national and international projects and maintain offices across Canada and in some 30 other countries on every continent. The SNC-Lavalin group of companies employs over 6,000 employees and is currently involved on projects in approximately 100 countries around the world. SNC-Lavalin Group Inc. had total consolidated assets of \$1,843,441,000 as at December 31, 1999 and consolidated gross revenues of \$1,270,833,000 for the year ended December 31, 1999.

The SNC-Lavalin group of companies has provided highway design and engineering services to clients in Ontario, Canada, Africa, Asia, the Caribbean and South America for more than 30 years. SNC-Lavalin itself offers consultancy and project management services in a wide variety of engineering disciplines, including conducting feasibility studies and design and construction supervision assignments on numerous design/build projects.

### **Capital d'Amérique CDPQ Inc.**

CDPQ is a wholly-owned subsidiary of Caisse de Dépôt et placement du Québec (the "Caisse"), a portfolio manager which invests the funds entrusted to it by Québec public pension and insurance plans as well as various public bodies. CDPQ is part of the Caisse's private investments group and focuses on dynamic mid-sized and large corporations with the potential for strong growth and high returns. As at December 31, 1999, the Caisse had assets under management of \$105,500,000,000 and CDPQ had a portfolio of investments of \$5,793,300,000.

## USE OF PROCEEDS

The net proceeds from the sale of the Bonds offered hereby are estimated to be \$295.2 million after deducting the Underwriters' fee and the expenses of this offering, estimated to be approximately \$5.5 million. The net proceeds from this offering will be used as to approximately \$241.2 million to repay to the Sponsors a portion of the outstanding indebtedness under the Sponsors Subordinated Credit Facility incurred for the purpose of financing the acquisition by the Company of the Concessionaire, and as to approximately \$54 million to fund the deposits required to be made to the Prepaid Interest Reserve Account for the Bonds.

## CREDIT RATINGS

Canadian Bond Rating Service Inc., Dominion Bond Rating Service Limited and Standard & Poor's Rating Services have each assigned a rating of BBB in respect of the Bonds. Credit ratings are intended to provide investors with an independent measure of the credit quality of an issuer of securities. The credit ratings accorded to the Bonds are not recommendations to purchase, hold or sell such securities inasmuch as such ratings are not 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.

## MATERIAL CONTRACTS

The only contracts which have been entered into by the Company or the Concessionaire since their incorporation (or which will be entered into on or before closing) that can reasonably be regarded as being material to a prospective purchaser of the Bonds offered hereby are as follows:

- Authorized Requester Electronic Data Services Agreement — See “Business of the Company — Facility Operating Agreements”
- Concession and Ground Lease Agreement — See “Business of the Company — Concession and Ground Lease Agreement”
- Design Build Agreement — See “Business of the Company — Construction of Extensions and Deferred Interchanges”
- Extension Toll Supply Agreement — See “Business of the Company — Tolling and Billing System”
- Indenture — See “Capital Markets Platform — Indenture”
- Police Services Agreement — See “Business of the Company — Facility Operating Agreements”
- Restriction on Transfer Agreement — See “Business of the Company — Concession and Ground Lease Agreement”
- Junior Bridge Credit Agreement, Subordinated Credit Agreement and Convertible Debenture and the Swap Agreements entered into in connection therewith — See “Existing Indebtedness”
- Share Purchase Agreement — See “Business of the Company — Introduction”
- Supplemental Indentures — See “Details of the Offering”
- Tolling, Congestion Relief and Expansion Agreement — See “Business of the Company — Tolling and Billing System”
- Underwriting Agreement — See “Plan of Distribution”
- Hedging agreements with three financial institutions entered into by the Company to hedge its interest rate risk for potential issues of Bonds by the Company, including the Bonds offered hereby.

*For full particulars of the Company's rights and obligations under these agreements, potential investors should refer to such agreements, copies of which may be inspected at the head office of the Company during normal business hours at any time during the period of distribution, subject to the Company's compliance with its confidentiality obligations.*

## PLAN OF DISTRIBUTION

Pursuant to an agreement dated May 24, 2000 (the “Underwriting Agreement”) between the Company and BMO Nesbitt Burns Inc. and CIBC World Markets Inc. as underwriters (the “Underwriters”), the Company has agreed to sell and the Underwriters have agreed to purchase on May 31, 2000 or such later date as may be agreed upon by the parties but in any event no later than July 5, 2000 all but not less than all of \$300,000,000 principal amount of the Bonds, plus accrued interest to the date of delivery, at an aggregate price of \$300,651,000 or \$1,002.17 per \$1,000 principal amount, payable in cash to the Company against delivery of the Bonds. The Underwriters will be paid an aggregate fee of \$3,750,000 on account of services rendered to the Company in connection with the offering, issue and sale of the Bonds. The obligations of the Underwriters under the Underwriting Agreement may be terminated upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Bonds if any of the Bonds are purchased under the Underwriting Agreement.

The Bonds will be offered to the public at prices to be negotiated between each purchaser and the Underwriters. Accordingly, the price at which the Bonds will be offered and sold to the public may vary as between purchasers and during the period of distribution of the Bonds. The Underwriters’ overall compensation will increase or decrease by the amount by which the aggregate price paid for the Bonds by purchasers exceeds or is less than the aggregate price paid by the Underwriters to the Company for such Bonds.

The Bonds have not been and will not be registered under the *United States Securities Act of 1933*, as amended (the “1933 Act”) and may not be offered or sold within the United States except in compliance with the registration requirements of such Act or pursuant to an exemption therefrom and in compliance with any applicable state securities laws. In connection with the offering contemplated hereby, a portion of the Bonds may be sold in the United States to U.S. persons who are “qualified institutional buyers” (as defined in Rule 144A under the *1933 Act*) in reliance on Rule 144A under the *1933 Act*. Any such sales will be made by U.S. affiliates of the Underwriters. Until 40 days after the commencement of the offering, an offer or sale of the Bonds within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the *1933 Act* if such offer or sale is made otherwise than pursuant to Rule 144A.

In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

Prior to this offering, there was no market through which the Bonds could be sold.

## CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Fraser Milner, counsel to the Company, and Davies, Ward & Beck, counsel to the Underwriters, the following is a general summary of the principal Canadian federal income tax considerations generally applicable to a holder of Bonds (a “Holder”) who acquires Bonds pursuant to this offering and who, at all relevant times, for purposes of the Tax Act, holds the Bonds as capital property and deals with the Company at arm’s length. Generally, a Bond will be considered to be capital property to a Holder provided that the Holder does not hold the Bond in the course of carrying on a business and has not acquired it as an adventure in the nature of trade. The Bonds held by certain “financial institutions” (as defined in the Tax Act) will generally not be capital property to such holders and will be subject to special “mark-to-market” rules contained in the Tax Act. This summary does not take into account these mark-to-market rules and Holders to whom these rules may be relevant should consult their own tax advisors.

This summary is based on the current provisions of the Tax Act and the Regulations thereunder and counsel’s understanding of the current published administrative practices of the Canada Customs and Revenue Agency. This summary takes into account all specific proposals to amend the Tax Act and the Regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof. This summary does not otherwise take into account or anticipate any changes in law or practice, whether by judicial, governmental or legislative decision or action, nor does it take into account tax legislation of any province, territory or foreign jurisdiction. The provisions of provincial income tax legislation vary from province to province in Canada and in some cases differ from federal income tax legislation.



This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder, and no representations with respect to the income tax consequences to any particular Holder are made. Accordingly, prospective purchasers should consult their own tax advisors for advice with respect to the tax consequences to them of acquiring, holding and disposing of Bonds, including the application and effect of the income and other tax laws of any country, province, state or local tax authority.

## **Residents of Canada**

The following summary is applicable to a Holder who, at all relevant times, for the purposes of the Tax Act and any applicable tax treaty or convention, is or is deemed to be resident in Canada. Such a Holder whose Bonds might not otherwise qualify as capital property may be entitled to obtain such qualification in certain circumstances by making the irrevocable election permitted by subsection 39(4) of the Tax Act.

### ***Taxation of Interest on Bonds***

A Holder that is a corporation, partnership, unit trust or trust of which a corporation or partnership is a beneficiary will be required to include in its income for a taxation year all interest on a Bond that accrues to the Holder to the end of that taxation year or becomes receivable or is received by the Holder before the end of that taxation year, except to the extent that such amount was included in its income for a preceding taxation year.

Any other Holder, including an individual, will be required to include in income for a taxation year any interest on a Bond received or receivable by such Holder in that year (depending upon the method regularly followed by the Holder in computing income), and, in circumstances where interest is not received or receivable, any interest on a Bond accrued to or deemed to accrue to the end of any “anniversary day” (as defined in the Tax Act) in the year, in each case, to the extent that such amount was not otherwise included in the Holder’s income for that or any preceding taxation year.

Where a Holder is required to include in income interest on a Bond that accrued before such Bond was acquired by the Holder, the Holder will be entitled to a deduction in computing income of an equivalent amount. The adjusted cost base to the Holder of the Bond will be reduced by the amount which is so deductible.

A Holder that is a “Canadian-controlled private corporation” (as defined in the Tax Act) may be liable for a refundable tax of 6 $\frac{2}{3}$ % on investment income, including interest.

### ***Disposition of Bonds***

On a disposition or deemed disposition of a Bond, a Holder will generally be required to include in income any premium deemed to be interest and the amount of interest accrued, or deemed to have accrued, on the Bond from the date of the last interest payment to the date of disposition to the extent that such amount has not otherwise been included in the Holder’s income for the taxation year or a previous taxation year.

In general, a disposition or deemed disposition of a Bond will give rise to a capital gain (or capital loss) to the extent that the proceeds of disposition, net of any accrued interest or any amount deemed to be interest and any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Bond to the Holder immediately before the disposition.

Three-quarters of the amount of any capital gain (a “taxable capital gain”) realized by a Holder in a taxation year generally must be included in the Holder’s income in that year, and three-quarters of the amount of any capital loss (an “allowable capital loss”) realized by a Holder in a taxation year generally is deducted from taxable capital gains realized by the Holder in that year. Proposed changes announced in the federal budget of February 28, 2000, if enacted, will reduce the portion of a capital gain or capital loss included in the taxable capital gain or allowable capital loss from three-quarters to two-thirds. Allowable capital losses in excess of taxable capital gains may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years to the extent and under the circumstances described in the Tax Act, subject to the budget proposals. A capital gain realized by an individual (other than certain specified trusts) may give rise to a liability for alternative minimum tax.

A Holder that is a “Canadian-controlled private corporation” (as defined in the Tax Act) may be liable for a refundable tax of 6⅓% on investment income, including taxable capital gains.

#### ***Deferred Income Plans***

Based on a certificate from the Company that the Company has issued and outstanding bonds having, in the aggregate, a principal amount of at least \$10 million that are held by at least 300 different persons, at the date of issue the Bonds will be qualified investments under the Tax Act and the Regulations thereunder for trusts governed by a registered retirement savings plan, registered retirement income fund or deferred profit sharing plan (other than a trust governed by a deferred profit sharing plan for which any employer is the Company or is a person which does not deal at arm’s length with the Company within the meaning of the Tax Act). The Bonds will not be a prohibited investment for a registered pension plan under the Tax Act and the Regulations thereunder provided that the Company is not, for purposes of the Tax Act and the Regulations thereunder, an employer who participates in the plan, a person connected with such an employer, a person that controls, directly or indirectly, in any manner whatever, such an employer or connected person or a person that does not deal at arm’s length with a member of the plan or any of the foregoing persons or partnerships.

#### ***Foreign Property***

At the date of issue, the Bonds will not be foreign property for purposes of the Tax Act and the Regulations thereunder.

#### **Non-Residents of Canada**

The following summary is applicable to a Holder who, at all relevant times, for purposes of the Tax Act and any applicable tax treaty or convention, is not resident and is not deemed to be a resident in Canada, deals with the Company at arm’s length and does not use or hold and is not deemed to use or hold a Bond in carrying on business in Canada. Special rules, which are not discussed below, may apply to a non-resident that is an insurer which carries on business in Canada and elsewhere.

#### ***Taxation of Interest and Dispositions***

Interest paid or credited or which is deemed to be paid or credited for purposes of the Tax Act on a Bond to a non-resident of Canada will not be subject to Canadian withholding tax.

A Holder who is a non-resident of Canada will not be subject to tax under the Tax Act in respect of any capital gain realized by such Holder on a disposition of a Bond.

### **RISK FACTORS**

For the purposes of this section of the prospectus, unless the context otherwise requires, references to the “Company” are to the Company and the Concessionaire as a consolidated entity.

#### **Subordination of the Bonds**

The Bonds will be issued as Subordinated Bonds of the Company and will be expressly subordinate to all senior and junior indebtedness of the Company. As of April 30, 2000, the Company had approximately \$3.03 billion of senior and junior indebtedness secured pursuant to the Indenture outstanding. Subject to the satisfaction of certain conditions contained therein, the Indenture does not limit the aggregate amount of indebtedness, including Senior Debt, Junior Debt and indebtedness ranking *pari passu* with the Bonds, that may be incurred by the Company.

#### **Restriction on Payments on the Bonds**

The Company is prohibited from making any payments of principal or interest on account of Subordinated Debt, other than interest payments on the Bonds from the Prepaid Interest Reserve Account or from the net proceeds from the issuance of Permitted Sponsor Subordinated Debt, unless the Company is in compliance with the financial tests set forth in the Twelfth Supplemental Indenture. See “Details of the Offering — Restriction

on Payments on the Bonds”. At the present time, the Company may be unable to make any payments to the holders of the Bonds, other than interest payments paid out of the Prepaid Interest Reserve Account.

### **Restriction on Realization of Sponsor Collateral**

In the event that the holders of Bonds realize against the shares of the Company which constitute part of the Sponsor Collateral, in whole or in part, prior to May 5, 2004, such shares will continue to be subject to the terms and conditions of the Restriction Agreement. The Restriction Agreement restricts the right of a holder of shares of the Company to transfer or encumber its interests on such shares. See “Business of the Company — Concession and Ground Lease Agreement — Transfers/Encumbrances”.

### **Traffic Volumes and Toll Revenue**

After giving effect to the sale of the Bonds and the application of the use of proceeds therefrom, the consolidated net income of the Company on a pro forma basis for the year ended December 31, 1999 and the 12-month period ended March 31, 2000, before interest on consolidated long-term debt and income taxes, would have been insufficient to cover the interest expense on consolidated long-term debt of the Company for such period. The Company’s ability to derive sufficient toll revenues from its operation of Highway 407 to fund its 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 will be affected by, among other things, the growth in the population and the economy of the GTA and southern Ontario and the construction by the Province of competing transportation infrastructure. No assurances can be given as to the level of traffic that will use Highway 407 and the toll revenues that will result therefrom.

### **Possible Transportation Improvements**

The Company may be exposed to changes in traffic volumes as a result of the development, construction or operation of competing modes of transportation, including other highways. Corridor feasibility studies and assessment studies have been undertaken by the MTO for widening the QEW through the Halton region and widening Highway 401 through the Durham region. The implementation and construction of either of these roadways would in effect provide alternative and competitive routes to Highway 407 which could result in adverse impacts on Highway 407 traffic flows and thus toll revenues. Similarly the construction of a transitway within the Highway 407 corridor in the longer term could also have an adverse impact on the Highway 407 traffic flows and toll revenue stream. In addition, while the MTO has prepared a five-year development plan which does not contemplate the development or construction of a new competing highway, no assurances can be given that such plan will be implemented as currently contemplated or that such plan will not be otherwise revised or amended to include such new highway infrastructure.

### **Construction Risks**

In the construction of Highway 407 West Extension, 407 East Partial Extension and the 407 Central Deferred Interchanges, there is a possibility of design and engineering problems and construction related matters that can result in increased costs and delays in completion which may result in the payment of liquidated damages to the Province. No assurances can be given that completion of the Highway 407 West Extension, 407 East Partial Extension and the 407 Central Deferred Interchanges will not be delayed beyond the projected completion dates.

### **Operating and Maintenance Expenses**

The Company has projected the operating and maintenance expenses that will be incurred in the future operation of Highway 407, however, such analysis is inevitably based on assumptions as to costs of services and equipment, regulatory requirements and other matters which are not certain. Actual costs and expenses may vary from those projected by the Company and such variances may be material.

### **Adequate Insurance/Risk Management**

The Concession Agreement requires the Company to maintain certain insurance in respect of Highway 407. No assurance can be given that such insurance coverage will continue to be adequate or available on normal commercial terms.

### **Ownership of Intellectual Property and Reliance on Certain Suppliers**

The electronic toll system and related software were developed under contract with Mark IV and the predecessors of Raytheon and CGI. Although the Company has been granted a licence to use the system, it does not have ownership of the source code and other associated intellectual property. The source code and other intellectual property have been deposited with an escrow agent to ensure that the Company has access to such codes; however, such escrow agreements will continue only for so long as the agreements relating to Mark IV, CGI and Raytheon's maintenance obligations remain in effect.

### **Year 2000 Issue**

The year 2000 issue concerns the potential exposure related to computer systems and software which use two digits rather than four to define the year. On January 1, 2000, these systems and software may recognize the date as January 1, 1900 and may process data incorrectly or stop processing data altogether. The toll system and accordingly the Company's ability to charge and collect toll revenues is dependent upon computer systems and software, both its own and those of its suppliers, which may be susceptible to the year 2000 problem. To date, no material year 2000 problems have been detected in the operations of the Company or the Concessionaire; however, no assurance can be given that the Company will not detect any material year 2000 problems in the future although the probability of detection of such problem reduces over time. The Company will continue to diligently monitor the situation in the foreseeable future.

### **Default Under the Concession Agreement**

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 the Concessionaire if the Concessionaire does not rectify certain 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 the Concessionaire of the Project Lands for any use other than those permitted under the Concession Agreement (i.e., toll highway, operations centre and patrol yards); and (ii) the failure by the Concessionaire to comply with the provisions of the Concession Agreement relating to provincial highway safety standards. Other events of default by the Concessionaire under the Concession Agreement, including: (i) the failure to make payment on any amounts due to the Province under any material agreements to which the Province and the Concessionaire are parties; (ii) any material representation or warranty made by the Concessionaire 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) default under any material agreement related to Highway 407 to which the Province is a party; (v) the Concessionaire becoming bankrupt or insolvent; or (vi) a breach of the Restriction Agreement, give the Province the right to exercise certain remedies other than termination. These other remedies include 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.

### **Regulatory Approvals**

The Highway 407 project will require environmental approvals for the construction of Highway 407 East Partial and Highway 407 West Extension. Under the terms of the Concession Agreement, the Company is responsible for obtaining, furnishing, paying the cost of and maintaining all governmental approvals for the Highway. The applications for many of these approvals require the preparation of extensive documentation and consultation with regulatory agencies. The Concession Agreement imposes specific deadlines on the commencement of construction of the extensions and, as a result, it will be necessary for the Company to obtain these approvals promptly. The speed with which regulatory approvals are received will be a function of the

quality of the information provided in the applications, the capacity of regulatory staff to process applications and the willingness of regulators to work with the proponent. Some of the time required for approvals involves legislated public review time frames that cannot be shortened. There are also situations where additional public hearings or reviews may be ordered which will impact permit/approval timing. There can be no assurance that these permits or approvals can be obtained in a timely manner. Failure to do so may result in construction delays and may result in financial penalties under the Concession Agreement and toll revenue being negatively impacted.

### **Changes in Tax Laws**

No assurances can be given that changes to the tax laws currently in force affecting the Company, the Concessionaire or tolls and fees paid by users of Highway 407 will not have a material and adverse consequence to the Company in the future. No assurance can be given that proposed amendments to tax laws will be enacted into law or enacted into law as proposed. See “Canadian Federal Income Tax Considerations”.

### **Market for Securities**

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

## **ELIGIBILITY FOR INVESTMENT**

In the opinions of Fraser Milner, counsel to the Company, and Davies, Ward & Beck, counsel to the Underwriters, at the date of issue, the Bonds will not be precluded as investments, in each case subject to general investment provisions and in certain cases subject to general investment standards and the satisfaction of additional requirements relating to investment or lending policies, standards, procedures or goals, under or by the following statutes and, where applicable, the relevant regulations:

<i>Insurance Companies Act</i> (Canada)	<i>Credit Union and Caisses Populaires Act, 1994</i> (Ontario)
<i>Trust and Loan Companies Act</i> (Canada)	<i>Loan and Trust Corporations Act</i> (Ontario)
<i>Pension Benefits Standards Act, 1985</i> (Canada)	<i>Insurance Act</i> (Ontario)
<i>Cooperative Credit Associations Act</i> (Canada)	<i>An Act respecting insurance</i> (Québec), in respect of insurers other than guaranteed fund corporations, mutual associations and professional corporations
<i>Financial Institutions Act</i> (British Columbia)	<i>An Act respecting trust companies and savings companies</i> (Québec), in respect of savings companies investing their own funds and trust companies investing their own funds and deposits received by them
<i>Pension Benefits Standards Act</i> (British Columbia)	<i>Supplemental Pensions Plans Act</i> (Québec)
<i>Loan and Trust Corporations Act</i> (Alberta)	<i>Pension Benefits Act</i> (Nova Scotia)
<i>Alberta Heritage Savings Trust Fund Act</i> (Alberta)	<i>Trustee Act</i> (Nova Scotia)
<i>Insurance Act</i> (Alberta)	<i>Pension Benefits Act</i> (New Brunswick)
<i>Credit Union Act</i> (Alberta)	<i>Trustees Act</i> (New Brunswick)
<i>Employment Pension Plans Act</i> (Alberta)	<i>Pension Benefits Act, 1997</i> (Newfoundland)
<i>The Pension Benefits Act, 1992</i> (Saskatchewan)	<i>Insurance Companies Act</i> (Newfoundland)
<i>The Insurance Act</i> (Manitoba)	
<i>The Pension Benefits Act</i> (Manitoba)	
<i>The Trustee Act</i> (Manitoba)	
<i>Pension Benefits Act</i> (Ontario)	

## **LEGAL MATTERS**

The matters referred to under “Eligibility for Investment” and “Canadian Federal Income Tax Considerations” and all other legal matters relating to the issue and sale of the Bonds offered hereunder will be passed upon on behalf of the Company by Fraser Milner and on behalf of the Underwriters by Davies, Ward & Beck.

## **LEGAL PROCEEDINGS**

Neither the Company nor the Concessionaire is the subject of any material legal proceedings nor is it aware of any threatened material litigation involving the Company, the Concessionaire or their assets.

## **AUDITORS, TRUSTEE AND PAYING AGENT**

The auditors of the Company are Arthur Andersen LLP, Suite 1200, 2 Robert Speck Parkway, Mississauga, Ontario and Ernst & Young LLP, 222 Bay Street, Toronto, Ontario.

The Trust Company of Bank of Montreal is the Trustee under the Indenture and the Supplemental Indentures. Registers for the registration and transfer of the Bonds will be kept at the principal office of the Trustee in the City of Toronto. The Trustee is also the paying agent for the Bonds offered hereby.

## **PROMOTERS**

CINTRA and SNC-Lavalin have each taken the initiative in causing the incorporation and organization of the Company for the purpose of acquiring all of the shares of the Concessionaire. As such, each of CINTRA and SNC-Lavalin has acted as a promoter. See “The Company”, “Business of the Company” and “Subordinated Lenders and Contractors”.

## **PURCHASER'S STATUTORY RIGHTS**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces of Canada, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of his or her province. The purchaser should refer to any applicable provisions of the securities legislation of his or her province for the particulars of these rights or consult with a legal advisor.

## **ENFORCEABILITY OF CIVIL LIABILITIES**

CINTRA, a promoter of the Company, is a sociedad anónima organized under the laws of the Kingdom of Spain. It may be difficult or not possible for investors to effect service or process on CINTRA and to enforce outside Canada, judgments against CINTRA that are obtained in Canada in any such actions, including actions predicated upon the civil liability provisions of the federal and provincial securities laws of Canada. All or a substantial portion of the assets of CINTRA that would be subject to the civil liability provisions of such laws for a misrepresentation contained in the prospectus are located outside of Canada. CINTRA has appointed McCarthy Tétrault, Toronto as its agent for service of process in Canada and has agreed to submit to the non-exclusive jurisdiction of the courts of Ontario.

## GLOSSARY OF TECHNICAL TERMS

“**407 Act**” means the *Highway 407 Act, 1998*, as amended.

“**Existing Improvements**” means: (i) the highway that as of October 19, 1998 was part of the King’s Highway known as Number 407 located on the Highway 407 Lands including all improvements, signage, the toll system, equipment, materials and fixtures forming a part of and used in connection with Highway 407; (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 Central, as more particularly described in the Concession Agreement.

“**GTA**” means Greater Toronto Area (comprised of Metropolitan Toronto and the four surrounding regional municipalities of Durham, Halton, Peel and York).

“**Hamilton-Wentworth**” means the regional municipality of Hamilton-Wentworth.

“**Highway 407**” or “**Highway**” means collectively, Highway 407 Central, 407 West Extension, 407 East Partial Extension and the 407 Central Deferred Interchanges.

“**Highway 407 Central**” or “**407 Central**” means the portion of Highway 407 from Highway 403 in Oakville to Highway 48 in Markham.

“**Highway 407 Central Deferred Interchanges**” or “**407 Central Deferred Interchanges**” means the seven interchanges deferred during the construction of Highway 407 Central to be built or completed by the Concessionaire prior to the end of 2001.

“**Highway 407 East Partial Extension**” or “**407 East Partial Extension**” means that portion of Highway 407 to be built from Highway 48 to Highway 7 east of Brock Road.

“**Highway 407 Lands**” means the lands that are the subject of the Concession Agreement and which are also described in regulations made under the *407 Act*.

“**Highway 407 West Extension**” or “**407 West Extension**” means that portion of Highway 407 to be built from the junction of the Queen Elizabeth Way and Highway 403 in Burlington to the existing terminus of Highway 407 at Highway 403 in Oakville.

“**Project**” means Highway 407, 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, all mechanical, electrical and other systems used in connection with any of the foregoing and the Concessionaire’s leasehold interest in the Project Lands.

“**Project Lands**” means the Highway 407 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, commuter parking lots and inspection stations.

“**Tax Act**” means the *Income Tax Act* (Canada), as amended.

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## AUDITORS' REPORT

To the Directors of  
407 ETR Concession Company Limited:

We have audited the balance sheet of **407 ETR CONCESSION COMPANY LIMITED (formerly Ontario Transportation Capital Corporation)** as at March 31, 1999 and the statements of operations and accumulated deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles in Canada.

June 2, 1999  
Toronto, Canada

(Signed) ARTHUR ANDERSEN LLP  
Chartered Accountants

**407 ETR CONCESSION COMPANY LIMITED**

**BALANCE SHEET**

**March 31, 1999**  
**(thousands of dollars)**

**ASSETS**

**CURRENT ASSETS**

Cash .....	\$ 851
Accounts receivable (Note 2) .....	22,371
Due from Province (Note 3) .....	17,949
	<u>41,171</u>
CAPITAL ASSETS (Note 4) .....	1,930,475
DEFERRED FINANCING COSTS .....	12,854
	<u>\$1,984,500</u>

**LIABILITIES AND SHAREHOLDER'S EQUITY**

**CURRENT LIABILITIES**

Accounts payable and accrued liabilities .....	\$ 15,310
Due to Province (Note 3) .....	52,230
Notes payable (Note 3) .....	508,978
	<u>576,518</u>
LONG-TERM DEBT (Note 3) .....	1,000,000
OTHER LONG TERM DEBT (Note 5) .....	2,892
	<u>1,579,410</u>

**COMMITMENTS AND CONTINGENCIES (Note 6)**

**SHAREHOLDER'S EQUITY**

Contributed surplus (Note 3) .....	455,626
Accumulated deficit .....	(50,536)
	<u>405,090</u>
	<u>\$1,984,500</u>

Approved on behalf of the Board:

(Signed) JOSÉ MARIA LÓPEZ DE FUENTES  
Director

(Signed) KEN A. WALKER  
Director

*The accompanying notes are an integral part of this balance sheet.*

**407 ETR CONCESSION COMPANY LIMITED**  
**STATEMENT OF OPERATIONS AND ACCUMULATED DEFICIT**  
**For the year ended March 31, 1999**  
**(thousands of dollars)**

REVENUES .....	\$116,943
OPERATING EXPENSES	
Highway tolling .....	26,730
Highway maintenance .....	12,055
Administration .....	13,170
Depreciation and amortization .....	19,863
	71,818
INCOME FROM OPERATIONS .....	45,125
INTEREST EXPENSE .....	95,661
	(50,536)
NET LOSS .....	(50,536)
OPENING BALANCE .....	—
ACCUMULATED DEFICIT, end of year .....	\$(50,536)

*The accompanying notes are an integral part of this financial statement.*

**407 ETR CONCESSION COMPANY LIMITED**  
**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**For the year ended March 31, 1999**  
**(thousands of dollars)**

<b>OPERATING ACTIVITIES</b>	
Net loss .....	\$ (50,536)
Amortization of capital assets .....	19,863
Amortization of deferred financing costs .....	473
Cash used in operations before working capital .....	<u>(30,200)</u>
<b>CHANGES IN WORKING CAPITAL</b>	
Increase in accounts receivable .....	(8,004)
Decrease in accounts payable and accrued liabilities .....	<u>(10,088)</u>
Change in working capital .....	<u>(18,092)</u>
<b>CASH USED IN OPERATIONS</b> .....	<u>(48,292)</u>
<b>FINANCING ACTIVITIES</b>	
Net increase in due to Province .....	34,853
Net decrease in notes payable .....	(412,731)
Increase in long term debt .....	<u>502,892</u>
<b>CASH PROVIDED FROM FINANCING ACTIVITIES</b> .....	<u>125,014</u>
<b>INVESTING ACTIVITIES</b>	
Purchases of capital assets .....	<u>(75,994)</u>
<b>CASH USED FOR INVESTING ACTIVITIES</b> .....	<u>(75,994)</u>
<b>NET INCREASE IN CASH</b> .....	728
<b>CASH, beginning of year</b> .....	<u>123</u>
<b>CASH, end of year</b> .....	<u><u>\$ 851</u></u>

*The accompanying notes are an integral part of this statement.*

**407 ETR CONCESSION COMPANY LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**  
**(thousands of dollars)**

**GENERAL**

As of April 1, 1998, the central section of Highway 407 was determined to be substantially complete. As this is the first full year of operations, a Statement of Operations and Accumulated Deficit has been provided for the first time. The financial statements of the Ontario Transportation Capital Corporation for 1998 and 1997 as audited by the Ontario Provincial Auditor are contained elsewhere in this prospectus.

Effective April 6, 1999, a number of events and transactions occurred to facilitate the Province's sale of the toll highway, which was completed on May 5, 1999. Additional details on the subsequent events are outlined in Note 8.

**1. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared by management in accordance with generally accepted accounting principles. These financial statements have been prepared in accordance with accounting policies established by the new owners of the Company. The use of these accounting policies would have no effect on net loss for the years ended March 31, 1998 and 1997, as included elsewhere in this prospectus, and the effects on the balance sheet are those described below under "Changes in Accounting Policies." Included below are those accounting policies which are of significance to the Company.

**Use of Estimates**

The preparation of the financial statements of the Company in accordance with generally accepted accounting principles requires management to make estimates that affect the reported amounts and disclosures in these financial statements. Actual results may differ from these estimates.

**Revenue Recognition**

The Company recognizes toll revenue when a customer's entry and exit from the highway are matched and a toll charge is computed.

**Capital Assets**

Capital assets are recorded at cost. The costs of the toll highway includes direct construction or development costs (such as material and labour), interest and administration costs directly attributable to the construction or development activity, net of toll revenues, during the construction phase.

Depreciation and amortization charges are recorded using methods and rates determined to depreciate the cost of capital assets over their estimated useful lives in a rational and systematic manner as follows:

Toll highway . . . . .	(see below)
Tolling equipment . . . . .	10 years straight-line
Other equipment . . . . .	5 years straight-line
Operations centre . . . . .	30 years straight-line

The toll highway, principally consisting of roads and structures, is depreciated on a usage basis using projected revenues over 40 years.

**Deferred Financing Costs**

Deferred financing costs are being amortized on a straight-line basis over the term of the related debt. The amount of the amortization is included in interest expense.

**Contributed Surplus**

Contributed structures (bridges and interchange work in progress) and capitalized administration costs totalling \$201,909 contributed by the Province of Ontario are recorded at the Province's cost as contributed surplus. These structures will follow the amortization policy outlined above.

Contributed lands of \$253,717 are recorded as contributed surplus and will not be amortized.

**407 ETR CONCESSION COMPANY LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**  
**(thousands of dollars)**

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Changes in Accounting Policies**

*Transponders*

Prior to 1999, the Company chose to treat the issuance of transponders as a direct finance lease. Effective April 1, 1998 the Company is now retroactively reflecting the issuance of transponders as operating leases, noting that it would have the following impact on the balance sheets at March 31, 1998 and 1997:

Increase (decrease) in reported balance

	<b>1998</b>	<b>1997</b>
Net investment in leases . . . . .	\$(6,692)	\$ —
Current assets . . . . .	(6,692)	—
Equipment held for leases . . . . .	(4,237)	(3,025)
Other assets . . . . .	11,537	3,025
Toll highway . . . . .	(1,505)	—
Capital assets . . . . .	5,795	—
Total Assets . . . . .	(897)	—
Accounts payable and accruals . . . . .	(897)	—

There was no income statement effect in these periods, since all revenues and expenses were deferred as part of the net cost of the toll highway.

*Contributed Surplus*

Prior to April 6, 1999, the Company was subject to accounting recommendations that apply only to not-for-profit organizations. On April 6, 1999 the Company was continued as a share corporation under the Ontario Business Corporations Act. Under the not-for-profit accounting practice, when the Company received depreciable capital assets from its shareholder, the Province of Ontario, it recognized the cost of the capital assets and credited deferred revenue. Its intention was then to amortize the capital assets and the deferred revenues over the life of the capital assets, resulting in a nil income statement effect.

Under the recommendations related to profit oriented enterprises, a company should credit contributed surplus when assets are contributed from its shareholder. The 1999 financial statements retroactively reflect this treatment. The impact in 1998 and 1997 would have been as follows:

Increase (decrease) in reported balance

	<b>1998</b>	<b>1997</b>
Deferred Revenue . . . . .	\$(201,909)	\$(201,909)
Contributed Surplus . . . . .	201,909	201,909

**2. ACCOUNTS RECEIVABLE**

On March 31, 1999 accounts receivable consisted of the following:

Toll receivables . . . . .	\$19,896
Advances to facility operator . . . . .	997
Other . . . . .	1,478
	<b>\$22,371</b>

**407 ETR CONCESSION COMPANY LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**  
**(thousands of dollars)**

**3. RELATED PARTY TRANSACTIONS**

**a) Province of Ontario**

*Intercompany Accounts*

On March 31, 1999, the Company had accounts receivable and accounts payable with the Province of Ontario, and agencies of the Crown, as follows:

	<u>Due from the Province</u>	<u>Due to the Province</u>
Ministry of Transportation . . . . .	\$17,544	\$ 571
Ontario Financing Authority . . . . .	—	28,518
Ontario Realty Corporation . . . . .	—	22,619
Ministry of Finance . . . . .	405	522
	<u>\$17,949</u>	<u>\$52,230</u>

Amounts due from the Ministry of Transportation (MTO) relate to advances made to MTO for the purchase of lands for the toll highway. If subsequent phases of the highway are tolled, the Company is committed to purchase these lands from MTO, at which time the amounts due from the Province would be capitalized against land. If subsequent phases of the highway are not tolled, the Province of Ontario will pay the outstanding amount in full.

Amounts due to MTO relate to the reimbursement of administrative costs incurred on behalf of the Company.

Amounts payable to the Ontario Realty Corporation relate to amounts owing for toll highway lands acquired by the Ontario Realty Corporation on behalf of the Company.

Amounts due from and payable to the Ministry of Finance relate to provincial sales tax incurred in the normal course of business.

Management considers these transactions to be in the normal course of business and at fair market value.

*Contributed Surplus*

Contributed surplus relates to the contribution of lands and highway structures (bridge and interchange work in process) from the Province of Ontario used for the purpose of the toll highway.

**b) Ontario Financing Authority**

*Notes Payable*

The Company has entered into interim financing arrangements with the Ontario Financing Authority. On March 31, 1999, interim financing consisted of a number of promissory notes totaling \$508,978 at interest rates ranging from 5.15% to 5.65% per annum for terms not exceeding one year.

*Long-Term Debentures*

Long-term debt is comprised of two debentures to the Ontario Financing Authority as follows:

<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Interest Paid</u>
\$500,000	8.25%	June 2, 2026	Semi-annually on June 2, and December 2 of each year to maturity.
\$500,000	6.66%	August 28, 2013	Semi-annually on August 28, and February 28 of each year to maturity.

The principal sum of each debenture is payable in full on June 2, 2026 and August 28, 2013 respectively.

**407 ETR CONCESSION COMPANY LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**  
**(thousands of dollars)**

**4. CAPITAL ASSETS**

On March 31, 1999 capital assets consisted of the following:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Land . . . . .	\$ 362,016	\$ —	\$ 362,016
Toll highway . . . . .	1,452,914	(8,350)	1,444,564
Tolling equipment . . . . .	102,448	(9,105)	93,343
Other equipment . . . . .	21,961	(2,041)	19,920
Operations centre . . . . .	10,999	(367)	10,632
	<u>\$1,950,338</u>	<u>\$(19,863)</u>	<u>\$1,930,475</u>

**5. OTHER LONG-TERM DEBT**

Other long-term debt of \$2,892 represents amounts owing to a municipality for the acquisition of lands for the purpose of toll highway. The repayment of this obligation is related to toll revenues generated from the relevant interchange. Interest at the prime rate plus 3% is due on amounts outstanding once the obligation to pay in accordance with the revenue formula arises.

**6. COMMITMENTS AND CONTINGENCIES**

**Operating Agreements**

On April 1, 1997 the Company entered into an operating, maintenance, management and rehabilitation agreement with the facility operator for 30 years ending March 31, 2027 on a cost plus basis. Under this agreement, the facility operator entered into various subcontracts in order fulfill operating requirements. Of these, a major subcontract for operating, maintaining, managing and rehabilitating the toll system was entered into on April 1, 1997 for a term of 7 years on a cost plus basis, expiring on March 31, 2004.

**Concession Agreement**

The Concession Agreement, dated April 6, 1999 grants the Company a 99-year ground lease of the Highway 407 lands, the operations centre lands and the patrol yard. Under the Concession Agreement, the Company is required to develop, design and build certain extensions and further interchanges on the existing Highway 407.

Subsequent to the acquisition discussed in Note 8, the Company entered into a \$422,254 fixed price design-build agreement with certain related parties for the extensions and interchanges required by the Concession Agreement.

Under certain circumstances, the Company is subject to liquidated damages if there is a delay in the opening of these extensions and interchanges; however, the Company is indemnified, under certain circumstances, with respect to such damages pursuant to the design-build agreement.

**Possible Claims**

As at March 31, 1999 there are various claims against the Company for which a provision has been made in these financial statements. It is not possible to determine the amounts that may ultimately be assessed against the Company with respect to these possible claims. Management believes that any such amount would not have a material impact on the business or financial position of the Company.

Any settlements which may arise from those claims that have not been provided for, would be recorded against income in the periods in which they occur.

**7. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE**

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000 and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the effect of customers, suppliers, or third parties, will be fully resolved.



**407 ETR CONCESSION COMPANY LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**  
**(thousands of dollars)**

**8. SUBSEQUENT EVENTS**

**Sale of Toll Highway**

Pursuant to the Highway 407 Act, 1998, to facilitate the sale of the toll highway by the Province of Ontario, the following events and transactions took place effective April 6, 1999:

The Company was continued as a share capital corporation under the Ontario Business Corporations Act, wholly owned by the Province and renamed 407 ETR Concession Company Limited.

The Company transferred all of its land to the Province at a value of \$362,016.

Under the Concession Agreement, the Company leased back the Highway 407 lands, the operations centre lands and the patrol yard from the Province for 99 years, for a nominal amount. The Province transferred title to all improvements on Highway 407 West to the Company valued at \$38,000.

To facilitate the sale of the Company on a debt free-basis, the debt of the Company, adjusted for various transactions between the Company and the Province, was converted into contributed surplus of the Company. The adjustment to contributed surplus on April 6, 1999 is made up of the following items:

Long-term debentures and notes payable . . . . .	\$1,508,978
Due to Province . . . . .	54,645
Due from Province . . . . .	(17,992)
Deferred financing costs . . . . .	(12,847)
Highway structures . . . . .	38,000
Land for Toll Highway . . . . .	<u>(362,016)</u>
Total contributed surplus adjustments . . . . .	<u>\$1,208,768</u>

As a result of these transactions, effective April 6, 1999, contributed surplus of the Company was converted into common share capital of the Company at a value of \$1,664,394.

On May 5, 1999, the Province completed the sale of 100% of the issued and outstanding shares of 407 ETR Concession Company for proceeds of approximately \$3,107,000.

Office of the  
Provincial Auditor  
of Ontario



Bureau du  
vérificateur provincial  
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2  
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2  
(416) 327-2381 Fax: (416) 327-9862

*Auditor's Report*

To the Ontario Transportation Capital Corporation,  
the Minister of Transportation  
and to the Minister of Finance

I have audited the balance sheet of the Ontario Transportation Capital Corporation as at March 31, 1998 and the statement of changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998 and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Toronto, Ontario  
June 16, 1998

(Signed) K.W. LEISHMAN, CA  
Assistant Provincial Auditor

Office of the  
Provincial Auditor  
of Ontario



Bureau du  
vérificateur provincial  
de l'Ontario

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In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Toronto, Ontario  
June 3, 1997

(Signed) ERIK PETERS, FCA  
Provincial Auditor

**ONTARIO TRANSPORTATION CAPITAL CORPORATION**  
**BALANCE SHEET**

	As at March 31,	
	1998	1997
	(thousands of dollars)	
<b>Assets</b>		
Cash .....	\$ 123	\$ 118
Accounts receivable (note 2) .....	14,367	433
Net investment in leases (note 3) .....	6,692	0
Due from Province (Note 4a) .....	16,893	17,722
Deferred financing costs .....	13,327	13,800
Capital Assets:		
Equipment held for leasing purposes .....	4,237	3,025
Conditional mobilization advance .....	6,933	16,395
Toll highway under construction (note 4b) .....	1,522,870	1,219,407
Land for toll highway (note 4c) .....	334,509	323,710
	1,868,549	1,562,537
	<b>\$1,919,951</b>	<b>\$1,594,610</b>
<b>Liabilities</b>		
Accounts payable & accrued liabilities .....	\$ 26,295	\$ 22,409
Due to Province (note 4a) .....	16,321	17,930
Notes payable (note 4d) .....	921,709	598,829
	964,325	639,168
Long term debenture (note 4d) .....	500,000	500,000
	1,464,325	1,139,168
Deferred revenue (note 4e) .....	201,909	201,909
Contributed Surplus (note 4f) .....	253,717	253,533
Commitments and Contingencies (note 5)		
	<b>\$1,919,951</b>	<b>\$1,594,610</b>

On behalf of the Board of Directors

(Signed) GEORGE MICHAELS  
Director

(Signed) CHRIS HENLEY  
Director

*See accompanying notes to Financial Statements.*

**ONTARIO TRANSPORTATION CAPITAL CORPORATION**  
**STATEMENT OF CHANGES IN FINANCIAL POSITION**

	For the year ended March 31,	
	1998	1997
	(thousands of dollars)	
Cash provided from (used for)		
<b>Financing activities</b>		
Increase in accounts receivable . . . . .	\$ (13,934)	\$ 539
Increase in net investment in leases . . . . .	(6,692)	0
Increase in accounts payable & accrued liabilities . . . . .	3,886	(2,511)
Decrease in deferred financing costs . . . . .	473	473
Net decrease in due to Province . . . . .	(780)	(6,973)
Increase in notes payable . . . . .	322,880	415,161
Increase in deferred revenue . . . . .	0	1,905
Increase in contributed surplus . . . . .	184	0
Cash provided from financing activities . . . . .	306,017	408,594
<b>Investing activities</b>		
Additions to toll highway under construction . . . . .	(306,012)	(408,626)
Cash used for investing activities . . . . .	(306,012)	(408,626)
Net increase in cash . . . . .	5	(32)
Cash beginning of period . . . . .	118	150
Cash end of period . . . . .	\$ 123	\$ 118

**ONTARIO TRANSPORTATION CAPITAL CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year ended March 31, 1998**

**GENERAL**

The Ontario Transportation Capital Corporation (the "Corporation") was established on November 15, 1993 under the authority of the Capital Investment Plan Act (the "Act"). In accordance with the Act, the Corporation's objects are:

- i) to provide financing for transportation programs and projects;
- ii) to facilitate the development and implementation of these programs and projects as well as facilities and resources related to them; and
- iii) any additional objects as directed by the Lieutenant Governor in Council.

In accordance with the provisions of the Act, the Corporation is incorporated under the laws of Ontario. The Corporation is exempt from Federal and Provincial incomes taxes under the Income Tax Act of Canada.

**1. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants. Included below are those accounting policies which are of significance to the Corporation including those selected from acceptable alternatives.

a) **Capital assets**

Toll highway under construction.

Toll highway under construction is stated at cost.

The cost of toll highway under construction includes direct construction or development costs (such as material and labour), interest and administration costs directly attributable to the construction or development activity, net of toll revenues, and income from leases during the construction phase. Capitalization of interest and administration costs, net of toll revenues during construction ceases in fiscal year 1998/99, at which time the highway project will be substantially complete.

As a result of the capitalization of all costs and toll revenues, a statement of operations has not been prepared.

b) **Restricted Contributions**

Contributed structures (bridge and interchange work in process) and capitalized administration costs restricted for the purpose of toll highway under construction are recorded as deferred revenue and will be amortized on the same basis as the related depreciable capital assets.

Capital structures contributed by the Province of Ontario relating to the toll highway under construction are stated at the Province's cost.

Contributed lands are recognized as an increase in contributed surplus and will not be amortized. Contributed lands are recorded at estimated fair value at the date of transfer.

c) **Deferred Financing Costs**

Deferred financing costs are being amortized on a straight-line basis over the term of the related debt. The amount of the amortization is included in capitalized interest.

**2. ACCOUNTS RECEIVABLE**

	<b>1998</b>	<b>1997</b>
	(in thousands of dollars)	
Toll receivables . . . . .	\$11,354	\$ —
Due from other governments . . . . .	2,864	—
Other . . . . .	149	433
	<b>\$14,367</b>	<b>\$433</b>

**3. NET INVESTMENT IN LEASES**

The Corporation has entered into various customer agreements that enable the customer to retain a transponder. The agreements are such that substantially all of the benefits and risks of ownership of a transponder are transferred to the customer. As a result, these agreements have been reflected as direct financing leases.

**ONTARIO TRANSPORTATION CAPITAL CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year ended March 31, 1998**

**3. NET INVESTMENT IN LEASES (Continued)**

Finance income related to direct financing leases is recognized in a manner that produces a constant rate of return on the investment in leases. The investment in leases for purposes of income recognition is composed of net minimum lease payments and unearned finance income.

**4. RELATED PARTY TRANSACTIONS — PROVINCE OF ONTARIO**

a) On March 31, 1998, the Corporation had accounts receivable and accounts payable with the Province of Ontario, and agencies of the Crown, as follows:

	<b>Due from the Province</b>		<b>Due to the Province</b>	
	<b>1998</b>	<b>1997</b>	<b>1998</b>	<b>1997</b>
	(in thousands of dollars)			
Ministry of Transportation . . . . .	\$16,488	\$17,722	\$ 445	\$ 170
Ontario Financing Authority . . . . .	—	—	15,865	17,738
Ontario Realty Corporation . . . . .	—	—	—	21
Ministry of Finance . . . . .	405	—	11	1
	<b>\$16,893</b>	<b>\$17,722</b>	<b>\$16,321</b>	<b>\$17,930</b>

Amounts due from and due to the Ministry of Transportation relate to toll highway under construction. If subsequent phases of the highway are tolled, \$16 million due from the Ministry of Transportation will be capitalized against toll highway under construction.

Amounts payable to the Ontario Financing Authority relate to accrued interest costs associated with the long term debenture and promissory notes payable.

These transactions are considered to be in the normal course of business and at fair market value.

b) **Toll highway under construction**

	<b>1998</b>	<b>1997</b>
	(in thousands of dollars)	
Balance beginning of year . . . . .	\$1,219,407	\$ 832,039
Capital contribution by the Province . . . . .	—	1,905
Direct development & construction costs . . . . .	224,823	303,605
Capitalization of interest costs . . . . .	70,905	56,941
Capitalization of administration costs . . . . .	36,981	24,917
Capitalization of toll revenues . . . . .	(29,246)	—
Balance, end of year . . . . .	<b>\$1,522,870</b>	<b>\$1,219,407</b>

c) **Land for toll highway**

	<b>1998</b>	<b>1997</b>
	(in thousands of dollars)	
Balance beginning of year . . . . .	\$323,710	\$290,124
Contribution by the Province . . . . .	189	—
Acquisitions . . . . .	14,222	33,586
Disposals . . . . .	(3,612)	—
Balance, end of year . . . . .	<b>\$334,509</b>	<b>\$323,710</b>

d) **Transactions with the Ontario Financing Authority**

*Notes Payable*

The Corporation has entered into interim financing arrangements with the Ontario Financing Authority. On March 31, 1998, interim financing consisted of a number of promissory notes totalling \$922 million (1997, \$599 million) at interest rates ranging from 4.90% to 4.97% per annum (1997, 3.15% to 3.86% per annum) for terms not exceeding one year. The Corporation's financial plan is to convert these notes into longer term debt.

**ONTARIO TRANSPORTATION CAPITAL CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year ended March 31, 1998**

**4. RELATED PARTY TRANSACTIONS — PROVINCE OF ONTARIO (Continued)**

*Long term debenture*

Long term debt represents a debenture to the Ontario Financing Authority in the amount of \$500 million at an interest rate of 8.25% per annum, maturing on June 2, 2026. Interest is to be paid semi-annually on June 2 and December 2 of each and every year to maturity. The principal sum is payable in full on June 2, 2026.

It is presently contemplated that until such time as operating cashflows become positive, the Corporation will rely on financing from the Province of Ontario. Other sources of financing are also being considered.

e) **Deferred revenue**

Deferred revenue relates to the contribution of highway structures (bridge and interchange work in process) from the Province of Ontario that will be used for the purpose of toll highway under construction, as follows:

	<b>1998</b>	<b>1997</b>
	(in thousands of dollars)	
Balance, beginning of year . . . . .	\$201,909	\$200,004
Contribution by the Province of Ontario . . . . .	—	1,905
Balance end of year . . . . .	\$201,909	\$201,909

f) **Contributed surplus**

Contributed surplus relates to the contribution of lands from the Province of Ontario that will be used for the purpose of toll highway under construction.

**5. COMMITMENTS AND CONTINGENCIES**

On May 11, 1994, the Corporation entered into an agreement with a consortium of contractors to develop, design and build Highway 407 for a guaranteed maximum price of \$930 million. The Corporation's remaining obligation under this develop, design and build agreement is \$10 million. Under this same agreement, the Corporation awarded the rights to operate, manage, and maintain Highway 407 for a period of 30 years. The terms and conditions of the operating, management, and maintenance sub agreements have yet to be finalized.

On August 31, 1995, the Corporation entered into agreements to procure a toll system for the above highway totalling \$72 million. The Corporation's remaining obligation under those agreements is \$5 million.

As of March 31, 1998 there are two possible claims against the Corporation. Although a provision has been made in these financial statements for those claims, it is not possible to determine the amounts that may ultimately be assessed against the Corporation. However, management believes that any such amount would not have a material impact on the business or financial position of the Corporation.

Settlements arising from those claims, if different then the amounts provided for, would be recorded against income in the periods in which they occur.

**6. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

**7. SALARIES**

Provincial legislation requires disclosure of Ontario public sector employees paid an annual salary in excess of \$100,000 in calendar year 1997. The individuals are listed as follows:

	<b>Salary</b>	<b>Benefits</b>
Galange, Dennis . . . . . President & Chief Executive Officer	\$149,528	\$428
Garner, David . . . . . Vice President, Engineering	\$112,277	\$300



## AUDITORS' REPORT

To the Board of Directors of  
407 International Inc.:

We have audited the consolidated balance sheet of **407 INTERNATIONAL INC.** as at December 31, 1999 and the consolidated statements of operations and deficit and cash flows for the period from March 17, 1999 to December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and the results of its operations and its cash flows for the period from March 17, 1999 to December 31, 1999 in accordance with accounting principles generally accepted in Canada.

(Signed) ARTHUR ANDERSEN LLP  
Chartered Accountants

(Signed) ERNST & YOUNG LLP  
Chartered Accountants

Toronto, Canada  
January 14, 2000, except for note 15(i)  
which is as of February 2, 2000

**407 INTERNATIONAL INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(thousands of dollars)

	<u>As at March 31, 2000</u>	<u>As at December 31, 1999</u>
	(unaudited)	
<b>Assets</b>		
Current		
Cash and cash equivalents . . . . .	\$ 69,644	\$ 53,662
Restricted cash (note 6) . . . . .	62,093	98,450
Accounts receivable . . . . .	30,952	29,059
Prepaid expenses and advances on construction . . . . .	21,811	27,357
	<u>184,500</u>	<u>208,528</u>
Restricted cash (note 6) . . . . .	240,075	183,102
Capital assets (note 4) . . . . .	3,319,868	3,276,360
Other assets (note 5) . . . . .	77,293	65,041
	<u>\$3,821,736</u>	<u>\$3,733,031</u>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities . . . . .	54,017	\$ 68,919
Current portion of long-term debt (note 6) . . . . .	150	150
	<u>54,167</u>	<u>69,069</u>
Long-term debt (note 6) . . . . .	3,014,217	2,889,617
Liability component of subordinated convertible debenture (note 7) . . . . .	95,381	92,618
Deferred gains (note 10) . . . . .	39,828	32,295
	<u>3,203,593</u>	<u>3,085,599</u>
<b>Shareholders' equity</b>		
Share capital (note 8) . . . . .	650,000	650,000
Equity component of subordinated convertible debenture (note 7) . . . . .	39,243	39,243
Deficit . . . . .	(71,100)	(39,811)
	<u>618,143</u>	<u>649,432</u>
	<u>\$3,821,736</u>	<u>\$3,733,031</u>

Approved on behalf of the Board:

(Signed) ALVARO ECHÁNIZ URCELAY  
Director

(Signed) PIERRE ANCTIL  
Director

*The accompanying summary of significant accounting policies and notes are an integral part of this financial statement.*

**407 INTERNATIONAL INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(thousands of dollars)

	<b>Three months ended March 31, 2000</b>	<b>March 17 to December 31, 1999</b>
	(unaudited)	
Revenues . . . . .	<u>\$ 37,019</u>	<u>\$112,125</u>
Operating expenses:		
Highway tolling . . . . .	9,275	27,086
Highway maintenance . . . . .	2,812	5,538
Administration . . . . .	2,905	8,106
Depreciation and amortization . . . . .	<u>7,495</u>	<u>20,344</u>
	<u>22,487</u>	<u>61,074</u>
Income from operations . . . . .	14,532	51,051
Interest and other expenses, net (note 10) . . . . .	43,695	85,862
Loss before income tax . . . . .	(29,163)	(34,811)
Income tax — current (note 9) . . . . .	<u>2,126</u>	<u>5,000</u>
Net loss . . . . .	(31,289)	(39,811)
Deficit, beginning of period . . . . .	(39,811)	—
Deficit, end of period . . . . .	<u><u>\$(71,100)</u></u>	<u><u>\$(39,811)</u></u>

*The accompanying summary of significant accounting policies and notes are an integral part of this financial statement.*

**407 INTERNATIONAL INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(thousands of dollars)

	<b>Three months ended March 31, 2000</b>	<b>March 17 to December 31, 1999</b>
	(unaudited)	
<b>Operating activities</b>		
Net loss .....	\$ (31,289)	\$ (39,811)
Items not involving a movement of cash		
Depreciation and amortization .....	7,495	20,344
Accrued interest (non-current) and other .....	18,603	15,886
Deferred gains .....	8,655	32,295
	3,464	28,714
Net change in non-cash working capital items .....	(13,068)	50,072
Net cash provided by (used in) operating activities .....	(9,604)	78,786
<b>Investing activities</b>		
Acquisition of subsidiaries, net of cash (note 3) .....	(1,501)	(3,201,758)
Additions to capital assets .....	(41,460)	(61,569)
Construction advances .....	—	(33,619)
Net cash used in investing activities .....	(42,961)	(3,296,946)
<b>Financing activities</b>		
Restricted cash (note 6) .....	(20,616)	(281,552)
Proceeds on issuance of long-term debt .....	719,787	4,487,376
Repayment on long-term debt .....	(621,817)	(1,676,189)
Subordinated convertible debenture (note 7) .....	—	125,000
Debt issue costs .....	(8,807)	(32,813)
Common shares (note 8) .....	—	650,000
Net cash provided by financing activities .....	68,547	3,271,822
Increase in cash and cash equivalents .....	15,982	53,662
<b>Cash and cash equivalents, beginning of period .....</b>	<b>53,662</b>	<b>—</b>
<b>Cash and cash equivalents, end of period .....</b>	<b>\$ 69,644</b>	<b>\$ 53,662</b>

**Supplemental Information**

Cash paid for interest during the three-month period ended March 31, 2000 was \$36 million (1999 — \$70 million).

Cash paid for tax during the three-month period ended March 31, 2000 was \$6 million (1999 — nil).

*The accompanying summary of significant accounting policies and notes are an integral part of this financial statement.*

**407 INTERNATIONAL INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(thousands of dollars)**  
**(information as at and for the three-month period ended March 31, 2000 is unaudited)**

**1. NATURE OF OPERATIONS**

407 International Inc. (the "Company") was incorporated on March 17, 1999 under the *Business Corporations Act* (Ontario) on the initiative of Cintra Concesiones de Infraestructuras de Transporte, S.A. and SNC-Lavalin Inc. for the purpose of submitting a bid to the Government of Ontario for the purchase of all of the issued and outstanding shares of 407 ETR Concession Company Limited (the "Concessionaire"). On May 5, 1999, the Company acquired all of the common shares of the Concessionaire. As such, the financial statements include the results of the Concessionaire from May 5, 1999.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying consolidated financial statements of the Company are prepared in accordance with the accounting principles generally accepted in Canada.

**a) Principles of consolidation**

The consolidated financial statements include the accounts of the Company consolidated with those of its wholly-owned subsidiaries, the Concessionaire, and 1054381 Ontario Inc. ("Ontario Inc.") (formerly Canadian Highways Management Corporation). The Concessionaire amalgamated with Ontario Inc. on January 1, 2000.

The Company has accounted for the acquisition of the shares of the Concessionaire and Ontario Inc. by the purchase method, whereby the cost of the acquisition has been allocated to the identifiable assets acquired and liabilities assumed using estimates of their fair value.

**b) Revenue recognition**

The Company recognizes toll revenue upon computation of tolls resulting from a customer's utilization of the highway.

**c) Cash and cash equivalents**

Cash and cash equivalents include short-term investments with original maturities of three months or less.

**d) Capital assets**

Capital assets are recorded at cost. Depreciation and amortization charges are recorded using methods and rates determined to amortize the cost of capital assets over their estimated useful lives in a rational and systematic manner, as follows:

Operations centre . . . . .	30 years straight-line
Toll equipment . . . . .	10 years straight-line
Transponders . . . . .	5 years straight-line
Motor vehicles . . . . .	3 years straight-line
Office equipment . . . . .	5 years straight-line
Toll highway and concession right . . . . .	(see below)

The toll highway, which includes roads and structures, and the concession right, which relates to the right to collect tolls on the toll highway, are amortized on a usage basis using projected revenues over forty years.

The cost of the Highway 407 East Partial Extension and Highway 407 West Extension portions of the highway which are under construction includes direct construction (such as material and labour), interest and administration costs directly attributable to the construction, net of related toll revenues during the construction phase. Capitalization of interest and administration costs, net of related toll revenue during construction, ceases when the highway extension projects are substantially complete.

**e) Goodwill**

Goodwill relating to the acquisition of Ontario Inc. and Advanced Toll Management Corporation (note 3) is being amortized to income on a straight-line basis over 20 years and 39 months respectively, and is written down only when there has been a permanent impairment in the value of unamortized goodwill. A permanent impairment in the value of goodwill is determined by comparison of the carrying amount of unamortized goodwill with the undiscounted cash flows expected to be generated from the goodwill.

**407 INTERNATIONAL INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(thousands of dollars)**

**(information as at and for the three-month period ended March 31, 2000 is unaudited)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**f) Deferred financing costs**

Deferred financing costs, which are included in other assets, are amortized on a straight-line basis over the term of the related debt. The amortization of these costs is included as part of interest and other expenses.

**g) Income taxes**

The Company follows the liability method for income tax allocation.

**h) Use of estimates**

The preparation of the financial statements of the Company in conformity with generally accepted accounting principles requires management to make estimates that affect the reported amounts and disclosures during the reporting period. Actual results will differ from these estimates.

**3. ACQUISITION OF SHARES OF SUBSIDIARIES**

On January 1, 2000, the Company acquired all the assets and liabilities of Advanced Toll Management Corporation (ATMC), the sole and exclusive provider of operation, maintenance, management and rehabilitation services in respect of the portion of the toll system. The total purchase price, including related costs, was \$1,501.

During 1999, the Company acquired the following:

**a) The Concessionaire**

All of the common shares of the Concessionaire were acquired on May 5, 1999 for a purchase price of \$3,113,411, including preliminary working capital adjustment. The Company was capitalized with \$3,230,592, consisting of \$650,000 of proceeds from common shares, \$125,000 of proceeds from an unsecured convertible debenture, \$2,300,000 of proceeds from the Senior Bridge Credit Facility, \$150,000 of proceeds from the Junior Bridge Credit Facility and accounts payable of \$5,592. The capitalization was used to purchase the Concessionaire for \$3,113,411 and pay related closing costs of \$84,181, leaving residual cash of \$33,000.

The total purchase price, \$3,197,592 has been allocated as follows:

Cash . . . . .		\$ 851
Accounts receivable . . . . .		22,371
Capital assets . . . . .		3,178,747
Deferred financing costs . . . . .		7,000
Accounts payable & accrued liabilities . . . . .		(8,485)
Other long term debt . . . . .		(2,892)
Cost of Purchase . . . . .		<u>\$3,197,592</u>

An estimate of the working capital acquired has been recorded in the purchase price which is being monitored by the Company and will be reconciled with the Province of Ontario based on the balance which remains outstanding at December 31, 2000. The adjustment is not expected to result in a material change to the purchase price.

**b) Ontario Inc.**

This is a company that maintains, operates, manages and rehabilitates the Highway 407 ETR. The total purchase price, including related closing costs, was \$5,017. The Concessionaire amalgamated with Ontario Inc. on January 1, 2000.

407 INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(thousands of dollars)

(information as at and for the three-month period ended March 31, 2000 is unaudited)

4. CAPITAL ASSETS

	March 31, 2000			December 31, 1999		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Toll Highway and Concession Right . . . . .	\$3,217,903	\$15,543	\$3,202,360	\$3,170,727	\$11,582	\$3,159,145
Toll Equipment . . . . .	100,845	8,562	92,283	94,861	6,199	88,662
Transponders . . . . .	17,473	3,110	14,363	19,891	2,250	17,641
Operations Centre . . . . .	10,694	321	10,373	10,664	232	10,432
Motor Vehicles . . . . .	290	54	236	290	30	260
Office Equipment . . . . .	279	26	253	233	13	220
	<u>\$3,347,484</u>	<u>\$27,616</u>	<u>\$3,319,868</u>	<u>\$3,296,666</u>	<u>\$20,306</u>	<u>\$3,276,360</u>

As at March 31, 2000, capital assets includes an amount not being depreciated of \$725,586, including capitalized interest of \$69,691 (December 31, 1999 — \$676,000, including capitalized interest of \$56,350) with regards to the Toll Highway and Concession Right and construction in progress related to the Highway extension projects. Depreciation on these assets will commence upon substantial completion of these projects.

5. OTHER ASSETS

	March 31, 2000	December 31, 1999
Deferred financing costs . . . . .	\$ 60,912	\$ 49,976
Advances on construction . . . . .	10,086	10,086
Goodwill (note 3) . . . . .	6,295	4,979
	<u>\$ 77,293</u>	<u>\$ 65,041</u>

6. LONG-TERM DEBT

	March 31, 2000	December 31, 1999
<b>Senior Bonds</b>		
\$400,000, Senior Bonds Series 99-A1, 6.05%, maturing July 27, 2009 . . . . .	\$ 399,392	\$ 399,381
\$400,000, Senior Bonds Series 99-A2, 6.47%, maturing July 27, 2029 . . . . .	398,409	398,397
\$300,000, Senior Bonds Series 99-A3, 6.75%, maturing July 27, 2039 . . . . .	225,127	221,421
\$162,500, Real Return Senior Bonds, Series 99-A4, 5.328%, maturing December 1, 2016 . . . . .	132,231	129,844
\$162,500, Real Return Senior Bonds, Series 99-A5, 5.328%, maturing December 1, 2021 . . . . .	132,054	129,732
\$162,500, Real Return Senior Bonds, Series 99-A6, 5.328%, maturing December 1, 2026 . . . . .	131,896	129,631
\$162,500, Real Return Senior Bonds, Series 99-A7, 5.328%, maturing December 1, 2031 . . . . .	131,752	129,541
\$400,000, Senior Bonds, Series 99-A8, 6.55%, maturing October 18, 2006 . . . . .	399,126	399,093
\$325,000, Amortizing Real Return Replacement Senior Bonds, Series 00-A2, 5.29% maturing December 1, 2039 . . . . .	255,318	—
\$430,000, Exchangeable Senior Bonds, Series 00-A3, 6.90%, maturing December 17, 2007 . . . . .	436,048	—
<b>Senior Bridge Credit Facility</b> . . . . .	—	622,475
<b>Junior Bridge Credit Facility</b> . . . . .	148,820	148,162
<b>Sponsors Subordinated Credit Facility</b> . . . . .	221,344	179,240
<b>Other Debt</b> . . . . .	2,850	2,850
	<u>3,014,367</u>	<u>2,889,767</u>
<b>Less: Current Portion</b> . . . . .	150	150
	<u>\$3,014,217</u>	<u>\$2,889,617</u>

**407 INTERNATIONAL INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(thousands of dollars)**

**(information as at and for the three-month period ended March 31, 2000 is unaudited)**

**6. LONG-TERM DEBT (Continued)**

Total interest expense on long-term debt for the three-month period ended March 31, 2000, which is included in interest and other expenses on the consolidated statement of operations and deficit is \$44,930 (1999 — \$109,702), net of interest capitalized.

**Capital Markets Platform**

The Company has 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 (“Indenture”), which establishes a common security and a set of common covenants given by the Company for the benefit of all its lenders. The security comprises a leasehold mortgage on the Concessionaire’s leasehold interest in the Highway, a security interest in all real and personal property of the Company and a security interest in all real and personal property of the Concessionaire related to the Highway. Such security interest includes the following:

- (i) a specific assignment of each of the Company’s and the Concessionaire’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 the Concessionaire owned by the Company.

In addition, Capital d’Amérique CDPQ Inc., Cintra Concesiones de Infraestructuras de Transporte, S.A., Grupo Ferrovial and SNC-Lavalin Inc. have pledged, as security for obligations under or pursuant to the Indenture, but only for as long as any amounts drawn under the Bridge Credit Facilities remain outstanding, all of their interest in shares, debentures and subordinated debt of the Company.

**Restricted Cash**

Pursuant to the Indenture, the Company established the following cash reserves:

	<b>March 31, 2000</b>	<b>December 31, 1999</b>
Current		
Debt Service Funds . . . . .	\$ 8,643	\$ 20,900
Prepaid Interest Reserve . . . . .	26,450	26,450
Other Reserves (operations and maintenance, renewal and replacement of capital assets, and in 1999 only, gains from termination of hedges) . . . . .	27,000	51,100
	<b>\$ 62,093</b>	<b>\$ 98,450</b>
Long-term		
Prepaid Interest Reserve . . . . .	\$ 26,971	\$ 26,200
Debt Service Reserve Fund . . . . .	213,104	156,902
	<b>\$240,075</b>	<b>\$183,102</b>

**Senior Bonds**

Pursuant to the Capital Markets Platform, the Company issued Series 99-A1, 99-A2 and 99-A3 in July 1999, Series 99-A8 in October 1999 and Series 00-A3 in March 2000, with interest payable semi-annually except for Series 99-A3, where interest becomes payable commencing January 27, 2005. Interest on Series 99-A8 will be paid from the Prepaid Interest Reserve for the first two years. These Bonds are all repayable at maturity except for Series 99-A3 which are bonds repayable in fixed semi-annual scheduled installments for interest and principal of \$11,224, commencing January 27, 2005.

All or any portion of the principal amount of the Series 00-A3 Bonds may be exchanged, at the option of the bondholder, for the same principal amount of the Series 00-A4 Senior Bonds, 6.90%, maturing December 17, 2030, on March 8, 2001.

The Company also issued Real Return Bonds Series 99-A4, 99-A5, 99-A6 and 99-A7 in August 1999 with interest payable semi-annually commencing June 1, 2004 and Amortizing Real Return Replaceable Bonds Series 00-A1 in February 2000. Series 00-A1 were replaced with Amortizing Real Return Replacement Bonds Series 00-A2 in March 2000. The interest payable will be adjusted for inflation or



## 407 INTERNATIONAL INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(thousands of dollars)

(information as at and for the three-month period ended March 31, 2000 is unaudited)

#### 6. LONG-TERM DEBT (Continued)

deflation based on changes in the Consumer Price Index for Canada ("CPI"). The inflation component on the Real Return Bonds is discounted over the term of the bonds based on the spread between long-term bond yields and the real return rates for similar financial instruments, and charged to expense. The effective rate of interest expense during the three-month period ended March 31, 2000 on Real Return Bonds ranged from 6.81% to 7.33% (1999: 6.85% to 7.50%), depending on the particular series. In addition to reserves established at the time of issue of the Real Return Bonds, the Company may be required to fund a series excess inflation reserve, should the principal outstanding multiplied by the difference between the CPI at the time of measurement divided by the CPI at the time of issue, exceed a pre-established threshold level. The Real Return Bonds are repayable at maturity except for Series 00-A2 which are bonds repayable in semi-annual scheduled installments for interest and principal of \$10,244, adjusted for inflation or deflation based on changes in the CPI, commencing June 1, 2005.

The Senior Bonds are redeemable, in whole or in part, at the option of the Company.

##### Senior Bridge Credit Facility

The Company was advanced \$2,300,000 on May 5, 1999 in connection with its acquisition of the Concessionaire. This Facility bears interest at floating rates based, at the option of the Company, on the prime rate for Canadian dollar loans, the interbank bid rate for Canadian dollar bankers' acceptances, and the Eurodollar rates for Canadian dollar deposits, in each case plus the margin then applicable to such rates, which varies during the term of the facility from 1.75% to 2.50% for Eurodollar rates and Canadian dollar bankers' acceptances and 1.00% to 1.75% for prime rate Canadian dollar loans.

The Company repaid the remaining balance of the Senior Bridge Credit Facility in 2000.

##### Junior Bridge Credit Facility

The \$150,000 Junior Bridge Credit Facility was advanced to the Company on May 5, 1999, with a maturity date of November 5, 2002. In the three-month period ended March 31, 2000, the Company repaid \$500. The balance at March 31, 2000 was \$148,820, net of prepaid interest of \$680 (December 31, 1999 — \$148,162, net of prepaid interest of \$1,838).

The Junior Bridge Credit Facility bears interest at floating rates based, at the option of the Company, on the prime rate for Canadian dollar loans, the interbank bid rate for Canadian dollar bankers' acceptances, and the Eurodollar rates for Canadian dollar deposits, in each case plus the margin then applicable to such rates, which varies during the term of the facility from 4.25% to 7.50% for Eurodollar rates and Canadian dollar bankers' acceptances and 3.50% to 6.75% for prime rate Canadian dollar loans. The applicable interest rate will increase by 2% prior to November 5, 2000 on any principal or interest not paid when due. If the Junior Bridge Credit Facility is not repaid in full at maturity and there are arrears of principal or interest at that time, then the pricing will be the applicable rate on November 5, 2002 plus 2% for 2 quarters and thereafter, 1% of each subsequent quarter. If the Junior Bridge Credit Facility is not repaid in full at maturity and there are no arrears of principal or interest at that time, then the pricing will be the applicable rate on November 5, 2002, plus 1% for each quarter.

##### Sponsors Subordinated Credit Facility

On May 3, 1999, the Company entered into a term credit agreement with respect to a non-revolving term loan facility with the following related parties: Capital d'Amérique CDPQ Inc. ("CDPQ"), Cintra Concesiones de Infraestructuras de Transporte, S.A. ("CINTRA"), Grupo Ferrovial ("Grupo") and SNC-Lavalin Inc. ("SNC-Lavalin") (collectively, the "Subordinated Lenders"), in the maximum aggregate principal amount of \$775,000. Both CINTRA and SNC-Lavalin have a direct interest in the Company, while Grupo has an indirect interest through its control of CINTRA. This facility is fully subordinated in right of payment to the indebtedness under the Senior Bridge Credit Facility, the Junior Bridge Credit Facility and the Senior Bonds.

The facility is fully guaranteed by irrevocable financial letters of credit issued by the Subordinated Lenders and is divided as follows:

- \$200,000 made available for support of the interest obligations under the Senior Bridge Credit Facility. As at March 31, 2000, the amount available was \$183,692 (December 31, 1999 — \$183,692), reflecting borrowings made by the Company of \$16,308 (December 31, 1999 — \$16,308). This Facility reverted back to the Company upon completion of refinancing of the Senior Bridge Credit Facility.
- \$54,000 made available for support of the interest obligations under the Junior Bridge Credit Facility. As at March 31, 2000, the amount available was \$50,174 (December 31, 1999 — \$50,174), reflecting borrowings made by the Company of \$3,826 (December 31, 1999 — \$3,826).

**407 INTERNATIONAL INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(thousands of dollars)**

**(information as at and for the three-month period ended March 31, 2000 is unaudited)**

**6. LONG-TERM DEBT (Continued)**

- \$507,407 made available to support the cost to complete the construction of Highway 407 West Extension, Highway 407 East Partial Extension and Highway 407 Central Deferred Interchanges. As at March 31, 2000, the amount available was \$383,969 (December 31, 1999 — \$415,093), reflecting borrowings made by the Company of \$123,438 (December 31, 1999 — \$92,314).
- \$13,593 (December 31, 1999 — \$13,593) loaned to the Company for general working capital purposes.

The Sponsors Subordinated Credit Facility bears interest on all amounts outstanding at a floating rate of interest that is calculated by adding the applicable margin (between 4% to 6%) plus the applicable bankers' acceptance rate for Canadian dollar-denominated bankers' acceptances. Interest is accumulated and payable to the extent sufficient funds remain in the Company after satisfying the terms and conditions of the Bridge Credit Facilities and Senior Bond Facilities.

The Sponsors Subordinated Credit Facility matures on May 5, 2007. In the event that any of the Subordinated Debt remains outstanding as at such maturity date, then such maturity date shall automatically be extended to December 31, 2045 without payment of an extension fee or similar compensation to the Subordinated Lenders.

In the event that there are funds available for the repayment of all or any portion of the Subordinated Debt, the Subordinated Lenders may elect to apply those amounts to the repayment of the Subordinated Debt then outstanding.

If any portion of the Subordinated Debt remains outstanding on December 31, 2006, the Subordinated Lenders shall have the option (exercisable prior to December 17, 2007) to convert the amount then owing to them into common shares of the Company at a conversion price equal to the fair market value per common share at the conversion date.

In addition to the amounts owing under the terms of the term credit agreement, the Company has obligations to the Subordinated Lenders of \$64,179 (December 31, 1999 — \$53,199) for accrued interest, standby fees and arrangement fees.

**Other Debt**

Other debt represents amounts owing to a municipality for the acquisition of lands for the purpose of the toll highway. The repayment of this obligation is related to toll revenues of the relevant interchange. Interest at the prime rate plus 3% is due on amounts outstanding once the obligation to pay in accordance with revenue formula arises.

**Long Term Debt Maturities**

	<u>March 31, 2000</u>	<u>December 31, 1999</u>
2000 . . . . .	\$ 150	\$ 150
2001 . . . . .	150	323,476
2002 . . . . .	148,970	447,481
2003 . . . . .	150	150
2004 . . . . .	150	150
Thereafter . . . . .	2,864,797	2,118,360

**7. SUBORDINATED CONVERTIBLE DEBENTURE**

During 1999, the Company issued to CDPQ, in exchange for an investment of \$125,000, an unsecured subordinated convertible debenture (the "Convertible Debenture") maturing on December 31, 2045 and bearing interest at the rate of 6% per annum until May 5, 2005, which rate of interest will increase by one-quarter of one percent at the end of each six months thereafter up to a maximum of 8% per annum from November 5, 2008, calculated and compounded semi-annually. The principal and interest is not repayable prior to May 5, 2005, and, from that date, shall only be payable in the event that the Company has funds which it shall not be required to pay or retain to avoid default under the terms and conditions of the Senior Bonds, Bridge Credit Facilities and the Subordinated Credit Facility. During the period of twelve months from May 5, 2004, CDPQ has the option to convert all or a portion of the principal amount of the Convertible Debenture into common shares of the Company on the basis of one common share for each dollar of the principal amount of the Debenture, with such conversion price being subject to adjustment.

As required by Canadian generally accepted accounting principles, the Company has separated the liability and equity components of the Subordinated Convertible Debentures. Using an effective interest rate of 12%, the Company has determined the fair value of the liability to be \$85,757 as at May 5, 1999, with the corresponding value of \$39,243 of the conversion feature included in shareholders' equity. As at March 31, 2000, the liability including accrued interest was \$95,381 (December 31, 1999 — \$92,618).

**407 INTERNATIONAL INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(thousands of dollars)

(information as at and for the three-month period ended March 31, 2000 is unaudited)

**8. SHARE CAPITAL**

	<u>March 31, 2000</u>		<u>December 31, 1999</u>	
	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>
Common Shares				
Authorized — Unlimited				
Issued and Outstanding . . . . .	650,000,003	\$650,000	650,000,003	\$650,000

**9. INCOME TAX**

The income tax expense differs from taxes computed at the statutory rates as a result of the following:

	<u>March 31, 2000</u>	<u>December 31, 1999</u>
Income tax (recovery) at statutory rates . . . . .	\$(13,013)	\$(15,533)
Tax effect of losses not recorded . . . . .	13,013	15,533
Large corporation tax and corporate minimum tax . . . . .	2,126	5,000
Income tax expense . . . . .	<u>\$ 2,126</u>	<u>\$ 5,000</u>

As at March 31, 2000, the Company has tax losses carried forward of \$157,044 (December 31, 1999 — \$108,148) available to offset taxable income of the next 7 years. As at March 31, 2000, the Company has recognized \$93,070 (December 31, 1999 — \$73,337).

Temporary differences give rise to future income tax assets and (liabilities) as follows:

	<u>March 31, 2000</u>	<u>December 31, 1999</u>
Capital assets . . . . .	\$(59,299)	\$(47,133)
Deferred gains . . . . .	17,771	14,410
Tax loss carry forwards . . . . .	41,528	32,723
Future income tax assets and liabilities . . . . .	<u>\$ —</u>	<u>\$ —</u>

**10. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, long-term debt, convertible debenture, and interest rate hedging agreements. Interest rate hedging agreements are used by the Company to manage its exposure to market risks relating to interest rates.

**a) Fair value of financial instruments**

The estimated fair value of the Company's financial instruments are as follows:

**Short-term financial assets and liabilities**

Short-term financial assets and liabilities are amounts that are expected to be settled within one year. The carrying amounts in the consolidated balance sheet approximate fair value because of the short-term nature of these instruments.

**Restricted cash**

Restricted cash is invested in short-term investments with maturity not exceeding twelve months. The carrying amounts in the consolidated balance sheet approximate the fair value because of the short-term nature of these instruments.

**Long-term debt**

The fair value of the long-term debt as at March 31, 2000 was \$2,971,093 (December 31, 1999 — \$2,802,000). The fair value was determined using public quotations.

**407 INTERNATIONAL INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(thousands of dollars)**

**(information as at and for the three-month period ended March 31, 2000 is unaudited)**

**10. FINANCIAL INSTRUMENTS (Continued)**

**Interest rate hedging agreements**

During the three-month period ended March 31, 2000, the Company entered into interest rate hedging agreements with Canadian chartered banks that establish fixed interest rates between 5.26% and 6.24% (1999 — 5.22% and 5.89%), against future bond offerings in the form of interest rate forward agreements based on Government of Canada Bonds. As at March 31, 2000, the notional amount of the agreements that remained outstanding was \$157,500 (December 31, 1999 — \$467,500). The termination date is April 3, 2000. The fair value of these remaining agreements reflects the estimated amounts the Company would receive on settlement of favourable contracts, or be required to pay in order to terminate unfavourable contracts, as at the balance sheet date. As at March 31, 2000, all outstanding contracts are unfavourable totalling \$642 (December 31, 1999 — favourable \$33,500).

During the three-month period ended March 31, 2000, the Company terminated certain of these hedging agreements resulting in cash proceeds received of \$5,673 (1999 — \$57,600). The Company recognized a non-recurring gain of \$24,200 in 1999, which is included in interest and other expenses, on the termination of an interest rate swap initially intended to hedge the interest rate risk on a U.S. dollar bond issue as the current refinancing program does not foresee a U.S. dollar bond issue. The balance of the amount has been recorded as deferred gains and is being amortized over the remaining life of the underlying debt instruments.

During 1999, the Company entered into interest rate hedging agreements with a Canadian chartered bank that establish fixed interest rates between 4.73% and 5.68%, against current floating borrowings in the form of interest rate swaps based on monthly bankers' acceptance. As at December 31, 1999, the notional amount of the agreements that remained outstanding was \$135,000. The termination dates range from November 17, 2001 to November 18, 2002. At December 31, 1999, remaining agreements are all favourable totalling \$2,300 that the Company would receive on settlement. The Company terminated these agreements in the three-month period ended March 31, 2000 and received cash proceeds of \$2,846. The amount has been recorded as deferred gains and is being amortized over the remaining life of the underlying debt instruments.

During the three-month period ended March 31, 1999, the Company entered into interest rate swaps to mitigate negative carry rising from investing the proceeds of the fixed rate Series 99 Senior Bonds in short-term floating rate investments to fund restricted cash with a Canadian chartered bank for a total notional value of \$252,000. The effective dates of these contracts range from August 25, 1999 to October 15, 1999 and the termination dates range from August 24, 2000 to August 30, 2029. The Company will receive fixed interest rates between 5.54% and 6.55% and will pay a variable interest based on monthly bankers' acceptance rates. A market valuation of these swap contracts as at December 31, 1999 results in an unfavourable amount of \$6,500. The Company does not expect to incur this unfavourable variance given that the interest rate swaps will maintain their anticipated hedging relationship up to maturity.

During the three-month period ended March 31, 2000, the Company entered into interest rate swaps to mitigate negative carry rising from investing the proceeds of the fixed rate Series 00 Senior Bonds in short-term floating rate investments to fund restricted cash with a Canadian chartered bank for a total notional value of \$54,617. The effective dates of these contracts range from January 26, 2000 to February 2, 2000 and the termination dates range from February 2, 2003 to December 17, 2007. The Company will receive fixed interest rates between 6.32% and 6.57% and will pay a variable interest based on monthly bankers' acceptance rates. A market valuation of these swap contracts as at March 31, 2000 results in an unfavourable amount of \$2,612. The Company does not expect to incur this unfavourable variance given that the interest rate swaps will maintain their anticipated hedging relationship up to maturity.

**b) Concentration of credit risk**

The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, accounts receivable, cash reserves and interest rate hedging agreements. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers comprising the Company's client base. The Company is exposed to credit loss in the event of non-performance by counterparties to interest rate hedging agreements that have a positive fair value as well as short-term investments but does not anticipate non-performance by these counterparties. The Company manages this risk by dealing with highly reputable organizations having a satisfactory credit rating from an independent rating agency.

**407 INTERNATIONAL INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(thousands of dollars)**  
**(information as at and for the three-month period ended March 31, 2000 is unaudited)**

**11. RELATED PARTY TRANSACTIONS**

The Company concluded the following transactions with related parties:

<u>Party</u>	<u>Relationship</u>	<u>Nature of transaction with the related party</u>	<u>Classification in the Company's consolidated financial statements</u>	<u>January 1 to March 31, 2000</u>	<u>March 17 to December 31, 1999</u>
SLF Joint Venture . . .	Joint venture between shareholders	Payment of construction costs	Capital assets and advances on construction	\$26,011	\$73,560
SNC-Lavalin . . . . .	Shareholder	Reimbursement of acquisition costs	Acquisition costs	\$ —	\$ 2,917
Cintra . . . . .	Shareholder	Reimbursement of acquisition costs	Acquisition costs	\$ —	\$ 2,795
CDPQ . . . . .	Convertible debenture holder	Reimbursement of acquisition costs	Acquisition costs	\$ —	\$ 350

Amounts owed to related parties were as follows:

<u>Party</u>	<u>Relationship</u>	<u>Classification in the Company's Consolidated financial statement</u>	<u>March 31, 2000</u>	<u>December 31, 1999</u>
SNC-Lavalin . . . . .	Shareholder	Long-term debt	\$ 58,865	\$ 47,555
Cintra . . . . .	Shareholder	Long-term debt	29,990	26,014
Grupo Ferrovial . . . . .	Parent of shareholder (Cintra)	Long-term debt	91,391	72,621
CDPQ . . . . .	Convertible debenture holder	Long-term debt	41,098	33,050
			<u>\$221,344</u>	<u>\$179,240</u>

**12. EMPLOYEE BENEFITS**

The Company has a Deferred Profit Sharing Plan ("D.P.S.P.") which is a defined contribution plan on which the Company contributed \$33 to during the three-month period ended March 31, 2000 (1999 — \$13).

**13. COMMITMENTS AND CONTINGENCIES**

**Concession Agreement**

The Concession Agreement, dated April 6, 1999 grants the Company a 99-year ground lease of the Highway 407 lands, the operations centre lands and the patrol yard, for a nominal amount. Under the Concession Agreement, the Company is required to design and build certain extensions and further interchanges on the existing Highway 407.

Subsequent to the acquisition discussed in Note 1, the Company entered into a \$422,359 fixed price design-build agreement with SLF Joint Venture, a related party for the extensions and interchanges required by the Concession Agreement. As well, the Company and Raytheon Canada have entered into an agreement for the supply of the electronic tolling system related to the extensions of the deferred interchanges and enhancements of the current system. This contract is for an amount of approximately \$80,000 plus applicable taxes. The Company and Bell Advanced Communications (1998) Inc. entered into an agreement for approximately \$10,000 for the supply of the fibre optic network for the extensions to the tolling system.

Under certain circumstances, the Company is subject to liquidated damages if there is a delay in the opening of these extensions and interchanges; however, the Company is indemnified, under certain circumstances, with respect to such damages pursuant to the design-build agreement.

**407 INTERNATIONAL INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(thousands of dollars)**  
**(information as at and for the three-month period ended March 31, 2000 is unaudited)**

**13. COMMITMENTS AND CONTINGENCIES (Continued)**

**Possible Claims**

It is not possible to determine the amounts that may ultimately be assessed against the Company with respect to possible claims. Management believes that any such amount would not have a material impact on the business or financial position of the Company.

Any settlements which may arise from those claims that have not been provided for, would be recorded against income in the periods in which they occur.

**14. COMPARATIVE FIGURES**

Certain 1999 figures have been reclassified to be comparable with the 2000 presentation.

**15. SUBSEQUENT EVENTS**

(i) Subsequent to December 31, 1999, the following events occurred:

Effective, January 1, 2000, the Company acquired for a purchase price of approximately \$1,500, all of the assets and liabilities of Advanced Toll Management Corporation, the sole and exclusive providers of operation, maintenance, management and rehabilitation services in respect of the portion of the toll system. Also, the Concessionaire amalgamated with Ontario Inc. on the same date.

On February 2, 2000, the Company issued \$325,000 of 5.29% Amortizing Real Return Replaceable Senior Bonds at a discount of \$72,426, maturing December 1, 2039, with interest and principal payable semi-annually commencing June 1, 2005. Net proceeds of \$228,218 will be used to repay indebtedness under the Senior Bridge Credit Facility after funding the initial deposit in the Debt Service Reserve Account and paying the costs of issuance.

(ii) Subsequent to March 31, 2000, the following events occurred:

**a) The May Bonds (unaudited)**

On May 24, 2000, the Company filed a final prospectus with the securities commissions of each of the Provinces to issue Subordinated Bonds. Net proceeds will be used to repay indebtedness under the Sponsors Subordinated Credit Facility after funding the Prepaid Interest Reserve Account and paying the costs of issuance.

**b) Junior Term Credit Facility (unaudited)**

The Company and a Canadian chartered bank have agreed in principle regarding the establishment of a non-revolving term junior credit facility which will be used to refinance amounts outstanding under the Junior Bridge Credit Facility prior to or on the completion of the May Bonds issuance.

**c) Subordinated Term Credit Facility (unaudited)**

The Company and a Canadian chartered bank have agreed in principle regarding the establishment of a non-revolving term subordinated credit facility which will be used to refinance a portion of the amounts outstanding under the Sponsors Subordinated Credit Facility on or about the completion of the May Bonds issuance.

**d) Sponsors Subordinated Credit Facility (unaudited)**

The Company and the Subordinated Lenders agreed in principle to amend the maturity date of the term credit agreement to May 31, 2000.

## COMPILATION REPORT

To the Board of Directors  
of 407 International Inc.

We have reviewed, as to compilation only, the accompanying pro forma consolidated balance sheet as at March 31, 2000 and the pro forma consolidated statement of operations for the period from January 1, 2000 to March 31, 2000 which have been prepared for inclusion in the prospectus relating to the sale and issue of subordinated bonds. In our opinion, the pro forma consolidated balance sheet as at March 31, 2000 and the pro forma consolidated statement of operations for the period from January 1, 2000 to March 31, 2000 have been properly compiled to give effect to the assumptions described in Notes 1 and 3 thereto.

(Signed) ARTHUR ANDERSEN LLP  
Chartered Accountants

(Signed) ERNST & YOUNG LLP  
Chartered Accountants

Toronto, Canada  
May 24, 2000

**407 INTERNATIONAL INC.**  
**PRO FORMA CONSOLIDATED BALANCE SHEET**  
**As at March 31, 2000**  
**(thousands of dollars)**  
**(unaudited — see compilation report)**

	<b>March 31, 2000</b> <b>Actual</b>	<b>May 2000</b> <b>Bonds</b> <small>(note 1)</small>	<b>March 31, 2000</b> <b>Pro Forma</b>
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents . . . . .	\$ 69,644	\$ 19,807	\$ 89,451
Restricted cash (note 2) . . . . .	62,093	—	62,093
Accounts receivable . . . . .	30,952	—	30,952
Prepaid expenses and advances on construction . . . . .	21,811	—	21,811
	184,500	19,807	204,307
 Restricted cash (note 2) . . . . .	 240,075	 54,000	 294,075
Capital assets . . . . .	3,319,868	—	3,319,868
Other assets . . . . .	77,293	5,500	82,793
	<b>\$3,821,736</b>	<b>\$ 79,307</b>	<b>\$3,901,043</b>
 <b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities . . . . .	\$ 54,017	\$ —	\$ 54,017
Current portion of long-term debt . . . . .	150	—	150
	54,167	—	54,167
 Bank loans and acceptances . . . . .	 148,820	 —	 148,820
Senior bonds . . . . .	2,641,353	—	2,641,353
Subordinated bonds . . . . .	0	300,651	300,651
Subordinated debt . . . . .	221,344	(221,344)	0
Other long-term debt . . . . .	2,700	—	2,700
Liability component of subordinated convertible debenture . . . . .	95,381	—	95,381
Deferred gains . . . . .	39,828	—	39,828
	3,149,426	79,307	3,228,733
 <b>Shareholders' Equity</b>			
Share capital . . . . .	650,000	—	650,000
Equity component of subordinated convertible debenture . . . . .	39,243	—	39,243
Deficit . . . . .	(71,100)	—	(71,100)
	618,143	—	618,143
	<b>\$3,821,736</b>	<b>\$ 79,307</b>	<b>\$3,901,043</b>

*See accompanying notes to Pro Forma Consolidated Balance Sheet and Statement of Operations*



**407 INTERNATIONAL INC.**  
**PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS**  
For the period from January 1, 2000 to March 31, 2000  
(thousands of dollars)  
(unaudited — see compilation report)

	January 1, 2000 to March 31, 2000 Actual	Pro Forma Adjustments (note 3)	January 1, 2000 to March 31, 2000 Pro Forma
Revenues . . . . .	\$ 37,019	\$ —	\$ 37,019
Operating expenses:			
Highway tolling . . . . .	9,275	—	9,275
Highway maintenance . . . . .	2,812	—	2,812
Administration . . . . .	2,905	—	2,905
Depreciation and amortization . . . . .	7,495	—	7,495
	22,487	—	22,487
Income from operations . . . . .	14,532	—	14,532
Interest and other expenses, net . . . . .	43,695	3,150	46,845
Loss before income tax . . . . .	(29,163)	(3,150)	(32,313)
Income tax — current . . . . .	2,126	—	2,126
Net loss . . . . .	\$(31,289)	\$(3,150)	\$(34,439)

*See accompanying notes to Pro Forma Consolidated Balance Sheet and Statement of Operations*

**407 INTERNATIONAL INC.**  
**NOTES TO PRO FORMA CONSOLIDATED BALANCE SHEET**  
**AND STATEMENT OF OPERATIONS**  
**(in thousands of dollars)**  
**(unaudited — see compilation report)**

**1. GENERAL**

407 International Inc. (the “Company”) was incorporated on March 17, 1999 for the sole purpose of acquiring the 407 ETR Concession Company Limited (formerly Ontario Transportation Capital Corporation), such acquisition occurring on May 5, 1999.

The consolidated pro forma balance sheet gives effect to the transactions described below, as if they had occurred on March 31, 2000:

The pro forma gives effect to the issue of the following:

**(a) The May 2000 Bonds**

- \$300,000 of 9.00% Subordinated Bonds, Series 00-C1, issued at a premium of \$651, maturing August 15, 2007.

Gross proceeds of \$300,651 will be used to repay indebtedness of approximately \$221,344 under the Sponsors Subordinated Credit Facility Agreement and approximately \$54,000 to fund the Prepaid Interest Reserve Account.

The consolidated pro forma statement of operations includes the following:

- (i) Revenues and expenses of 407 International Inc. for the period from January 1, 2000 to March 31, 2000.
- (ii) Pro forma adjustments to give effect to the Company’s financings, including the Amortizing Real Return Replacement Bonds, the March 2000 and May 2000 Bonds, as if they had occurred on January 1, 2000.

The pro forma consolidated statement of operations is not intended to reflect the results of operations that would have actually resulted had the transaction been effected on the date indicated or the results which may be obtained in the future.

**2. RESTRICTED CASH**

These are reserves established pursuant to the Indenture, including Debt Service Fund, Prepaid Interest Reserve and Other Reserves (operations and maintenance and renewal and replacement of capital assets).

**3. PRO FORMA ADJUSTMENTS**

The following adjustments have been made to the Consolidated Statement of Operations to reflect the transaction on a Pro Forma basis:

Adjustments to interest and other expenses of \$3,150 to give effect to the financing structure of the Company.

The Company includes a portion of the Subordinated Convertible Debenture in long-term debt, as required by Canadian generally accepted accounting principles. This interest expense reflects the accrued interest on the face value, as well as the accretion of the discount.

Interest accumulated on the Sponsors Subordinated Credit Facility will be payable to the extent sufficient funds remain in the Company after having serviced the Senior Bridge Credit Facility and the Junior Bridge Credit Facility. Interest accumulated on the Subordinated Convertible Debenture will be payable to the extent sufficient funds remain in the Company after having serviced the Sponsors Subordinated Credit Facility, with no amounts due on the Subordinated Convertible Debenture before May 5, 2005. Amounts under the Sponsors Subordinated Credit Facility outstanding on December 31, 2006 may be converted into common shares of the Company, at the option of the Subordinated Lenders, at fair market value. During the period of twelve months from May 5, 2004, CDPQ has the option to convert all or a portion of the principal amount of the Convertible Debenture into common shares of the Company on the basis of one common share for each dollar of the principal amount of the Debenture, with such conversion price being subject to adjustment.

Total interest expense on long-term debt, included in interest and other expenses, is \$41,895, net of interest capitalized of \$14,940 relates solely to direct interest incurred with respect to Highway 407 West Extension and Highway 407 East Partial Extension.

Interest and other expenses included the accelerated expensing of arrangement fees related to the Sponsors Subordinated Credit Facility resulting from the earlier than anticipated refinancing.

## AUDITORS' REPORT ON FORECAST CONSOLIDATED STATEMENT OF OPERATIONS

To the Board of Directors of  
407 International Inc. (the "Company")

The accompanying financial forecast of **407 International Inc.** consisting of the forecast consolidated statement of operations for the year ending December 31, 2000 has been prepared by management using assumptions with an effective date of April 14, 2000. We have examined the support provided by management for the assumptions, and the preparation and presentation of this forecast. Our examination was made in accordance with the applicable Auditing Guidelines issued by The Canadian Institute of Chartered Accountants. We have no responsibility to update this report for events and circumstances occurring after the date of our report.

In our opinion:

- as at the date of this report, the assumptions developed by the Company are suitably supported and consistent with the plans of the Company and provide a reasonable basis for the forecast;
- this forecast reflects such assumptions; and
- the forecast complies with the presentation and disclosure standards for forecasts established by The Canadian Institute of Chartered Accountants.

Since the forecast is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly, we express no opinion as to whether this forecast will be achieved.

(Signed) ARTHUR ANDERSEN LLP  
Chartered Accountants

(Signed) ERNST & YOUNG LLP  
Chartered Accountants

Toronto, Canada  
April 14, 2000

**407 INTERNATIONAL INC.**  
**FORECAST CONSOLIDATED STATEMENT OF OPERATIONS**  
**For the year ending December 31, 2000**  
**(thousands of dollars)**

Revenues .....	\$ 176,902
Operating expenses:	
Highway tolling .....	39,840
Highway maintenance .....	8,162
Administration .....	13,219
Depreciation and amortization .....	34,020
	95,241
Income from operations .....	81,661
Interest and other expenses, net (note 4) .....	176,271
Loss before income tax .....	(94,610)
Income tax – current .....	8,500
Net loss .....	\$(103,110)

*See accompanying notes to Forecast Consolidated Statement of Operations.*

**407 INTERNATIONAL INC.**  
**NOTES TO FORECAST CONSOLIDATED STATEMENT OF OPERATIONS**  
**For the year ending December 31, 2000**  
**(thousands of dollars)**

**1. PURPOSE OF FORECAST AND BASIS OF PRESENTATION**

The forecast has been prepared by 407 International Inc. (the "Company") solely for inclusion in a prospectus related to the issue and sale of Subordinated Bonds to provide an indication of the expected results of operations for the year ending December 31, 2000 (the "2000 forecast").

This financial forecast represents, to the best of management's knowledge and belief, the Company's expected results of operations for the forecast period. Accordingly, the forecast reflects its judgment as of April 14, 2000, the date of the forecast, of the expected conditions and its expected course of action. The significant assumptions to the forecast are disclosed in Note 3. The reader is cautioned that some assumptions used in the preparation of the forecast may not materialize as forecast. Therefore, the actual results achieved during the forecast period will vary from that forecast and the variations may be material. There is no guarantee that the forecast will be achieved in whole or in part.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The forecast has been prepared in accordance with generally accepted accounting principles adopted at the inception of the Company. The following policies have been applied in the forecast:

**Principles of consolidation**

The accompanying forecast consolidated statement of operations of the Company is consolidated with those of its wholly-owned subsidiary, 407 ETR Concession Company Limited (the "Concessionaire"), 1054381 Ontario Inc. ("Ontario Inc.") (formerly Canadian Highway Management Corporation) was acquired on November 1, 1999 and amalgamated with the Concessionaire on January 1, 2000. The Company also acquired the assets and liabilities of Advanced Toll Management Corporation effective January 1, 2000.

**Revenue recognition**

The Company recognizes toll revenue upon computation of tolls resulting from a customer's utilization of the Highway.

**Capital assets**

Capital assets are recorded at cost. Depreciation and amortization charges are recorded using methods and rates determined to depreciate the cost of capital assets over their estimated useful lives in a rational and systematic manner, as follows:

Operations centre . . . . .	30 years straight-line
Toll equipment . . . . .	10 years straight-line
Transponders . . . . .	5 years straight-line
Motor vehicles . . . . .	3 years straight-line
Office equipment . . . . .	5 years straight-line
Toll highway and concession right . . . . .	(see below)

The toll highway, which includes roads and structures, and the concession right, which relates to the right to collect tolls on the toll highway, are amortized on a usage basis using projected revenues over forty years.

The cost of the Highway 407 East Partial Extension and 407 West Extension portions of the highway which are under construction includes direct construction (such as material and labour), interest and administration costs directly attributable to the construction, net of related toll revenues during the construction phase. Capitalization of interest and administration costs, net of related toll revenue during construction ceases when the highway extension projects are substantially complete.

**Deferred charges**

Deferred charges relate to financing costs and are amortized on a straight-line basis over the term of the related debt. The amortization cost is included in interest and other expenses.

**Income taxes**

The Company follows the liability method for income tax allocation.

**407 INTERNATIONAL INC.**  
**NOTES TO FORECAST CONSOLIDATED STATEMENT OF OPERATIONS**  
**For the year ending December 31, 2000**  
**(thousands of dollars)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of estimates**

The preparation of the forecast consolidated statement of operations of the Company in accordance with generally accepted accounting principles requires management to make estimates that affect the reported amounts and disclosures in the forecast. Actual results will differ from those estimates.

**3. FORECAST ASSUMPTIONS**

The following is a summary of the assumptions upon which the forecast is based:

**Revenue assumptions**

The Company's revenues are directly related to the traffic volume experienced on the toll highway. The following assumptions were made with respect to traffic volume during the period:

*Operational Factors*

In preparing the forecast consolidated statement of operations, the Company took into consideration the financial projections and traffic forecasts of independent traffic consultants, whose reports were based on regional macroeconomic and socioeconomic factors, current traffic demands and road network configuration, perceived value of time and a range of issues affecting traffic ramp-up on a new road. As well, the Company took into account the past experience for the year ended 1999.

The forecast also used trip information derived from the Ministry of Transportation of Ontario traffic model and takes into consideration tolling charges on certain links of the road network and the level of traffic congestion along the road network. Base information used in the traffic model relies upon current statistics and future forecasts of population and employment in the Greater Toronto Area ("GTA"), as well as travel times on the road network.

*Economic Factors*

Gross domestic product of Canada is assumed to grow at a rate of 3.0% per annum, which is expected to stimulate traffic volumes.

Inflation is assumed at 3% per annum.

Population of the GTA is assumed to grow from approximately 5.1 million according to the 1996 Census to 5.7 million in 2001. With this growth in population, the forecast assumes that the GTA will expand northward, increasing the volume of traffic on the toll highway.

**Operating expense assumptions**

The Company's operating expenses relate to toll oversight, routine maintenance and administration. The following assumptions were made with respect to the operating expenses during the forecast period:

- The major source of information used to develop forecast expenses was past experience. The forecast assumes that cost behavior for operating expenses remains consistent with that of the Concessionaire experienced in fiscal 1999, adjusted for slightly lower maintenance and tolling expenses relative to revenues due to increased operational efficiencies coupled with savings resulting from foregone management fees pursuant to the acquisition of the shares of Ontario Inc. on November 1, 1999 and the assets of Advanced Toll Management Corporation ("A.T.M.C.") on January 1, 2000.
- Depreciation and amortization is expected to increase relative to revenues over 1999 mainly due to the continuing upgrades and improvements being done to the Highway, as well as the acquisition of the shares of Ontario Inc. and the assets of A.T.M.C.

**Interest and other expenses assumptions**

- In 1999, the Company experienced a one-time, non-recurring gain of \$24,200 as a result of termination of hedge transactions relating to a U.S. bond financing issue which did not take place. The Company also received amounts resulting from the termination of other hedge transactions which are deferred and amortized over the remaining life of the underlying debt instruments. The 2000 forecast is based on 1999 actuals, taking into consideration the planned re-financings and debt to finance the progress of the Highway expansion projects.

**407 INTERNATIONAL INC.**

**NOTES TO FORECAST CONSOLIDATED STATEMENT OF OPERATIONS**

**For the year ending December 31, 2000  
(thousands of dollars)**

**3. FORECAST ASSUMPTIONS (Continued)**

**Purchase Price Allocation**

On April 12, 1999, the Company entered into a Share Purchase Agreement with the Province of Ontario, pursuant to which on May 5, 1999, the Company acquired for a purchase price of \$3,113,411, including the preliminary working capital adjustment, the shares of the Concessionaire. An estimate of the working capital acquired has been recorded to the purchase price although this is being monitored by the Company and will be reconciled with the Province of Ontario based on the balance which remains outstanding at December 31, 2000. The adjustment is not expected to result in a material change to the purchase price. The total cost of the acquisition, including estimated acquisition costs, is approximately \$3,197,592.

The Company has accounted for the acquisition of the shares by the purchase method, whereby the cost of the acquisition has been allocated to the identifiable assets acquired and liabilities assumed using estimates of their fair value.

**4. INTEREST AND OTHER EXPENSES**

The forecast assumes the Company incurs interest expense as follows:

Senior Bridge Credit Facility in the amount of \$2,300,000 (fully repaid with Senior Bond issuances by March 15, 2000), effective interest rate ranging from 6.25% to 7.87% . . . . .	\$ 7,712
Junior Bridge Credit Facility/Junior Term Credit Facility in the amount of \$150,000 (reduced by Junior Bond issuance noted below), effective interest rate ranging from 9.58% to 9.75% . . . . .	7,101
Sponsors Subordinated Credit Facility in the amount of \$775,000 (reduced by Subordinated Term Credit Facility and Subordinated Bond issuance noted below), effective interest rate ranging from 9.25% to 9.83% . . . . .	23,107
Subordinated Term Credit Facility in the amount of \$425,000, effective interest rate 8.50% . . . . .	8,897
Senior and Junior Bonds	
\$3,070,000 outstanding at December 31, 2000, effective interest rate ranging from 6.14% to 7.68% . . . . .	177,685
Subordinated Bond	
\$300,000 outstanding at December 31, 2000, effective interest rate 8.60% . . . . .	13,006
Total Interest Expense Incurred . . . . .	237,508
Interest Expense on Subordinated Convertible Debenture . . . . .	11,114
Interest Capitalized . . . . .	(73,383)
Interest Income Earned . . . . .	(18,502)
Deferred Financing Charges and other . . . . .	25,530
Amortization of gains on termination of interest rate hedging agreements . . . . .	(5,996)
Interest and Other expenses . . . . .	<u>\$176,271</u>

The Company includes a portion of the Subordinated Convertible Debenture in long-term debt, as required by Canadian generally accepted accounting principles. This interest expense reflects the accrued interest on the face value, as well as the amortization of the debenture discount.

Interest accumulated on the Sponsors Subordinated Credit Facility will be payable to the extent sufficient funds remain in the Company after having serviced the Senior Bridge Credit Facility and the Junior Bridge Credit Facility. Interest accumulated on the Subordinated Convertible Debenture will be payable to the extent sufficient funds remain in the Company after having serviced the Sponsors Subordinated Credit Facility, with no amounts due on the Subordinated Convertible Debenture before May 5, 2005. Amounts under the Sponsors Subordinated Credit Facility outstanding on December 31, 2006 may be converted into common shares of the Company, at the option of the Subordinated Lenders, at fair market value. During the period of twelve months from May 5, 2004, CDPO has the option to convert all or a portion of the principal amount of the Convertible Debenture into common shares of the Company on the basis of one common share for each dollar of the principal amount of the Convertible Debenture, with such conversion price being subject to adjustment.

**5. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE**

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems, which use certain dates in 1999 to represent something other than a date. The

**407 INTERNATIONAL INC.**  
**NOTES TO FORECAST CONSOLIDATED STATEMENT OF OPERATIONS**  
**For the year ending December 31, 2000**  
**(thousands of dollars)**

**5. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE (Continued)**

effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000 and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the effect of customers, suppliers, or third parties, will be fully resolved. The Company continues to monitor its systems to ensure there are no Year 2000 related deficiencies.



## CERTIFICATE OF THE COMPANY

DATED: May 24, 2000

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of the *Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Section 13 of the *Security Frauds Prevention Act* (New Brunswick), by Section 63 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by Part XIV of the *Securities Act* (Newfoundland) and the respective regulations thereunder.

This prospectus, as required by the *Securities Act* (Québec) and the regulations thereunder, does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed.

(Signed) JOSÉ MARIA LÓPEZ DE FUENTES  
President and Chief Executive Officer

(Signed) KEN A. WALKER  
Chief Financial Officer and Secretary

On behalf of the Board of Directors

(Signed) PIERRE ANCTIL  
Director

(Signed) ALVARO ECHÁNIZ URCELAY  
Director

## CERTIFICATE OF THE PROMOTERS

DATED: May 24, 2000

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of the *Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Section 13 of the *Security Frauds Prevention Act* (New Brunswick), by Section 63 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by Part XIV of the *Securities Act* (Newfoundland) and the respective regulations thereunder.

This prospectus, as required by the *Securities Act* (Québec) and the regulations thereunder, does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed.

CINTRA CONCESIONES DE INFRAESTRUCTURAS  
DE TRANSPORTE, S.A.

SNC-LAVALIN INC.

By: (Signed) NICOLÁS VILLÉN JIMÉNEZ

By: (Signed) PIERRE ANCTIL

By: (Signed) LUCAS OSORIO ITURMENDI

## CERTIFICATE OF THE UNDERWRITERS

DATED: May 24, 2000

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of the *Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Section 13 of the *Security Frauds Prevention Act* (New Brunswick), by Section 64 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by Part XIV of the *Securities Act* (Newfoundland) and the respective regulations thereunder.

To our knowledge, this prospectus, as required by the *Securities Act* (Québec) and the regulations thereunder, does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed.

BMO NESBITT BURNS INC.

By: (Signed) RICHARD C. BYERS

CIBC WORLD MARKETS INC.

By: (Signed) CLIFF INSKIP

The following includes the name of every person having an interest, either directly or indirectly, to the extent of not less than 5 percent in the capital of:

BMO NESBITT BURNS INC.: a wholly-owned subsidiary of BMO Nesbitt Burns Corporation Limited, an indirect majority-owned subsidiary of a Canadian chartered bank; and

CIBC WORLD MARKETS INC.: a wholly-owned subsidiary of a Canadian chartered bank.