407 INTERNATIONAL INC.

Consolidated Financial Statements

Years ended December 31, 2009 and 2008

AUDITORS' REPORT

To the Shareholders of
407 International Inc.

We have audited the consolidated balance sheets of 407 International Inc. as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive income and deficit and cash flows for the years 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 audits.

We conducted our audits in accordance with Canadian 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed)
Deloitte & Touche LLP
Chartered Accountants
Licensed Public Accountants

(signed)
PricewaterhouseCoopers LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 4, 2010

407 INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEETS
As at December 31, 2009 and 2008
(in millions of dollars)

	2009	2008
Assets		
Current		
Cash and cash equivalents (note 19)	$ 152.3	$ 137.4
Short-term investments	0.4	-
Restricted cash (note 4)	219.4	186.2
Accounts receivable and other (note 12)	136.1	132.2
Future income tax assets (note 11)	51.0	-
	559.2	455.8
Long-term restricted cash (note 4)	197.1	218.1
Long-term investments (note 12)	101.7	92.0
Property, plant and equipment (note 5)	2,258.2	2,232.6
Intangible assets (note 6)	1,621.4	1,626.5
Other asset (note 12)	8.5	-
Future income tax assets, net (note 11)	-	33.5
	$ 4,746.1	4,658.5
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 41.9	$ 41.1
Accrued interest on long-term debt	72.8	68.2
Current portion of long-term debt (note 7)	799.4	10.7
Current portion of obligation under capital leases (note 16)	2.1	2.3
	916.2	122.3
Long-term debt (note 7)	4,103.9	4,681.7
Obligation under capital leases (note 16)	3.8	1.7
Future income tax liability (note 11)	2.1	-
	5,026.0	4,805.7
Shareholders' deficiency		
Share capital (note 8)	775.0	775.0
Contributed surplus	29.6	29.6
Deficit	(1,103.2)	(971.4)
Accumulated other comprehensive income (note 9)	18.7	19.6
Total deficit and accumulated other comprehensive income	(1,084.5)	(951.8)
	(279.9)	(147.2)
	$ 4,746.1	$ 4,658.5

Commitments and contingencies (note 16)

On Behalf of the Board:

(signed)
DAVID McFADDEN
Director

(signed)
GILLES LARAMÉE
Director

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

407 INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME AND DEFICIT
Years ended December 31, 2009 and 2008
(in millions of dollars, except per share amounts)

	2009	2008
Revenues (note 18)	$ 560.0	$ 546.5
Operating expenses	116.0	132.1
Depreciation and amortization	61.4	72.0
	177.4	204.1
Income from operations	382.6	342.4
Interest and other expenses, net (note 7)	339.8	257.3
Income before income tax	42.8	85.1
Income tax recovery - current (note 11)	-	(0.5)
Income tax recovery - future (note 11)	(15.4)	(33.5)
Net income	$ 58.2	$ 119.1
Other comprehensive loss (note 9)		
- reclassification to income of gains and losses on cash flow hedges, net	(0.9)	(1.2)
Comprehensive income	$ 57.3	$ 117.9
Net income per share basic and diluted (note 10)	$ 0.075	$ 0.154
Deficit, beginning of period	$ (971.4)	$ (955.5)
Net income	58.2	119.1
Dividends paid to shareholders	(190.0)	(135.0)
Deficit, end of period	$ (1,103.2)	$ (971.4)

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

407 INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2009 and 2008
(in millions of dollars)

	2009	2008
Operating activities		
Net income	$ 58.2	$ 119.1
Adjustments for:		
Depreciation on property, plant and equipment	56.3	66.9
Amortization of intangible assets	5.1	5.1
Accrued interest - non-current and other	19.5	95.1
Fair value adjustment - Senior Bond, Series 04-A2 (notes 7 & 12)	101.0	(73.1)
Fair value adjustment - Long-term investments (note 12)	(18.1)	40.1
Fair value adjustment - Other asset (note 12)	(8.5)	-
Future income tax recovery (note 11)	(15.4)	(33.5)
	198.1	219.7
Change in non-cash working capital items:		
Accounts receivable and other	(4.3)	17.7
Accounts payable and accrued liabilities	(0.1)	(0.1)
Accrued interest - current	3.0	8.2
	196.7	245.5
Investing activities		
Additions to property, plant and equipment	(72.2)	(37.6)
Additions to intangible assets	(2.1)	(2.5)
Short-term investments	(0.4)	-
Long-term investments	8.4	(85.4)
Restricted cash	(13.0)	(15.0)
Non-trade receivables	(0.2)	(0.6)
	(79.5)	(141.1)
Financing activities		
Proceeds from issuance of long-term debt	499.5	549.4
Debt issue costs and other	(1.8)	(1.8)
Repayment of long-term debt	(407.4)	(481.9)
Repayment of obligation under capital leases	(2.6)	(2.1)
Dividends paid to shareholders	(190.0)	(135.0)
	(102.3)	(71.4)
Increase in cash and cash equivalents	14.9	33.0
Cash and cash equivalents, beginning of year	137.4	104.4
Cash and cash equivalents, end of year	$ 152.3	$ 137.4

Supplementary cash flow information (note 19)

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

1. NATURE OF OPERATIONS

The principal business of 407 International Inc. (the "Company") is the ownership of 407 ETR Concession Company Limited ("407 ETR") and, through 407 ETR, the operation, maintenance and management of Highway 407 along with the construction of extensions and certain deferred interchanges, lane widenings and additional interchanges.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company are prepared in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("GAAP"). The significant accounting policies are as follows:

a) Principles of consolidation

The consolidated financial statements include the accounts of the Company consolidated with those of its wholly-owned subsidiaries, 407 ETR, Canadian Tolling Company International Inc. ("CanToll"), 4290607 Canada Inc. ("Canada Inc."), and 7253770 Canada Inc. ("7253770 Inc."). CanToll was incorporated in December 2001 to assume ownership of a new integrated computerized accounting, billing and customer relationship management system and new transponders, and is responsible for the development of its integrated automation systems. . Canada Inc. and 7253770 Inc. were incorporated in March 2005 and October 2009, respectively, as holding companies. All inter-company transactions and balances have been eliminated on consolidation.

b) Revenue recognition

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

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

c) Cash and cash equivalents

Cash and cash equivalents include short-term highly liquid interest-bearing investments with maturities of three months or less from the date of acquisition. Cash and cash equivalents are designated as held-for-trading ("HFT") and are carried at fair value.

d) Short-term investments

Short-term investments include highly liquid interest-bearing investments with maturities greater than three months up to and including twelve months. Short-term investments are designated as HFT and are carried at fair value.

e) Restricted cash

Restricted cash includes highly liquid interest-bearing investments with maturities of 10 years or less. Restricted cash is designated as HFT and is carried at fair value. Pursuant to the Indenture (see note 4 – RESTRICTED CASH, Capital Markets Platform), the current portion is expected to become unrestricted within the next 12 months.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Long-term investments

Long-term investments include interest-bearing investments with maturities longer than one year. Long-term investments are designated as HFT and are carried at fair value.

g) Derivatives

Derivatives are carried at fair value and are reported as assets where they have a positive fair value to the Company and as liabilities where they have a negative fair value to the Company. The change in fair value during the period is recorded as interest and other expenses, net. At December 31, 2009 and December 31, 2008, the only derivative outstanding was Senior Bond, Series 04-A2, which is included in long-term debt.

h) Embedded derivatives

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivative are the same as those of a free standing derivative; and the combined instrument or contract is not measured at fair value with changes in fair value recognized in interest and other expenses, net. These embedded derivatives are measured at fair value with changes therein recognized in interest and other expenses, net. The Company selected January 1, 2003 as the transition date for embedded derivatives; as such, only contracts or financial instruments entered into or modified after the transition date were examined for embedded derivatives. As at December 31, 2009, the Company has two embedded derivatives within its Eligible and Ineligible Long-Term Notes Bank Credit Facilities, which are included in other asset.

i) Comprehensive Income

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

j) Accumulated Other Comprehensive Income

Accumulated other comprehensive income ("AOCI") is included on the consolidated balance sheet as a separate component of shareholders' deficiency, and includes the effective portion of gains and losses on derivative instruments designated as cash flow hedges.

k) Transaction Costs

Transaction costs related to HFT financial assets and HFT financial liabilities are expensed to interest and other expenses, net as incurred. Transaction costs related to available-for-sale ("AFS") financial assets, held-to-maturity ("HTM") financial assets, other liabilities ("OL") and loans and receivables are netted against the carrying value of the asset or liability and are then amortized over the expected life of the instrument using the effective interest method.

(in millions of dollars, except per share amounts)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Effective interest method

The Company uses the effective interest method of amortization for transaction costs or fees, premiums or discounts earned or incurred for financial instruments that are classified as AFS, HTM or OL.

m) Cash flow hedges

Prior to January 1, 2007, the Company entered into and terminated cash flow hedging relationships to hedge cash flows relating to certain senior and junior bonds. As these hedging relationships continue to qualify for hedge accounting treatment, the gains and losses were recorded in AOCI and amounts will be reclassified from AOCI to interest and other expenses, net during the periods when the cash flows of the senior and junior bonds affect interest and other expenses, net.

n) Other financial instruments

Accounts receivable are designated as loans and receivables and are accounted for at amortized cost. Accounts payable and accrued liabilities are classified as OL and are accounted for at amortized cost.

o) Property, plant and equipment

Property, plant and equipment are recorded at cost net of accumulated depreciation and amortization and net of any residual values or impairment loss. An impairment loss is recognized when the asset is no longer recoverable from its future estimated undiscounted cash flows and its carrying value exceeds its fair value.

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

Toll Highway	
- Bridge Structures, Bridge Deck, Storm Sewer Culverts, Grading, Granular, Asphalt & Concrete Pavement (Base) and Drainage.	60 - 99 years projected VKT's
- Large Galvanized Steel Drainage, Small Steel Culverts, Bridge Bearings and Joints.	25 – 30 years projected VKT's
- Asphalt & Concrete Pavement (Top Coat)	8 - 15 years projected VKT's
- Tolling Civil and Electrical, Barriers and Guide Rails, Gantries, Signage, Landscaping, Fencing and Utilities Relocation	50 - 99 years straight-line
- Highway Tools, Cameras and Inspection Stations	5 - 15 years straight-line
- Concrete Pavement Joints	12 years projected VKT's
Toll Equipment	4 - 35 years straight-line
Transponders	6 years straight-line
Operations Centre	30 years straight-line
Office Equipment	5 years straight-line
Motor Vehicles	3 years straight-line
Snow Clearing Equipment and Motor Vehicles Under Capital Lease	2 - 10 years straight-line
Computer Equipment Under Capital Lease	5 years straight-line

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Leases

Leases are classified as capital or operating depending on the terms and conditions of the contracts. The costs of assets acquired under capital leases are amortized on a straight-line basis over their estimated useful lives. Obligations recorded under capital leases are reduced by lease payments net of imputed interest. Operating leases are expensed on a straight-line basis.

q) Interest capitalization

Interest expense on debt attributable to the construction of property, plant and equipment is capitalized during the construction or development period as part of the cost of the related asset.

r) Intangible assets and concession rights

Intangible assets are recorded at cost less accumulated amortization and net of any impairment loss. An impairment loss is recognized when the asset's carrying value is no longer recoverable from its future estimated undiscounted cash flows and exceeds its fair value.

Concession rights are amortized on a usage basis using projected revenues over 99 years to reflect the duration of the Highway 407 Concession and Ground Lease Agreement (the "Concession Agreement") with the Province of Ontario (the "Province").

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

s) Long-term debt

The Company classifies long-term debt as OL and accounts for long-term debt using the amortized cost method, except for Senior Bonds, Series 04-A2, which is a derivative carried at fair value.

t) Income taxes

The Company follows the liability method of accounting for Income taxes. Under this method, future income tax assets and liabilities reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts employed for income tax purposes, and the benefit of losses available to be carried forward to future years for income tax purposes.

Future income tax assets and liabilities are measured using the substantively enacted tax rates expected to apply to taxable income in the years in which the related temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in tax rates is recognized in the year of substantive enactment. If, on the basis of available evidence, it is more likely than not that all or a portion of any future income tax assets will not be realized, the net future income tax assets are reduced by a valuation allowance.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Light-vehicle benefits program (the "Benefits Program")

The 407 ETR Benefits Program has been designed to reward eligible frequent customers with free weekend kilometres on the Highway in conjunction with discounts on gas purchases. When benefits are earned by such customers, the Company defers the revenues relating to the future free kilometres and records an expense for the gas, thereby establishing a liability for future redemption. The deferred revenue is determined by multiplying the estimated number of revenue kilometres displaced by the estimated price per kilometre. The expense for gas is determined by multiplying the number of litres offered by the Company's estimated cost per litre based on expected future redemption patterns. The actual revenue and cost redemptions are charged against the liability for the Benefits Program, which is included in accounts payable and accrued liabilities.

v) Measurement uncertainty

The preparation of the consolidated financial statements of the Company in conformity with GAAP requires management of the Company and its subsidiaries ("Management") to make estimates and assumptions, particularly as they relate to claims and contingencies, the valuation allowance on future income tax assets, useful lives and projected VKT's for the amortization of property, plant and equipment, projected revenues for the amortization of concession rights, the fair valuation of long-term investments, other asset and Senior Bonds, Series 04-A2, the Benefits Program displaced kilometres and expected gas take-up rates, provisions for credits and adjustments to billed revenues and the provision for doubtful accounts that affect the reported amounts and disclosures during the reporting period. Actual results could differ materially from these estimates.

The Company provides for doubtful accounts based principally on historical collection rates and Management's expectation of success rates for collection of overdue accounts by the Ontario Registrar of Motor Vehicles (the "Registrar") through refusing to renew or issue vehicle permits until outstanding amounts are paid ("Plate Denial") as well as Management's expectation of success rates for collection through legal proceedings. Plate Denial was voluntarily suspended in February 2000 and the Company did not regain access to it until November 2005 following a judicial review, and as such, a backlog of uncollected accounts developed including a number of license plates which were no longer attached to a vehicle and/or expired. Where a licence plate associated with a customer's unpaid 407 ETR account becomes unattached from the vehicle or expired, the Registrar is required to refuse to renew another single vehicle permit issued to the same customer and/or issue a vehicle permit to that customer. On March 30, 2008, the Registrar commenced the transfer of outstanding 407 ETR charges from unattached and expired license plates in Plate Denial to another single vehicle permit issued to the same customer. The legislation affording 407 ETR the right to Plate Denial requires a series of notices to be sent to customers with delinquent accounts. This process takes a minimum of 150 days from the date an invoice is sent until a customer is subject to Plate Denial, followed by up to two years before a customer's license plate is subject to renewal. The Plate Denial process, together with other collection strategies, is expected to result in the successful collection of net accounts receivable 151+ days past due. The Company's provision for overdue accounts could materially change and may result in significant changes to accounts receivable balances as Management continues to monitor the collection of outstanding 407 ETR charges through the Plate Denial process with the Ontario Ministry of Transportation (the "MTO") as well as collection through legal proceedings.

3. CHANGES IN ACCOUNTING POLICIES

i) New accounting policies

As required by The Canadian Institute of Chartered Accountants ("CICA"), on January 1, 2009, the Company adopted CICA Handbook Section 3064, *Goodwill and Intangible Assets*, which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Application of this pronouncement had no impact on the reported results of operations.

As required by the CICA, on January 1, 2009, the Company adopted the amendments to CICA Handbook Section 3862, *Financial Instruments-Disclosures*, which establishes additional disclosure requirements regarding the level in the fair value hierarchy in which fair value measurements are categorized for assets and liabilities measured in the balance sheet.

The CICA issued Abstract EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities,* which states that the Company's own credit risk and the credit risk of the counterparty should be taken into consideration in determining the fair value of financial assets and financial liabilities, including derivative instruments. The Abstract was effective January 20, 2009 and the Company is in compliance with the Abstract when determining the fair value of its financial assets and financial liabilities.

ii) Future changes in accounting policies

The CICA issued three new CICA Handbook Sections: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests.* Section 1582 replaces Section 1581 of the same name and establishes standards for the accounting of business combinations. It applies prospectively to business combinations with acquisition dates on or after the first annual reporting period beginning on or after January 1, 2011. Section 1601 and Section 1602 together replace former Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The mandatory effective date is for annual and interim periods in fiscal years beginning on or after January 1, 2011. The Company will begin application of these Sections effective January 1, 2011.

iii) International Financial Reporting Standards ('IFRS")

Commencing in the first quarter of 2011, the Company's financial statements will be prepared in accordance with IFRS, with 2010 comparative figures and the January 1, 2010 opening balance sheet restated to conform with IFRS, along with reconciliations from GAAP to IFRS, as per the guidance provided in IFRS 1, *First-Time Adoption of International Financial Reporting Standards*.

As part of its transition to IFRS, the Company has developed an implementation plan which includes an extensive analysis of accounting differences between GAAP and IFRS and the assessment of the expected impact of the accounting differences on its consolidated financial statements. The Company continues to assess the IFRS component evaluation for those areas of the financial statements that have identified accounting differences between GAAP and IFRS. Based on this analysis, the Company believes that there will be no material impact on its financial results. In addition, Management does not expect IFRIC Interpretation 12, *Service Concession Arrangements* to be applicable to the Company. As part of its IFRS implementation plan, the Company will continue to review the impact on its business activities, its disclosure and internal controls over financial reporting and its financial reporting systems.

(in millions of dollars, except per share amounts)

4. RESTRICTED CASH

Capital Markets Platform

The Company, along with its financial advisors, developed a financing plan referred to as the Capital Markets Platform, capable of accommodating a variety of corporate debt instruments. All indebtedness incurred under the Capital Markets Platform is secured under a Master Trust Indenture (the "Indenture") which establishes a common security and a set of common covenants given by the Company for the benefit of all its lenders. The security comprises a leasehold mortgage on 407 ETR's leasehold interest in the Highway, a security interest in all real and personal property of the Company, a security interest in all real and personal property of 407 ETR related to the Highway and a security interest in all real and personal property of CanToll, Canada Inc. and 7253770 Inc. Such security interests include the following:

(i) a specific assignment of each of the Company's and 407 ETR's interest in and rights under all Project Agreements (as defined in the Indenture) and other material agreements;

(ii) an assignment of revenues and a security interest in all funds and accounts that are required to be maintained pursuant to the Indenture and any Supplemental Indenture (as defined in the Indenture); and

(iii) a pledge of, or a security interest in, the shares of 407 ETR, CanToll, Canada Inc. and 7253770 Inc. owned by the Company.

Pursuant to the Indenture, the Company established the following cash and investment reserves; all of which are fully funded with Qualified Investments:

	As at December 31, 2009	As at December 31, 2008
Current		
Debt service funds	$ 72.2	$ 67.8
Debt service reserve fund	53.2	29.4
Operating and maintenance reserve and renewal and replacement funds	94.0	89.0
	$ 219.4	$ 186.2
Long-term		
Debt service reserve funds	$ 197.1	$ 218.1

(in millions of dollars, except per share amounts)

5. PROPERTY, PLANT AND EQUIPMENT

	As at December 31, 2009		As at December 31, 2008	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Toll highway	$ 2,308.6	$ 160.0	$ 2,253.5	$ 135.7
Toll equipment	291.8	227.6	278.1	205.9
Transponders	33.3	18.4	32.6	19.4
Operations centre	26.7	6.4	25.6	5.5
Office equipment	20.0	17.8	19.1	16.5
Motor vehicles	1.6	1.2	1.7	1.0
Snow clearing equipment and motor vehicles under capital lease	3.6	1.8	3.1	1.3
Computer equipment under capital lease	29.1	23.3	25.2	21.0
	$ 2,714.7	$ 456.5	$ 2,638.9	$ 406.3
Net book value		$ 2,258.2		$ 2,232.6

Certain property, plant and equipment has been retired and as a result, the cost has been reduced by $6.1 (2008 - $6.1) and accumulated depreciation by $6.1 (2008 - $6.1).

As at December 31, 2009, Toll highway and Toll equipment costs include amounts not being depreciated of $43.7 (2008 - $34.7) as they relate to projects under design and construction (such as the Highway 407 East/Highway 403 West/Queen Elizabeth Way South ramp, and Highway 407 lane expansions between Highway 403 and Highway 401 and between Highway 404 and McCowan Road), highway operations projects, tolling monitoring systems, as well as certain computer system development included in Toll equipment.

6. INTANGIBLE ASSETS

	As at December 31, 2009		As at December 31, 2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Concession rights	$ 1,676.1	$ 60.8	$ 1,676.1	$ 57.2
Other intangible assets	11.3	5.2	11.3	3.7
	$ 1,687.4	$ 66.0	$ 1,687.4	$ 60.9
Net book value		$ 1,621.4		$ 1,626.5

(in millions of dollars, except per share amounts)

7. LONG-TERM DEBT

	As at December 31, 2009	As at December 31, 2008
Senior Bonds:		
$400.0, Series 99-A1, 6.05%, maturing July 27, 2009	$ -	$ 399.2
$400.0, Series 99-A2, 6.47%, maturing July 27, 2029	389.4	389.2
$300.0, Series 99-A3, 6.75%, maturing July 27, 2039	282.1	284.9
$208.3, Series 99-A4, 5.328%, maturing December 1, 2016	257.8	252.1
$208.3, Series 99-A5, 5.328%, maturing December 1, 2021	257.9	252.2
$208.3, Series 99-A6, 5.328%, maturing December 1, 2026	257.9	252.2
$208.3, Series 99-A7, 5.328%, maturing December 1, 2031	257.9	252.2
$325.0, Series 00-A2, 5.29%, maturing December 1, 2039	371.1	375.8
$340.0, Series 04-A3, 5.96%, maturing December 3, 2035	337.9	337.9
$625.0, Series 07-A2, 4.90%, maturing October 4, 2010	624.3	623.5
$250.0, Series 08-A1, 4.50%, maturing January 25, 2011	249.6	249.2
$300.0, Series 09-A1, 4.65%, maturing January 20, 2012	299.0	-
$200.0, Series 09-A2, 5.10%, maturing January 20, 2014	199.0	-
Other Senior Bond:		
$162.3, Series 04-A2, 3.276%, maturing July 27, 2039 (note 12)	178.9	84.0
Junior Bond:		
$165.0, Series 00-B1, 7.00%, maturing July 26, 2010, extendible to July 26, 2040, at an increased annual rate of 7.125%	164.3	164.1
Subordinated Bonds:		
$480.0, Series 06-D1, 5.75%, maturing February 14, 2036	476.9	476.8
$300.0, Series 08-D1, 5.00%, maturing January 31, 2011	299.3	298.7
Other Debt	-	0.4
	4,903.3	4,692.4
Less: Current Portion	(799.4)	(10.7)
	$ 4,103.9	$ 4,681.7

(in millions of dollars, except per share amounts)

7. LONG-TERM DEBT (continued)

The following are the contractual maturities and related interest obligations of the Company's financial liabilities as at December 31, 2009:

	Next 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	$ 41.9	$ -	$ -	$ -	$ -	$ -
Oligations under capital leases	2.1	1.7	1.8	0.2	0.1	-
Long-term debt	798.4	558.9	309.4	10.0	210.6	2,863.6
Derivative financial liability	2.4	2.4	2.4	2.4	2.4	59.6
Interest payments on long-term debt and obligations under capital leases	260.8	204.7	183.9	176.3	170.6	2,501.1
	$ 1,105.6	$ 767.7	$ 497.5	$ 188.9	$ 383.7	$ 5,424.3

Interest and Other Expenses, Net

	2009	2008
Interest expense	$ 274.5	$ 257.2
Non-cash inflation component of:		
Interest expense relating to RRBs	4.1	43.1
Interest expense (recovery), Senior Bond, Series 04-A2 (note 12)	(6.1)	7.9
Fair value adjustment, Senior Bond, Series 04-A2 (note 12)	101.0	(73.1)
Capitalized interest	(1.6)	(0.7)
Total Interest Expense on Long-term debt	**371.9**	**234.4**
Fair value adjustment, long-term investments (note 12)	(18.1)	40.1
Fair value adjustment, other asset (note 12)	(8.5)	-
Interest income on held for trading financial assets	(11.2)	(19.7)
Reclassification of gains and losses on cash flow hedges	(0.9)	(1.2)
Other interest and expenses	6.6	3.7
	$ 339.8	$ 257.3

Senior Bonds

The Company issued Series 99-A1, 99-A2 and 99-A3 in July 1999, Series 04-A3 in December 2004, Series 06-A1 in February 2006, Series 07-A1 in May 2007, Series 07-A2 in October 2007, Series 08-A1 in January 2008, Series 09-A1 and Series 09-A2 in January 2009 with interest payable semi-annually except for Series 99-A3, where interest became payable commencing January 27, 2005 and Series 06-A1 and Series 07-A1, where interest is payable quarterly. These bonds are all repayable at maturity except for Series 99-A3, which are repayable in fixed semi-annual scheduled installments of interest and principal of $11.2. These bonds are redeemable in whole or in part, at the option of the Company.

On February 26, 2008, the Company redeemed Senior Bonds, Series 07-A1 at par.

7. LONG-TERM DEBT (continued)

On April 20, 2009, the Company redeemed Senior Bonds, Series 99-A1. The Company paid $405.9 plus accrued interest of $5.5 to the Series 99-A1 bondholders.

Real Return Bonds ("RRBs")

The Company issued RRBs Series 99-A4, 99-A5, 99-A6 and 99-A7 in August 1999 with semi-annual interest payments originally commencing on December 1, 2004. During 2002, the Company increased the face value of each series of RRBs by $45.8 to a total of $208.3 for each series of RRBs and deferred the first semi-annual interest payment to December 1, 2009. The Company issued amortizing RRB Series 00-A2 in February 2000.

The cash interest and principal payable on Series 99-A4 to 99-A7 RRBs, is adjusted based on the Consumer Price Index (the "CPI") at the time of measurement divided by the CPI at the time of issue. In addition to reserves established at the time of issuance of the Series 99-A4 to 99-A7 RRBs, the Company is required to fund a series excess inflation reserve account 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. As at December 31, 2009, the Company has not been required to fund this series excess inflation reserve account. The RRBs are repayable at maturity except for Series 00-A2, which is repayable in semi-annual scheduled installments of interest and principal of $10.2, adjusted based on the CPI at the time of measurement divided by the CPI at the time of issue.

As at December 31, 2009, the inflation compensation component of all RRBs was $264.2 (2008 - $264.3), of which the Company recorded $263.9 (2008 - $259.8) as additional long-term debt.

Other Senior Bond

In December 2004, the Company issued Senior Bond, Series 04-A2. The Company is obligated to make semi-annual cash payments (consisting of principal and interest) determined by the product of $13.0 and the percentage increase, if any, in CPI from December 3, 2004 until the payment date. The Senior Bond, Series 04-A2 is redeemable, in whole or in part, at the option of the Company.

Junior Bond

The Company issued Series 00-B1 in July 2000 with interest payable semi-annually. At the end of the initial maturity term on July 26, 2010, bondholders have the option to extend the maturity date to July 26, 2040, bearing interest at an increased annual rate of 7.125%. These bonds are repayable at maturity and are redeemable, in whole or in part, at the option of the Company, after the initial maturity term.

Subordinated Bonds

The Company issued Series 06-D1 in February 2006, Series 07-D1 in May 2007 and Series 08-D1 in January 2008 with interest payable semi-annually, except for Series 07-D1, where interest is payable quarterly. Series 06-D1 and Series 08-D1 are redeemable, in whole or in part, at the option of the Company.

The Company repurchased and cancelled $244.0 Series 07-D1 at par on February 26, 2008 and repaid the balance of $56.0 which matured on May 26, 2008.

Current Portion of Long-Term Debt

As at December 31, 2009, the current portion of long-term debt includes $164.3 Junior Bonds, Series 00-B1, $624.3 Senior Bonds, Series 07-A2, $3.1 Senior Bonds, Series 99-A3, $5.3 Senior Bonds, Series 00-A2 and $2.4 Senior Bonds, Series 04-A2.

7. LONG-TERM DEBT (continued)

Eligible Long-Term Notes Bank Credit Facility

Effective June 30, 2009, the Company entered into a credit agreement with respect to a revolving credit facility with a Canadian chartered bank (the "Bank") in the aggregate principal amount of up to $84.6 for general corporate purposes. The credit facility is divided into Tranches A and B. The maximum amount that may be drawn under Tranche A is $50.6 and the maximum amount that may be drawn under Tranche B is $34.0 and will be reduced by principal repayments received relating to the Eligible Long-Term Notes, first applied to Tranche A. During 2009, the Company received principal repayments of $0.8. Recourse to Tranche A is limited to the Eligible Long-Term Notes, subject to certain conditions. Tranche B is with full recourse to the Company. As at December 31, 2009, the credit facility was secured by an aggregate amount of $112.5 consisting of MAV2 Class A-1 Notes, MAV2 Class A-2 Notes, MAV2 Class B Notes, MAV 2 Class C Notes and MAV3 TA Tracking Notes (collectively, the "Eligible Long-Term Notes"). The maximum amount that may be drawn under Tranche A is $49.8; the maximum amount that may be drawn under Tranche B is $34.0.

Amounts drawn under the credit facility bear interest at floating rates based, at the option of the Company, on the prime rate less 1.00% for Canadian dollar loans, or the interbank bid rate for Canadian dollar bankers' acceptances, plus 0.65%.

The Company may draw on the credit facility at any time until the maturity date. The maturity date is June 30, 2012 and, at the request of the Company, may be extended at the option of the Bank, in annual increments, to June 30, 2016. The Company may also repay a portion or all of the obligations owing under the credit facility at any time during the term. At the maturity date and subject to certain conditions, the Company has the option of repaying the amount owing under Tranche A or surrendering the Eligible Long-Term Notes. As at December 31, 2009, the Company has not drawn under the credit facility.

Ineligible Long-Term Notes Bank Credit Facility

Effective June 30, 2009, the Company entered into a credit agreement with respect to a revolving credit facility with the Bank in the aggregate principal amount of up to $10.5 for general corporate purposes and will be reduced by principal repayments received relating to the Ineligible Long-Term Notes. During 2009, the Company received principal repayments of $1.2. Recourse is limited to the Ineligible Long-Term Notes, subject to certain conditions. As at December 31, 2009, the credit facility was secured by an aggregate amount of $11.3 consisting of MAV2 IA Tracking Notes and MAV3 IA Tracking Notes (collectively, the "Ineligible Long-Term Notes"). As at December 31, 2009, the maximum amount that may be drawn is $9.3.

Amounts drawn under the credit facility bear interest at floating rates based, at the option of the Company, on the prime rate less 1.00% for Canadian dollar loans, or the interbank bid rate for Canadian dollar bankers' acceptances, plus 0.65%.

The Company may draw on this credit facility at any time until the maturity date. The maturity date is June 30, 2011 and, at the request of the Company, may be extended at the option of the Bank, in annual increments, to June 30, 2016. The Company may also repay a portion or all of the obligations owing under the credit facility at any time during the term. At the maturity date and subject to certain conditions, the Company has the option of repaying the amount owing under the credit facility or surrendering the Ineligible Long-Term Notes. As at December 31, 2009, the Company has not drawn under the credit facility.

(in millions of dollars, except per share amounts)

7. LONG-TERM DEBT (continued)

Other Debt

Other debt represented amounts owing to a municipality for the acquisition of lands for the purpose of a particular Highway interchange. The debt repayable based on a fixed amount of $0.2 semi-annually was paid in full on July 1, 2009. The Company did not incur any interest expense on the debt.

8. SHARE CAPITAL

	As at December 31, 2009		As at December 31, 2008	
	Number of Shares	Amount	Number of Shares	Amount
Common Shares				
Authorized - Unlimited				
Issued and Outstanding	775,000,003	$ 775.0	775,000,003	$ 775.0

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

	2009	2008
Balance, beginning of year	$ 19.6	$ 20.8
Other comprehensive loss	(0.9)	(1.2)
Balance, end of year	$ 18.7	$ 19.6

AOCI includes gains and losses on cash flow hedges. Gains and losses on cash flow hedges, net of taxes and related valuation allowance will be reclassified to interest and other expenses, net, over periods of up to 29 years of which approximately $0.6 will be reclassified during the next 12 months.

10. NET INCOME PER SHARE, BASIC AND DILUTED

The weighted daily average number of shares outstanding was 775,000,003 in 2009 and 2008 used in determining basic and diluted net income per share. The Company has no dilutive securities currently outstanding.

Net income per share has been determined by dividing the consolidated net income for the year by the weighted daily average number of shares outstanding.

(in millions of dollars, except per share amounts)

11. INCOME TAXES

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

	2009	2008
Income tax expense at statutory rates - 33.00% (2008 - 33.50%)	$ 14.1	$ 28.5
Increase (reduction) in income taxes resulting from:		
Increase (decrease) in statutory rates and other	(4.1)	2.7
Increase (decrease) in non-taxable portion of fair value adjustment and write down of investments and other	(3.6)	6.5
Decrease in valuation allowance	(21.8)	(71.2)
Future income tax recovery	(15.4)	(33.5)
Recovery of large corporations tax - current	-	(0.5)
Income tax recovery	$ (15.4)	$ (34.0)

As at December 31, 2009, the Company has non-capital tax losses of $307.5 available to offset future taxable income expiring in the following years:

Year:	**2014**	**2015**	**2026**	**2028**	**2029**
Amount:	$166.6	$1.6	$2.5	$60.5	$76.3

(in millions of dollars, except per share amounts)

11. INCOME TAXES (continued)

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

	As at December 31, 2009	As at December 31, 2008
Future income tax liabilities:		
Property, plant and equipment and intangible assets	$ (58.0)	$ (38.7)
Long-term debt, accrued liabilities and others	-	(9.6)
	(58.0)	(48.3)
Future income tax assets:		
Long-term debt, accrued liabilities and others	19.2	-
Tax losses carried over	91.4	83.8
Restricted and long-term investments	2.6	8.5
Property, plant and equipment and intangible assets	-	17.6
Valuation allowance	(6.3)	(28.1)
	106.9	81.8
Future income tax assets, net	48.9	33.5
Less: Current portion of future income tax asset	(51.0)	-
Less: Long-term portion of future income tax asset	-	(33.5)
Long-term future income tax liability, net	(2.1)	-

During 2009, the Company released $23.6 (2008 - $33.5) of valuation allowance with respect to the future income tax assets relating to non-capital losses and net property, plant and equipment.

The Company anticipates that its accumulated non-capital tax losses will be utilized prior to their expiration dates. As a result, the Company has recorded a future income tax asset in relation to these non-capital losses based on Management's assessment that it is more likely than not that the tax benefit recognized will be utilized.

The Company continues to take a valuation allowance with respect to the future income tax assets relating to long-term investments of $6.3.

12. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of Cash and cash equivalents, Restricted cash, Short-term Investments, Accounts receivable, Long-term investments, Accounts payable and accrued liabilities, Long-term debt, and derivative financial instruments.

a) Fair Value of Financial Instruments

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

Current financial assets and liabilities

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

Long-term restricted cash

The fair values were determined using quotations provided by major Canadian financial institutions.

12. FINANCIAL INSTRUMENTS (continued)

Long-term debt

The fair value of the long-term debt (including the current portion) as at December 31, 2009 was $5,451.0 (2008 - $4,403.0) using quotations provided by a major Canadian financial institution, except for Senior Bond, Series 04-A2, which Management determined by using a valuation technique.

Derivative financial instruments

Eligible Long-Term Notes Bank Credit Facility

Under the terms of the Eligible Long-Term Notes Bank Credit Facility and subject to conditions which are expected to be satisfied, the Company has the option of repaying any amount owing under Tranche A at the maturity date by surrendering the Eligible Long-Term Notes. This repayment arrangement option is an embedded derivative and is valued at fair value using a valuation technique. The valuation technique incorporates a probability weighted approach, applied to discounted future cash flows of the Eligible Long-Term Notes Bank Credit Facility while considering: (i) the fair value of the Eligible Long-Term Notes, (ii) the maximum amount that can be drawn under Tranche A, and (iii) the discount rate relating to the Bank. As at December 31, 2009, the fair value of the embedded derivative was $nil (2008 - $nil) assuming the fair value of the Eligible Long-Term Notes and the discount rate relating to the Bank to be $84.5 and 2.3%, respectively.

Ineligible Long-Term Notes Bank Credit Facility

Under the terms of the Ineligible Long-Term Notes Bank Credit Facility and subject to conditions which are expected to be satisfied, the Company has the option of repaying any amount owing under this credit facility at the maturity date by surrendering the Ineligible Long-Term Notes. This repayment arrangement option is an embedded derivative and is valued at fair value using a valuation technique. The valuation technique incorporates a probability-weighted approach, applied to discounted future cash flows of the Ineligible Long-Term Notes Bank Credit Facility while considering: (i) the fair value of the Ineligible Long-Term Notes, (ii) the maximum amount that can be drawn under the ineligible credit facility, and (iii) the discount rate relating to the Bank. As at December 31, 2009, the fair value of the embedded derivative was $8.5 (2008 - $nil) in favour of the Company assuming the fair value of the Ineligible Long-Term Notes and the discount relating to the Bank to be $0.8 and 1.54%, respectively. The $8.5 recovery was recorded for the year ended December 31, 2009 as a fair value adjustment, other asset in interest and other expenses, net. As at December 31, 2009, a 200 basis points increase in the discount rate relating to the Bank will decrease the fair value of the embedded derivative by approximately $0.2.

Senior Bond Series 04-A2

The Company accounts for Senior Bond, Series 04-A2 as a derivative financial instrument in accordance with GAAP and reports Senior Bond, Series 04-A2 at its fair value. The fair value of Senior Bond, Series 04-A2 as at December 31, 2009 was $178.9 (2008 - $84.0) determined by using a valuation technique which estimated future inflation of 2.6% (2008 – 1.3%) and applied a nominal discount rate of 5.5% (2008 – 6.8%). During the year ended December 31, 2009, the fair value of Senior Bond, Series 04-A2 increased by $44.4 (2008 – decreased by $23.9) due to the change in the Company's corporate credit spread. As at December 31, 2009, a 10 basis points increase in the estimated future inflation will increase the fair value of Senior Bond, Series 04-A2 by $7.1, and a 10 basis points decrease in the nominal discount rate will decrease the fair value of Senior Bond, Series 04-A2 by approximately $4.2.

The inflation component of interest recovery of Senior Bond, Series 04-A2 was $6.1 for the year ended December 31, 2009 (2008 - $7.9 expense). In addition, the fair value adjustment interest expense was $101.0 for the year ended December 31, 2009 (2008 - $73.1 recovery). The net amount of $94.9 was recorded as an interest expense for the year ended December 31, 2009 (2008 - $65.2 recovery).

12. FINANCIAL INSTRUMENTS (continued)

Long-term investments

As at December 31, 2008, the Company held $147.0 principal amount of non-bank sponsored asset-backed commercial paper ("Montreal Proposal ABCP"). On January 12, 2009, the Ontario Superior Court of Justice granted the Amended Plan Implementation Order filed by the Pan-Canadian Investors Committee for Third-Party Structured Asset-Backed Commercial Paper under the *Companies' Creditors Arrangement Act* for the restructuring of the Montreal Proposal ABCP.

On January 21, 2009, the Amended Plan restructuring was completed. Upon closing of the Amended Plan, the Company received $147.0 of long-term investments consisting of $77.5 of MAV2 Class A-1 Notes, $42.6 of MAV2 Class A-2 Notes, $7.7 of MAV2 Class B Notes, $3.9 of MAV2 Class C Notes, $14.1 of MAV2 IA Tracking Notes, $0.4 of MAV3 IA Tracking Notes and $0.8 of MAV3 TA Tracking Notes (collectively, the "Montreal Proposal Long-Term Notes") and $5.7 of accrued interest which was recorded as a reduction of fair value. On August 11, 2009, DBRS Limited ("DBRS") downgraded the credit rating of the MAV2 Class A-2 Notes from A to BBB(low). During 2009, the Company received principal repayment in the aggregate amount of $2.0 relating to the MAV2 Class A-1 Notes, MAV2 IA Tracking Notes, MAV3 IA Tracking Notes and MAV3 TA Tracking Notes. On September 22, 2009, $1.9 of MAV2 IA Tracking Notes were cancelled due to default of the underlying assets. On November 13, 2009, the Other Non-Bank Series-E Notes were exchanged for Other Non-Bank Series-G Notes, rated A(low) by DBRS. As at December 31, 2009, the Company held $77.3 of MAV2 Class A-1 Notes, $42.6 of MAV2 Class A-2 Notes, $7.7 of MAV2 Class B Notes, $4.0 of MAV2 Class C Notes, $11.0 of MAV2 IA Tracking Notes, $0.3 of MAV3 IA Tracking Notes and $0.2 of MAV3 TA Tracking Notes and $6.3 of Other non-bank Series-G Notes. Although there have been some isolated transactions subsequent to January 21, 2009, there are currently no active market quotations available for the Montreal Proposal Long-Term Notes and the Other Non-Bank Series-G Notes (collectively, the "Notes"). The Company has designated the Notes as held-for-trading.

There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the Notes. The Company estimates the fair value of the Notes using a valuation technique which incorporates a probability-weighted approach applied to the discounted estimated future cash flows considering the terms of the Notes and other available data regarding market conditions for such investments as at December 31, 2009. The discount rates consider factors including the BA rate, credit spread applicable to the credit rating, premiums for lack of liquidity, uncertainty of future payments, lack of transparency and nature of underlying assets.

The valuation technique used by the Company to estimate the fair value of the Notes is consistent with the method used to value the Notes held at December 31, 2008. It incorporates a discounted cash flow model considering the best available public information and market conditions.

(in millions of dollars, except per share amounts)

12. FINANCIAL INSTRUMENTS (continued)

The interest rates, discount rates, maturity dates and probability of recovery modelled are:

Weighted average interest rate:	3.03 %[1] (ranging from 2.05% to 6.22%)
Premiums for lack of liquidity:	Ranging from 0.20% to 3.00%[1]
Weighted average discount rate:	6.97%[1] (ranging from 4.56% to 10.92%)
Maturity dates:	Ranging from 2012 to 2016
Probability of recovery:	98% on the A-1 and A-2 Notes
	10% on the B Notes
	0% on the C Notes
	98% on the TA Tracking Notes
	10% on the IA Tracking Notes
	98% on the Other Non-Bank Series G Notes

1.Excludes MAV2 Class C Notes as the Company estimates that the fair value is nil.

Based on the discounted cash flow model as at December 31, 2009, the fair value of the Company's Notes was $101.7 (2008 - $92.0), which included accrued interest of $nil (2008 - $6.3). The Company has recorded a cumulative reduction in fair value of $47.6 (2008 - $62.3).

The increase in fair value of $9.7 during 2009 was due to a fair value adjustment recovery of $18.1 (2008 - $40.1 expense) primarily due to an overall improvement in credit markets resulting in lower discount rates and higher interest rates, offset by pre-restructuring interest receipts of $6.4 (2008 - $nil) and principal repayments of $2.0 (2008 - $nil).

Since the fair value of the Notes is determined using a probability-weighted approach employing the foregoing assumptions and is based on the Company's assessment of market conditions as at December 31, 2009, the fair value reported may change materially in subsequent periods. A 100 basis points increase in the discount rate will decrease the fair value of the Notes by approximately $5.7 (2008 - $5.6).

(in millions of dollars, except per share amounts)

12. FINANCIAL INSTRUMENTS (continued)

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

Level 1 of the fair value hierarchy includes unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3 includes inputs for the asset or liability that are not based on observable market data. For those fair value measurements included in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances has been provided.

	Assets Measured at Fair Value As at December 31, 2009			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial assets measured at fair value through net income				
Cash and cash equivalents	$ 152.3	$ 152.3	$ -	$ -
Short-term investments	0.4	0.4	-	-
Restricted cash	416.5	416.5	-	-
Long-term investments	101.7	-	-	101.7
Other asset	8.5	-	8.5	-
Total	**$ 679.4**	**$ 569.2**	**$ 8.5**	**$ 101.7**

	Liabilities Measured at Fair Value As at December 31, 2009			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial liabilities measured at fair value through net income				
Senior Bonds, Series 04-A2	$ 178.9	$ -	$ 178.9	$ -
Total	**$ 178.9**	**$ -**	**$ 178.9**	**$ -**

	Reconciliation of Long-term Investments Measured at Fair Value Based on Level 3 Inputs As at December 31, 2009
Opening Balance	$ 92.0
Fair value adjustments included in interest and other expense, net	18.1
Principal repayments	(2.0)
Interest income received	(6.4)
Closing Balance	**$ 101.7**

(in millions of dollars, except per share amounts)

12. FINANCIAL INSTRUMENTS (continued)

b) Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts are as follows:

	2009	2008
Balance, beginning of period	$ 127.0	$ 89.7
Provision for doubtful accounts	20.9	38.3
Bad debts written off, net of recoveries, and other [1]	(13.4)	(1.0)
Balance, end of period	$ 134.5	$ 127.0

Note 1: Relates to write-off of historical delinquent balances previously provided as doubtful debts

The provision for doubtful accounts is included in operating expenses in the consolidated statements of operations, and is net of any recoveries that were provided for in a prior period.

c) Risks Arising from Financial Instruments

See “Risks Arising from Financial Instruments” under “Risks and Uncertainties” in the Company’s Management’s Discussion and Analysis dated February 4, 2010, available on SEDAR (www.sedar.com).

d) Liquidity Risk

The Company manages its liquidity risk by dispersing the contractual maturity dates of its financial liabilities, thereby ensuring the Company is not exposed to excessive refinancing risk during any one year. Further, the Company maintains an optimal level of liquidity through maximizing cash flows by actively pursuing the collection of its accounts receivable, and by controlling the level of operating and capital expenditures.

13. CAPITAL DISCLOSURE

The Company defines its capital as follows:

1. long-term debt, including the current portion; and
2. cash and cash equivalents, short-term investments and long-term investments.

The Company's objectives when managing capital are to:

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

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

Under the terms of the Indenture and Supplemental Indentures, the Company may not incur additional indebtedness resulting in a downgrade to the credit ratings of its existing indebtedness. The Company may only make interest payments relating to subordinated debt and dividend payments to shareholders upon the satisfaction of certain financial covenants. The Board of Directors of the Company reviews the level of dividends paid to the Company's shareholders on a quarterly basis. The Company is in compliance with all financial covenants.

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

(in millions of dollars, except per share amounts)

14. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

Related Party	Relationship	Classification in the Company's consolidated financial statements	Nature of transaction with the related party	2009	2008
SNC-Lavalin Engineers & Constructors	Subsidiary of shareholder	Property, plant and equipment	Payment for design costs	$ 0.6	$ 1.1
SNC-Lavalin Engineers & Constructors	Subsidiary of shareholder	Operating expenses	Payment for administration costs	$ 0.5	$ 0.4
Cintra Infraestructuras, S.A.U.	Parent of shareholder	Operating expenses	Payment for administration costs	$ 1.1	$ 0.7
Cintra Infraestructuras, S.A.U.	Parent of shareholder	Operating expenses	Reimbursement of administration costs	$ (0.1)	$ (0.2)

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

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

Related Party	Relationship	Classification in the Company's consolidated financial statements	As at December 31, 2009	As at December 31, 2008
SNC-Lavalin Engineers & Constructors	Subsidiary of shareholder	Accounts payable and accrued liabilities	$ 0.2	$ 0.2
Cintra Infraestructuras S.A.U.	Parent of shareholder	Accounts payable and accrued liabilities	$ 0.5	$ 0.3
Cintra Infraestructuras S.A.U.	Parent of shareholder	Accounts Receivable	$ (0.1)	$ (0.2)

15. EMPLOYEE BENEFITS

The Company has a Deferred Profit Sharing Plan, which is a defined contribution plan, to which the Company contributed $0.7 during 2009 (2008 - $0.6).

(in millions of dollars, except per share amounts)

16. COMMITMENTS AND CONTINGENCIES

Claims and Contingencies

2006 Settlement Agreement

Following the provincial election on October 2, 2003, a number of disputes had developed between the Province and 407 ETR or the Company. All of the disputes between the Province and 407 ETR or the Company were settled by an agreement dated March 31, 2006 (the "2006 Settlement Agreement").

Pursuant to the 2006 Settlement Agreement, 407 ETR commenced to extend benefits of at least $40.0 over four years to approximately 100,000 light vehicle customers by way of a multi-tier frequent user program.

Other Claims and Contingencies

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

Lease Commitments

The Company has entered into operating and capital leases for the use of Snow Clearing and Computer Equipment, as well as vehicles. The Snow Clearing and Computer Equipment, and certain vehicle leases are classified as capital leases. The leases expire on various dates, at which time the Company has the right, but not the obligation, to purchase the equipment.

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

	Obligations under capital leases
2010	$ 2.4
2011	1.9
2012	1.8
2013	0.3
2014	0.1
Total minimum lease payments	6.5
Interest included in minimum payments at rates varying between 0% and 8.26%	(0.6)
Present value of net minimum lease payments	5.9
Less: current portion	(2.1)
Long-term portion	$ 3.8

(in millions of dollars, except per share amounts)

16. COMMITMENTS AND CONTINGENCIES (continued)

Future Commitments and Significant Operating Agreements

The Company entered into an agreement with a supplier to provide expert technical support for its maintenance function of the tolling system requiring annual fixed payments of $0.7, expiring on December 31, 2012. In addition, the agreement licensed certain technology, provided training and special tools to transition maintenance of certain toll equipment to the Company and required the supplier to develop certain new electronic toll system products requiring milestone payments.

The Company has future commitments comprised of a service agreement and associated operating lease for certain highway winter maintenance services requiring monthly payments, expiring on April 30, 2013.

The Company entered into an agreement with a supplier to provide enterprise software and services for its integrated automation system requiring monthly payments, expiring on August 31, 2012.

As at December 31, 2009, payments under these agreements for the next five years are as follows:

Year:	**2010**	**2011**	**2012**	**2013**	**2014**
Amount:	$13.0	$8.9	$7.7	$2.8	$ -

17. GUARANTEES

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

(a) Director/officer indemnification agreements

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

(b) Other indemnification agreements

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

(in millions of dollars, except per share amounts)

18. REVENUE FROM OPERATING LEASES

The Company charges customers a lease fee for transponders to be used on Highway 407. Revenue from operating leases in 2009 totalled $20.8 (2008 - $20.1).

19. SUPPLEMENTARY CASH FLOW INFORMATION

	As at	
	December 31, 2009	December 31, 2008
Cash and cash equivalents consist of:		
Cash	$ 2.8	$ 35.8
Bankers' Acceptances	28.0	31.7
Term Deposits	118.5	-
Treasury Bills	3.0	49.9
Provincial Promissory Notes	-	20.0
	$ 152.3	$ 137.4

	2009	2008
Interest paid	$ 248.3	$ 202.8
Property, plant and equipment acquired by capital lease	$ 4.6	$ 2.5
Change in accrued property, plant and equipment and other intangible assets in accounts payable and accrued liabilities	$ 7.6	$ 8.9