

SETTLEMENT AGREEMENT

BETWEEN:

407 ETR CONCESSION COMPANY LIMITED (“407 ETR”)

and

407 INTERNATIONAL INC. (“407 INTERNATIONAL”)

and

**HER MAJESTY THE QUEEN IN RIGHT OF THE PROVINCE OF ONTARIO,
AS REPRESENTED BY THE MINISTER OF TRANSPORTATION
(the “PROVINCE” or “MTO”)**

RECITALS

- A. 407 International and the Province entered into a share purchase agreement (the “**Share Purchase Agreement**”) dated April 12, 1999, pursuant to which 407 International acquired all of the right, title and interest in the shares of 407 ETR.
- B. 407 ETR and the Province entered into a concession and ground lease agreement (the “**CGLA**”) dated April 6, 1999, as amended, pursuant to which 407 ETR has the right to operate the Highway 407 concession for a period of 99 years.
- C. 407 ETR and the Province entered into a tolling, congestion, relief and expansion agreement (the “**TCREA**”) dated April 6, 1999, which governs various matters relating to Highway 407 (the “**Highway 407**”).
- D. The *Highway 407 Act, 1998* S.O. 1998, c. 28 (the “**Act**”) designates the Highway 407 as a private toll highway.

E. There are currently a number of outstanding disputes resulting in litigation and dispute resolution processes in the Share Purchase Agreement, the CGLA, and the TCREA that have arisen between the Province, 407 ETR and 407 International (collectively, the “Parties”) to this date (collectively, the “Disputes”), which Disputes are set forth in Schedule “A”.

F. The Parties are each committed to ensuring that there are improvements in customer service for users of the Highway 407, which improvements may be implemented as a result of the settlement of the Disputes. In that context, 407 ETR agrees to implement the following additional benefits to users of the Highway 407, as described in further detail in this Settlement Agreement:

- a \$40 million multi-tier customer benefits program for the benefit of approximately 100,000 Customers, representing savings on toll rates of up to 10-15% for the highest tier Customers of the Highway 407;
- a toll reduction for trucks using the Highway 407;
- a 100 lane kilometre widening, representing approximately a \$100 million investment in the Highway 407, which will provide substantial benefits to users of the Highway 407;
- a repayment plan to assist users of the Highway 407 who have significant outstanding tolls and fees who would suffer exceptional hardship through the Licence Plate Denial process as described in the Act; and
- the appointment of an Ombudsman to provide additional assistance to customers of the Highway 407.

G. The Parties wish to provide for a comprehensive and final settlement of all of the Disputes in the manner set out in this Settlement Agreement.

NOW THEREFORE, in consideration of the mutual covenants and agreements contained in this Settlement Agreement and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by each of the Parties, the Parties covenant and agree as follows:

A. RELEASE AND DISCHARGE

1. In consideration of the final settlement and disposition of the Disputes in the manner set out in **Schedule "A"**, and for other good and valuable consideration contemplated herein, the Parties release and forever discharge each other in the manner provided for in **Schedule "A"**. Each of the Parties further agrees, on its own behalf and on behalf of its Affiliates, successors, subsidiaries, assigns, officers and directors not to take or continue any proceedings against any Person that might claim contribution, indemnity or relief over against another Party or any of its Affiliates with respect to the matters released herein.
2. The Parties hereby agree to take all steps necessary and advisable to finally settle and dispose of the Disputes in the manner set out in **Schedule "A"**.
3. The Parties further represent and warrant that they have not assigned or otherwise transferred to any Person any of the Claims as defined in **Schedule "A"** or other aspects of the Disputes that they are releasing hereunder.
4. It is further agreed and understood that the Parties do not otherwise admit any liability or obligation of any kind whatsoever to each other, other than what is prescribed in this Settlement Agreement, and any such liability or obligation is specifically denied.

5. The Parties hereby declare that the terms of this settlement are fully understood, that the consideration stated herein is the sole consideration for the settlement of the Disputes and that the settlement of the Disputes is accepted voluntarily for the purpose of making full and final compromise and settlement of all Disputes between the Parties.

6. It is agreed and understood that if any Party commences such an action, or takes such proceedings, and any other Party is added to such proceeding in any manner whatsoever, whether justified in law or not, the Party so commencing will immediately discontinue the proceedings and/or claims, and that such Party will be jointly and severally liable to such other Party for the legal costs incurred in any such proceeding. This Settlement Agreement shall operate conclusively as an estoppel in the event of any claim, action, complaint or proceeding which might be brought in the future by any Party to any other Party with respect to the matters released hereby. This Settlement Agreement may be pleaded in the event any such claim, action, complaint or proceeding is brought, as a complete defence and reply, and may be relied upon in any proceeding to dismiss the claim, action, complaint or proceeding on a summary basis and no objection will be raised by any Party to any other Party in any subsequent action that the other parties in the subsequent action were not privy to formation of this Settlement Agreement.

B. 407 ETR CUSTOMER BENEFITS

7. Immediately upon execution of this Settlement Agreement, 407 ETR shall design a multi-tier frequent user program to the benefit of approximately 100,000 407 ETR Customers (the “**Benefit Program**”). The Benefit Program shall extend a direct benefit to the Customers with a value of not less than \$40 million over approximately four years. The benefits to the highest tier Customer will represent savings on toll rates of up to 10-15%.

8. Subject to paragraph 7 above, 407 ETR shall have the sole right to establish all parameters of the Benefit Program, including the right to change the parameters from time to time, to determine the criteria upon which Customers would become eligible for the Benefit Program and as to the tier of the Benefit Program for which they qualify, and the nature and amount of their benefit. For the purposes of this Section B, 407 ETR Customer Benefits, and the first bullet of recital F, a "Customer" is defined to be each Standard Vehicle and each Unequipped Vehicle.

9. 407 ETR shall commence to extend benefits pursuant to the Benefit Program to its Customers by March 31, 2007, but not prior to December 31, 2006. Upon 407 ETR commencing to extend benefits pursuant to the Benefit Program, 407 ETR shall issue to the MTO a certificate signed by an officer of 407 ETR confirming the Benefit Program has commenced. In the event that 407 ETR has not issued the certificate confirming it has commenced to extend benefits pursuant to the Benefit Program by March 31, 2007, 407 ETR will not, until after March 31, 2008, exercise its right to raise toll rates for use of Highway 407 by:

- (a) Standard Vehicles and Unequipped Vehicles from the toll rates in effect as at the date hereof; and
- (b) Heavy Single Units and Heavy Multiple Units (collectively, "**Heavy Vehicles**") from the toll rates in effect as at the date hereof.

10. In the event that the one-year toll freeze is implemented as a result of the failure of 407 ETR to commence to extend benefits pursuant to the Benefits Program by March 31, 2007, 407 ETR shall be relieved of its obligations to provide the Benefit Program.

11. 407 ETR will not exercise its right to raise any toll rates between the date hereof and the earlier of the date that 407 ETR commenced to extend benefits pursuant to the Benefit Program and March 31, 2008.

12. In the event that, as of December 31, 2010, 407 ETR has not extended a benefit of \$40 million to approximately 100,000 Customers or such benefit has not resulted in savings on toll rates of up to 10-15% for the highest tier customers (as determined in the sole and absolute discretion of the independent auditor referred to below in Section E), 407 ETR will implement a toll freeze of toll rates for a one-year period, in the sense that it will not, until after December 31, 2011, exercise its right to increase Peak Hour and Off-Peak Hour toll rates charged for use of Highway 407 by:

- (a) Standard Vehicles and Unequipped Vehicles from the toll rates in effect as at December 31, 2010; and
- (b) Heavy Vehicles from the toll rates in effect as at December 31, 2010.

13. The number of Customers to whom benefits will be extended pursuant to the Benefit Program shall be approximately 100,000. For the purposes of the determination of the number of Customers to whom benefits have been extended, the independent auditor shall calculate the number of Customers to whom benefits are extended on a monthly average basis during the period from the date 407 ETR commenced to extend benefits pursuant to the Benefit Program until October 31, 2010.

14. The benefits extended pursuant to the Benefits Program will be in the range of 10-15% of the tolls charged to Customers eligible for the highest tier ("**Tolls Charged**"). For the purposes of the determination of the savings extended, the independent auditor shall calculate the savings

extended on a monthly average basis during the period from the date 407 ETR commenced to extend the benefits pursuant to the Benefits Program and October 31, 2010. Tolls Charged shall be calculated as the kilometres travelled multiplied by the applicable toll rate per kilometre.

15. At least 90 days prior to December 31, 2010, 407 ETR will begin to provide the independent auditor with the information that the independent auditor requires to determine if 407 ETR has extended a benefit of \$40 million to approximately 100,000 Customers and that such benefits have resulted in 407 ETR extending savings on toll rates of up to 10-15% for the highest tier Customers. If possible, the independent auditor will make its determination by December 31, 2010 and notify 407 ETR in writing of such determination. 407 ETR shall upon receipt forthwith forward a copy of the written determination to the Province. The determination shall be in the sole and absolute discretion of the independent auditor and shall be final and binding on both 407 ETR and the Province.

C. TRUCK TOLLS

16. By July 1, 2006, 407 ETR shall introduce a multi-tier Heavy Vehicle Reward Program (the "**Heavy Vehicle Reward Program**") that:

- (a) for the first tier:
 - (i) provides discounts of up to 50% in night-time and weekend rates;
 - (ii) provides discounts of up to 25% in other Off-Peak Rates; and
 - (iii) eliminates all Heavy Vehicle flat video toll charges; and
- (b) for the second tier provides:

- (i) discounts of up to 25% in night time and weekend rates;
 - (ii) discounts of up to 10% in other Off-Peak Rates; and
 - (iii) a 70% reduction in Heavy Vehicle flat video toll charges; and
- (c) for the third tier, provides a 70% reduction in Heavy Vehicle flat video toll charges.

17. If following the implementation of the Heavy Vehicle Reward Program, the average Non-Compliance Rate (as hereinafter defined) is:

- (a) less than 17.5% for the 6 month period July 1, 2006 to December 31, 2006, then the Heavy Vehicle Reward Program shall continue until June 30, 2007;
- (b) less than 15.0% for the 6 month period January 1, 2007 to June 30, 2007, then the Heavy Vehicle Reward Program shall continue until December 31, 2007; and
- (c) less than 12.0% for the 6 month period July 1, 2007 to December 31, 2007, then the Heavy Vehicle Reward Program shall continue until June 30, 2008.

18. The term “**Non-Compliance Rate**” means the ratio, expressed as a percentage, during the applicable time period of (a) the aggregate amount of all transactions made by Heavy Vehicles on Highway 407 as recorded by 407 ETR through the use of photographic or video evidence only, and (b) the aggregate amount of all transactions made by Heavy Vehicles on Highway 407 as recorded by 407 ETR through the use of any and all evidence permitted by the Act (including without limitation, a toll device (as such term is defined in the Act)) and such Non-Compliance Rate shall be audited by 407 ETR’s independent auditor who will be provided with the methodology 407 ETR has used in the past to assist in the independent auditor’s audit.

19. In the event that the average Non-Compliance Rate is higher than the values expressed in Paragraphs 17 (a) to (c) above, the Heavy Vehicle Reward Program shall terminate immediately.

20. In no event shall the Heavy Vehicle Reward Program extend past June 30, 2008.

D. WIDENING

21. 407 ETR will proceed with the widening of Highway 407 by adding one core lane in each direction between the interchanges of Highway 401 and Highway 404 (the “**Widening**”) representing a \$100 million investment in Highway 407.

22. 407 ETR will use commercially reasonable efforts to complete the Widening such that it will be Commissioned and Opened by October 31, 2007.

23. The Province shall use reasonable efforts to facilitate the expeditious delivery of any and all approvals reasonably required by 407 ETR to complete the Widening.

24. The Province hereby waives the obligation of 407 ETR under Section 4.1(b) of the TCREA to expand Segment C-4 under Schedule 1 of the TCREA by a single core lane in each direction by April 2007, and extends the period of time to complete the expansion of said Segment C-4 until October 31, 2007. For greater certainty, all of the 407 ETR’s remaining obligations under the TCREA remain in full force and effect.

E. SAFEGUARDS AND LICENCE PLATE DENIAL

25. 407 ETR agrees to use commercially reasonable efforts to appoint a new independent auditor by October 31, 2006 to provide audit reports under Section 10(1) of Ontario Regulation 138/00 of the Act (“**Regulation**”). 407 ETR agrees to provide the MTO with a copy of the request for proposals (the “**RFP**”) prior to soliciting proposals. The following auditors: Ernst &

Young LLP, BDO Dunwoody LLP and PricewaterhouseCoopers LLP are approved by the MTO. Additional independent auditors may be proposed by 407 ETR to be approved by the MTO, such approval to not unreasonably be withheld. 407 ETR shall provide the three approved auditors described above and any additional auditors approved by the MTO (collectively the “**Potential Auditors**”) with the RFP on or before June 30, 2006.

26. 407 ETR agrees to provide the MTO with the opportunity to provide input on the RFP and to consider any such input in good faith. However, for clarity, the MTO’s opportunity to provide input into the RFP and the selection of the independent auditor does not constitute, and shall not be deemed to constitute, a right to approve or disapprove of the contents of the RFP or the selection of a new independent auditor.

27. After the appointment of a new independent auditor, if the Registrar, believing on reasonable grounds that there may have been a lack of compliance by 407 ETR, may request additional audits, in accordance with Section 10(3) of the Regulation.

28. Until a new auditor is appointed by 407 ETR, Deloitte & Touche LLP will remain the approved auditor for the purposes of Section 10 of the Regulation.

29. 407 ETR agrees that at all times the individual partner at the firm of the new auditor in charge of the independent audit under Section 10(1) of the Regulation will not be the same individual who is in charge of the financial audit of 407 ETR or any of its affiliates.

30. As a safeguard procedure, 407 ETR shall send the certificate prepared by a senior corporate officer to the Registrar at the same time as 407 ETR sends its notice under Section 22(1) of the Act, as required by Section 8(1) of the Regulation.

31. In the event that an error, as described in Section 9(1) of the Regulation, occurs in the Licence Plate Denial process, 407 ETR shall notify the Registrar forthwith of such error and immediately take the corrective action required by Section 9(2) of the Regulation.

32. The Province acknowledges, confirms, agrees, and represents to 407 International and 407 ETR that the Registrar has agreed that amounts eligible to be collected through the application of the Licence Plate Denial Process are all tolls, related fees and interest charged to customers, or to be lawfully charged in the future by 407 ETR, resulting from the use of the Highway 407. The classes of fees presently charged and eligible for collection through the Licence Plate Denial Process are attached as Schedule B to this Settlement Agreement.

33. The Province acknowledges, confirms, agrees and represents that the Registrar will, as contemplated by the Act, where a licence plate previously issued to a person is submitted to the Registrar under Section 22(4) of the Act is on the MTO database and identified as anything other than "Attached" and not "Expired" on the MTO database (the "**Unattached Plate**"), apply the entire debt outstanding in respect of the person's licence plate to a single licence plate issued to the same person and identified as "Attached" and not "Expired" on the MTO database or in the event there is only an "Attached" and "Expired" single licence plate, to such "Attached" and "Expired" licence plate (the "**Attached Plate**"), except that, in the event that the Registrar determines that the person's mailing address in relation to the Unattached Plate is different from the person's mailing address with respect to the Attached Plate, then, except where the person has received a Notice under Section 22 at the address listed for the Attached Plate the Registrar shall so notify 407 ETR and 407 ETR will be required to recommence the license plate denial process by providing a notice of failure to pay under Section 16 of the Act to the person using the person's mailing address with respect to the Attached Plate. The Province agrees to provide

such mailing address to 407 ETR (except if it is not lawfully permitted to do so). For greater certainty, such persons shall have the benefit of the provisions of the Act by which a person may dispute the alleged failure to pay a toll on the grounds that the Unattached Plate was lost or stolen and the relevant tolls, related fees and/or interest was incurred after the plate was lost or stolen. For greater certainty, the Registrar will obtain all address information from the MTO database and does not warrant or represent that it is accurate.

F. 407 ETR OMBUDSMAN

34. Within 60 days of the date hereof, 407 ETR shall appoint an individual to act as an ombudsman with respect to the Licence Plate Denial process and other customer service matters (the “**Ombudsman**”). 407 ETR agrees that the position of the Ombudsman will remain in place for not less than three years from the date of the appointment of the Ombudsman. 407 ETR will publish the appointment of the Ombudsman as soon as practicable after such appointment.

35. The Ombudsman shall have the duties and responsibilities set out in **Schedule “C”**. The annual budget of the Ombudsman shall be the sole responsibility 407 ETR.

G. CUSTOMER SERVICE MATTERS

36. The Province and 407 ETR acknowledge that significant improvements have been made with respect to customer service at 407 ETR. However, the Province and 407 ETR also acknowledge that improvements are always in the interests of the Parties and the users of the Highway 407.

37. Within 60 days after execution of this Settlement Agreement, 407 ETR and the Province will publicize the existence of the dispute resolution process available under the Act with respect to Licence Plate Denial.

38. Within 60 days after execution of this Settlement Agreement, 407 ETR will make available and post on the 407 ETR website, in a manner to be determined by it in its sole discretion, the details of a repayment plan to assist users of Highway 407 that have significant outstanding tolls and fees who would suffer exceptional hardship through Licence Plate Denial. The repayment plan will permit repayment over time and will be implemented under the supervision of the Ombudsman or 407 ETR's Customer Advocate.

39. 407 ETR agrees that where a person who receives a notice under Section 16 of the Act has disputed the failure to pay a toll, fee or other charge, and sent a notice of dispute in accordance with the provisions of Section 17 of the Act, or appeals an unfavourable decision under Section 19 of the Act, 407 ETR will not, until the final disposition of the person's dispute, use a collection agency or seek court enforcement to collect the amounts.

40. Within 60 days of the date hereof, 407 ETR will publish on its website a collections code of conduct, outlining to the public the practices that it employs to collect unpaid amounts.

41. In addition to returning the amounts paid by a person to renew or obtain a new vehicle permit and any expenses related to compensation, 407 ETR will, in a manner to be determined by it in its sole discretion, compensate any person who has been denied his or her vehicle permit by reason of the failure of 407 ETR to comply with the provisions of the Act, such failure to be determined conclusively by a final adjudication of the person's dispute under Section 17 or Section 19 of the Act.

42. In an effort to improve the service to 407 ETR's customers, 407 ETR and the Province have discussed the Province providing 407 ETR with plate renewal information and registrant identification number ("RIN") information of users of Highway 407. The Province and 407

ETR will work co-operatively and in good faith in making a request, as soon as practicable after the date hereof, for a ruling from the Information and Privacy Commissioner of Ontario (the “**Privacy Commissioner**”) as to whether the Province can supply the foregoing information to 407 ETR and the limitations, if any, on the use of such information by 407 ETR. For clarity, the request will be made by the Province, but all materials and submissions in connection therewith will be prepared with 407 ETR and the application shall be for the benefit of 407 ETR such that it shall be in a position to assert standing before the Privacy Commissioner, such assertion to be supported by the Province. If the Province is authorized to provide the information to 407 ETR pursuant to such ruling, the Province shall, subject to the enactment of any necessary regulations and an amendment to the Requestor Agreement, provide such information to 407 ETR on a full cost recovery basis. The purposes for which 407 ETR may use the RIN shall be limited to the purposes set out in Section 54(5) of the Act. The Province agrees to use its reasonable best efforts to make any necessary regulations as soon as practicable after a positive ruling by the Privacy Commissioner and the Parties agree to negotiate in good faith the requisite amendments to the Requestor Agreement. In the event that the Privacy Commissioner does not rule that the entire request is granted, 407 ETR shall be at liberty to seek an appeal or review of the decision and may make a further request for the RIN.

H. HEAVY VEHICLES/LICENCE PLATE INFORMATION

43. The Province agrees that it will provide electronically to 407 ETR, at the request of 407 ETR, the most recent information described in Article 3.4 of Schedule 23 of the CGLA on a weekly basis at the fee set out in Schedule 23 of the CGLA.

I. BASE YEAR

44. The Parties agree that Base Year, as defined in Article 1.1 of the TCREA, is established conclusively and irrevocably as the year 2002 and the Traffic Thresholds described in the 2002 Annual Report delivered under Article 3.4 of the TCREA. 407 ETR agrees that, in any future proceeding between the Parties, it will not rely upon any of the arbitrator or court decisions relating to Base Year preceding the date hereof.

J. INFORMATION SHARING

45. The Parties agree that, together with the annual reports delivered under Section 3.4(a) of the TCREA, 407 ETR will provide the information set out in **Schedule "E"**.

K. MISCELLANEOUS

Press Release

46. 407 International Inc., 407 ETR and the Province will issue press releases substantially in the forms attached as **Schedule "F"** at the time of the announcement of this Settlement Agreement.

Respecification

47. 407 ETR and the Province acknowledge that neither Party has made a request to amend any of the provisions to the TCREA pursuant to Section 6.1 thereof, and agree that neither Party will make a request pursuant to Section 6.1 of the TCREA to amend the provisions to the TCREA before the fifth anniversary of this Settlement Agreement.

Governing Law and Enforcement

48. This Settlement Agreement shall be governed and interpreted by the laws of the Province of Ontario. The terms of this Settlement Agreement may be enforced by application to the Ontario Superior Court of Justice.

Entire Agreement

49. This Settlement Agreement constitutes the entire agreement between the Parties hereto pertaining to the subject matter hereof and supersedes all prior agreements, negotiations, discussions and understandings, written or oral, between the Parties hereto. There are no representations, warranties, conditions or other agreements, whether direct or collateral, or express or implied that form part of or affect this Settlement Agreement, or which induced any Party hereto to enter into this Settlement Agreement or on which reliance is placed by any Party hereto, except as specifically set forth in this Settlement Agreement.

L OTHER TERMS

50. Each of the Parties hereto covenants and agrees, at the request of any other Party hereto, to do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered all such further acts and deeds and all such further documents, conveyances, assurances and things as may be reasonably necessary or desirable to give full effect to the terms of this Settlement Agreement and execute the Police Services Agreement dated September 1, 2005.

51. This Settlement Agreement shall enure to the benefit of and shall be binding upon the Parties and their successors and assigns.

52. Nothing contained in this Settlement Agreement shall limit, restrict, prejudice or derogate, in any way or in any manner whatsoever, any of the rights available to the Province or 407 ETR pursuant to or under the Act, and each of the Province and 407 ETR expressly reserve all of their respective rights in relation to same.

53. In this Settlement Agreement, unless the context requires otherwise, words in one gender include all genders and words in the singular include the plural and vice versa. The division of this Settlement Agreement into articles, sections, subsections, schedules, paragraphs and other subdivisions are for convenience of reference only and shall not affect the construction or interpretation of this Settlement Agreement. The Schedules to this Settlement Agreement form part of the Settlement Agreement. The headings in the Settlement Agreement are not intended to be full or precise descriptions of the text to which they refer. Unless something in the subject matter or context is inconsistent therewith, references herein to an article, section, subsection, paragraph, clause or schedule are to the applicable article, section, subsection, paragraph, clause or schedule of this Settlement Agreement. Wherever the words "include", "includes" or "including" are used in this Settlement Agreement, they shall be deemed to be followed by the words "without limitation" and the words following "include", "includes" or "including" shall not be considered to set forth an exhaustive list. The words "hereof", "herein", "hereto", "hereunder", "hereby" and similar expressions shall be construed as referring to this Settlement Agreement in its entirety and not to any particular section or portion of it. Unless otherwise specified, all dollar amounts in this Settlement Agreement, including the symbol "\$", refer to Canadian currency. Unless otherwise indicated, all references in this Settlement Agreement to any statute include the regulations thereunder and all applicable guidelines, bulletins or policies made in connection therewith that are legally binding, in each case as amended, re-enacted, consolidated or replaced from time to time and in the case of any such amendment, re-enactment,

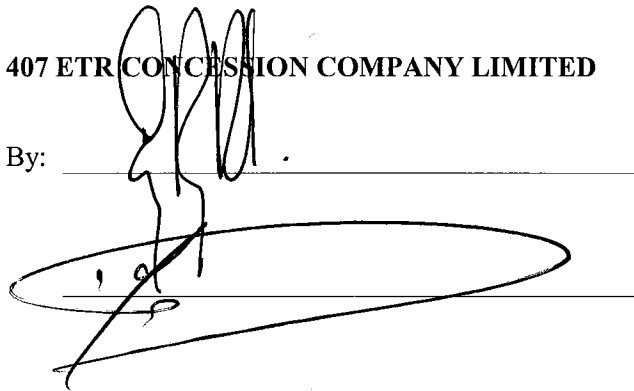
consolidation or replacement, reference herein to a particular provision shall be read as referring to such amended, re-enacted, consolidated or replaced provision. All references herein to any agreement (including this Settlement Agreement), document or instrument mean such agreement, document or instrument as amended, supplemented, modified, varied, restated or replaced from time to time in accordance with the terms thereof and, unless otherwise specified therein, includes all schedules and exhibits attached thereto. Unless defined herein, all capitalized terms used herein shall have the same meaning ascribed to such terms in the CGLA or TCREA, as applicable (provided that, if a capitalized term is defined differently in both agreements, the definition in the CGLA shall apply). The term "Person" in this Settlement Agreement means an individual, corporation, partnership, trustee, unincorporated association, and any other legal entity, and any reference herein to a Person includes its successors. Unless otherwise defined herein, words or abbreviations that have well-known trade meanings are used herein with those meanings.

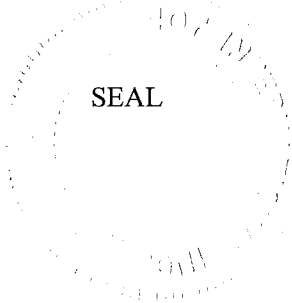
DATED: March 31, 2006

SEAL

407 ETR CONCESSION COMPANY LIMITED

By: _____

A handwritten signature in black ink is written over a horizontal line. Below the signature line, there is a large, hand-drawn oval scribble that overlaps the signature and extends across the width of the line.



407 INTERNATIONAL INC.

By: _____

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the bottom, written over a horizontal line.

HER MAJESTY THE QUEEN IN RIGHT OF
THE PROVINCE OF ONTARIO AS
REPRESENTED BY THE MINISTER OF
TRANSPORTATION

SEAL

By: _____

A handwritten signature in black ink, appearing to read "H. S. Takhar", written over a horizontal line.

Schedule "A"

LIST OF OUTSTANDING LITIGATION AND DISPUTES AND RELEASE

1. In this Settlement Agreement dated March 31, 2006,

"THE DISPUTES" mean:

- (a) Dispute No. 1 was commenced by the Province on January 19, 2004 wherein the Province sought to enforce its right to receive a Change Request from 407 ETR or otherwise seek the approval of the Province prior to the implementation of a toll increase dated February 1, 2004. By a decision dated July 10, 2004 of an arbitrator, Dispute No. 1 was resolved in favour of 407 ETR. On January 6, 2005, the Ontario Superior Court of Justice dismissed, with costs, an appeal by the Province and confirmed the decision of the arbitrator. By Judgment dated June 13, 2005, the Court of Appeal for Ontario granted the Province's Application for Leave to Appeal which appeal is currently scheduled to be heard on May 9, 2006.
- (b) Dispute No. 2 was commenced by the Province and 407 ETR regarding, among other issues, whether 2002 is the Base Year as such term is defined in the TCREA. By the decision of an arbitration panel dated August 16, 2005, Dispute No. 2 was resolved in favour of 407 ETR which confirmed, among other things, that 2002 was the Base Year, with costs. By Notice of Appeal dated September 15, 2005, the Province filed an appeal of the arbitration panel's decision that 2002 is Base Year and the costs award. The appeal is scheduled to be argued April 3 and 4, 2006.
- (c) Dispute No. 3 was commenced by the Province and 407 ETR in respect of issues relating to the 2001, 2002, 2003 and 2004 Annual Reports of 407 ETR delivered under Article 3.4 of the TCREA and audit rights of the Province. It was consolidated for an arbitration hearing with Dispute No. 2. Dispute No. 3 was heard commencing January 30, 2006 and is scheduled to resume before the arbitration panel on April 10, 2006.
- (d) Dispute No. 4 was commenced by Notice of Application for judicial review dated July 24, 2004 in Court File No. 412-04 in the Divisional Court of the Ontario Superior Court of Justice by 407 ETR against the Registrar seeking to enforce the provisions of section 22(4) of the Act. By a decision dated November 7, 2005 of the Divisional Court of the Ontario Superior Court of Justice, Dispute No. 4 was resolved in favour of 407 ETR, with costs. By a Judgment dated February 27, 2006, the Court of Appeal for Ontario denied the Province's Application for Leave to Appeal, with costs.
- (e) Dispute No. 5 was raised by 407 International with the Province over the purchase price adjustment and other matters under the share purchase agreement dated April 12, 1999 between, among others, 407 International and the Province in respect of 407 ETR.

- (f) Dispute No. 6 was commenced by 407 ETR by way of Preliminary Notice of Discriminatory Action dated January 28, 2004 seeking compensation for the Registrar's failure to implement licence plate denial.
 - (g) Dispute No. 7 between the Parties relates to whether 407 ETR has complied with the terms of the temporary Licence Plate Denial suspension agreement dated February 24, 2000 between the MTO and 407 ETR.
 - (h) Dispute No. 8 was commenced by Notice of Default dated October 27, 2004, by MTO in relation to the failure of 407 ETR to present a list of Licence Plate Denial auditors for the approval of MTO as a new auditor under section 10 of Regulation 138/00 of the Act.
 - (i) Dispute No. 9 was commenced on October 29, 2004, by 407 ETR relating to MTO's audit rights under the TCREA.
 - (j) Dispute No. 10 relates to the payment of the MTO enforcement services costs. It is in the preliminary stages of the dispute resolution process.
 - (k) Dispute No. 11 was raised by 407 ETR over the operation of the provisions of Article 20.1 (iii) of the CGLA when the provisions of Article 25 of the CGLA have been invoked (the "**cure period dispute**"). The cure provision dispute was the subject of a decision of Justice Nordheimer dated February 9, 2004 in favour of 407 ETR, with costs. The Court of Appeal for Ontario set aside Justice Nordheimer's decision on other grounds but did not set aside his decision on costs.
2. Notwithstanding the generality of the Settlement Agreement, and except in respect of any obligation or liability of 407 ETR or 407 International set forth in the Settlement Agreement including the matters addressed in paragraph 4 below relating to the resolution and the effect of the resolution of the Disputes, the Province hereby remises, discharges and forever releases, without qualification or limitation, each of 407 ETR and 407 International, their respective successors and assigns, directors, officers, employees and professional advisors (including, without limitation, legal counsel), and the past and current shareholders of 407 International and all of their respective property, assets and undertaking from and against any and all claims, demands, interests, disputes, actions, causes of action, suits, debts, obligations, covenants, contract, complaints, damages, losses, costs, indemnity, dues and sums of money whatsoever, or howsoever arising, at law or in equity (collectively, the "**Claims**") which the Province may now have or hereafter can, shall or may have by reason of any matter, cause or thing in respect of, relating to, or arising out of or in connection with:
- (a) the Disputes;
 - (b) the Notice of Claim dated May 4, 2001 provided to the MTO under the Share Purchase Agreement;
 - (c) the temporary Licence Plate Denial suspension agreement dated February 24, 2000 between the MTO and 407 ETR;

- (d) the CGLA, the TCREA or any other Project Agreement , in each case, based, in whole or in part only, upon or relating to any act, omission, event or circumstance occurring or existing prior to and/or as at the date of this Settlement Agreement; and
 - (e) the development, design and/or building of Highway 407 (as such term is defined in the CGLA) and/or the financing, operation, management, maintenance, rehabilitation and/or tolling of the Project (as such term is defined in the CGLA), in each case, based, in whole or in part only, upon or relating to any act, omission, event or circumstance occurring or existing prior to and/or as at the date of this Settlement Agreement.
- 3. Except in respect of any obligation or liability of the Province as set forth in this Settlement Agreement including the matters addressed in paragraph 4 below relating to the resolution and the effect of the resolution of the Disputes, each of 407 International and 407 ETR hereby remises, discharges and forever releases, without qualification or limitation, the Province and its representatives, whether elected or otherwise, employees and professional advisors (including, without limitation, legal counsel), successors and assigns and all of their respective property, assets and undertaking from and against any and all Claims which either 407 International or 407 ETR may now have or hereafter can, shall or may have by reason of any matter, cause or thing in respect of, relating to, or arising out of or in connection with:
 - (a) the Disputes;
 - (b) the Notice of Claim dated May 4, 2001 provided to the MTO under the Share Purchase Agreement;
 - (c) the temporary licence plate denial Suspension Agreement dated February 24, 2000 between the MTO and 407 ETR;
 - (d) the CGLA, the TCREA or any other Project Agreement in each case, based, in whole or in part only, upon or relating to any act, omission, event or circumstance occurring or existing prior to and/or as at the date of this Settlement Agreement; and
 - (e) the development, design and/or building of Highway 407 (as such term is defined in the CGLA) and/or the financing, operation, management, maintenance, rehabilitation and/or tolling of the Project (as such term is defined in the CGLA), in each case, based, in whole or in part only, upon or relating to any act, omission, event or circumstance occurring or existing prior to and/or as at the date of this Settlement Agreement.
- 4. As a condition of the completion of this Settlement Agreement, the Parties agree that the Disputes will be resolved in the following manner and with the following effect, upon the execution of this Settlement Agreement:
 - (a) Dispute No. 1 will be resolved by the Province and 407 ETR obtaining on consent an Order of the Court of Appeal for Ontario dismissing the appeal, with prejudice,

on a without costs basis in a form satisfactory to counsel. The Province agrees not to continue any appeal, seek any further appeal, judicial review or other legal proceeding of, in respect of or in relation to the Decision of Justice Cullity dated January 6, 2005 or the decision of Drew Hudson, Q.C. dated July 10, 2004. The Parties agree that the decision of Justice Cullity dated January 6, 2005 and the decision of Drew Hudson, Q.C. dated July 10, 2004, finally and fully resolve Dispute No. 1 and is binding upon them, except as to any order or award for the payment of costs, which is hereby waived by 407 ETR.

- (b) Dispute No. 2 will be resolved by the Province and 407 ETR obtaining on consent an Order of the Superior Court of Justice in a form satisfactory to counsel, dismissing the Province's appeal with prejudice, but without costs. The Parties agree that the decision of the arbitration panel dated August 16, 2005 with respect to Base Year fully resolved the Base Year dispute and is binding upon them, except as to any order or award for the payment of costs, which is hereby waived by 407 ETR. The decision of the arbitration panel shall be subject to Article 26, Confidentiality of the CGLA.
- (c) Dispute No. 3 will be resolved by the Province and 407 ETR obtaining, on consent, a final Award from the Arbitration Panel in a form satisfactory to counsel, by which the Province's disputes will be dismissed with prejudice and without costs. The Province agrees that the 2001, 2002, 2003 and 2004 annual reports delivered by 407 ETR pursuant to Article 3.4 of the TCREA (the "**Annual Reports**") are final and binding and fully comply with the requirements of the CGLA and TCREA. The Province is precluded from disputing the Annual Reports and agrees it will not raise the same grounds of dispute in respect of annual reports delivered in the future by 407 ETR pursuant to Article 3.4 of the TCREA.
- (d) Dispute No. 4 is resolved by the decision of the Court of Appeal as described in paragraph 1(d) above. The Parties agree that the decision of the Divisional Court dated November 7, 2005 and the decision of the Court of Appeal dated February 27, 2006 in regards to Dispute No. 4 are binding upon the Registrar, except as to any order or award for the payment of costs which is hereby waived by 407 ETR.
- (e) Dispute No. 5 will be resolved by the Parties withdrawal of the claims and crossclaims in respect of the Share Purchase Agreement and the Province paying 407 International the agreed upon sum of \$1,935,508 plus accrued interest within 30 days of the execution of this Settlement Agreement.
- (f) Dispute No. 6 will be resolved by 407 ETR withdrawing its Preliminary Notice of Discriminatory Action on a without costs basis.
- (g) Dispute No. 7 will be resolved by the Parties agreeing that the terms of the temporary Licence Plate Denial suspension agreement dated February 24, 2000 between, among others, the MTO and 407 ETR is null and void and is superseded by the terms set out in the within Settlement Agreement.

- (h) Dispute No. 8 will be resolved by MTO withdrawing its Notice of Default dated October 27, 2004 in relation to the failure of 407 ETR to present a list of Licence Plate Denial auditors for the approval of MTO as a new auditor under section 10 of Regulation 138/00 of the Act.
- (i) Dispute No. 9 will be resolved by the resolution of Dispute No. 3 and by 407 ETR withdrawing its claims in respect of MTO's audit rights under the TCREA.
- (j) Dispute No. 10 relating to MTO enforcement services costs will be resolved by 407 ETR's agreement to pay invoices submitted by MTO Enforcement Services in compliance with the requirements set out in Schedule D, attached, and which invoices may include an amount for administrative services, not to exceed 15%.
- (k) Dispute No. 11 will be resolved by the Parties agreement that the interpretation of the operation of the cure period provisions of the CGLA as described by Justice Nordheimer in his decision of February 9, 2004 shall only relate to the application of the cure provisions to the specific circumstances at issue in those proceedings, which by their agreement is binding upon them.

Schedule "B"

**SCHEDULE OF CHARGES ELIGIBLE FOR COLLECTION
THROUGH LICENCE PLATE DENIAL**

1. The following chart itemizes the current and historical charges 407 ETR has established in addition to the per kilometer toll rates.

List of Charges	Description of Charges
Flat Toll Charge	Heavy Vehicles not using Transponder or where light vehicle's license plate is not visible.
Video Toll Charge or Non-Transponder Charge	Charge for Unequipped Vehicles.
Returned Payment Fee	A charge for any payment returned for Non-Sufficient Funds, stopped payment and the like.
Account Fee	A fee to administer an account currently charged on a monthly basis
Transponder Lease Fee	A charge for the lease of a transponder. There is a fee for the first transponder leased plus an additional fee for each additional transponder. Currently charged monthly or annually as per the Customer's choice.
Appeal Fee	Charge to appeal 407 ETR's decision to the dispute arbitrator under S. 19 of the Highway 407 Act.
Account Activation Fee	One time charge for each new transponder activated
Replacement Fee	Charge to replace a lost, stolen, damaged or not returned transponder
Late Payment Fee ["LPF"]	Discontinued charge, however previously charged LPF's remain unpaid.
Collection Fee ["CF"]	Charge for referring account to a 3rd Party Collection Agency

List of Charges	Description of Charges
Enforcement Fee ["EF"]	Charged upon referral of an account to the Registrar of Motor Vehicles for Licence Plate Denial. (This fee is not currently being charged.)
Notification Fee ["NF"]	Charged upon issuing subsequent Notices of Licence Plate Denial to Customers (This fee is not currently being charged.)
Interest	Charged on amounts more than 35 days outstanding
Taxes - GST / PST	Federal and Provincial taxes

For the avoidance of doubt, amounts eligible to be collected through the application of the Licence Plate Denial Process are and shall be all tolls, related fees and interest charged to customers by 407 ETR resulting from the use of Highway 407 (individually a "**407 Charge**") unless and until such a final, non-appealable determination is made that the subject 407 Charge is not a lawful charge. Only in the event of and upon a 407 Charge being ultimately determined as aforesaid not to be a lawful charge, shall such 407 Charge not be eligible for collection through the application of the Licence Plate Denial Process.

Schedule "C"

ROLE AND RESPONSIBILITIES OF OMBUDSMAN

- The Ombudsman is to ensure that Highway 407 customers receive fair and consistent treatment, to recommend appropriate remedial action to 407 ETR where justified, and to propose changes to the billing/customer service operations and processes.
- Accessible to public by telephone, fax, e-mail or mail.
- Unrestricted access to specific information related to customer's account and 407 ETR's policies and procedures.
- Advocacy role to provide assistance to customers that feel that decision made by 407 ETR is unjustified or wrong.
- Will investigate complaints only after customer has exhausted the informal dispute process currently in place, *i.e.* Customer Call Centre.
- Will prepare an annual report which will be published on 407 ETR's website.

Schedule "D"

MTO ENFORCEMENT SERVICES INVOICING

Recognizing that the Province and 407 ETR committed to ensuring that there are improvements in customer service for users of the Highway 407, the Province agrees that invoices under Schedule 13, Ministry of Transportation Enforcement Services, to the CGLA shall be accompanied by supporting documentation including:

- (i) a list of the plates of vehicles used in the enforcement on Highway 407 in respect of the invoice, a list of the names of officers (or their badge numbers) along with their positions and their hours of enforcement on Highway 407;
- (ii) a detailed list of transponder related Highway Traffic Act charges, the date of the offence and the type of offence summarized by region (Peel, York and Halton); and,
- (iii) supporting evidence that 50% of the staff time upon which the Accommodations charge is based is used on Highway 407 enforcement.

Schedule "E"

LIST OF INFORMATION REQUIRED BY MTO

407 ETR will provide the following information together with the annual reports delivered under Section 3.4(a) of the TCREA (the "**Annual Reports**"), except unbillable, unreadable and non-revenue information:

1. All material related to the Annual Report should be provided electronically if available as well as hard copy.
2. All Source Reports identified in Appendix I of the Schedule 22 Annual Report for 2004 and similar schedules for future Annual Reports used to produce the information presented in each Annual Report.
3. Report 1D – Toll and NTTC Revenue with Trip Quantity.
4. Revenue and Adjustment Summary Report.
5. Reports 53a, 54, 53aa, 54b, 53b, 54a, 53bb, 54c.

In addition to 407 ETR supplying the information set out above, MTO and 407 ETR staff will meet on a quarterly basis or as necessary to discuss issues of interest to both parties and to share other data, including unbillable, unreadable and non-revenue information, in a manner to be determined exclusively by the 407 ETR, to resolve any outstanding issues.

Schedule "F"

PRESS RELEASE

(attached)

For Immediate Release
March 31, 2006

PROVINCE AND 407 ETR AGREE TO BETTER DEAL FOR DRIVERS
Highlights of Agreement Include New Consumer Benefits and Highway Expansion

TORONTO — The Province of Ontario and 407 ETR have agreed to a settlement agreement that is a better deal for drivers, Minister of Transportation Harinder Takhar announced today.

“Drivers told us they wanted better service and more accountability,” said Takhar. “We have reached an agreement with the 407 that will improve services for consumers beginning immediately and for years to come.”

The agreement includes:

- The introduction of a \$40 million customer benefit program.
- Savings for heavy usage and heavy-vehicle drivers.
- The addition of over 100 kilometres of new highway capacity by late 2007.
- Settlement of all outstanding disputes between the 407 ETR and the Province.
- The appointment of an ombudsman to advocate on behalf of 407 ETR users.
- Putting a stop to efforts by collection agents and the reporting of unpaid debts to consumer reporting agencies while the dispute resolution process is underway.

“We have been fighting a vigorous battle in the courts,” said Attorney General Michael Bryant. “However, with a settlement of all outstanding litigation, we have been able to win these important benefits for 407 drivers.”

“This agreement will make a difference for drivers,” added Takhar. “This means added protections for people that use the 407 highway on a regular basis. The added lanes mean people are spending less time in their cars and more time with their families.”

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Disponible en français

407 ETR and Ontario Government Reach Amicable Settlement to All Disputes

TORONTO, March 31, 2006 – 407 ETR announced today that it had reached an amicable settlement with the Ontario Government regarding all disputes between the parties.

“We have successfully resolved our disputes. This is a reasonable settlement for both sides and we look forward to a new era of cooperation with the Government,” said Enrique Diaz-Rato, President and Chief Executive Officer of 407 ETR. “We have achieved certainty and stability. In addition, we will improve services to our customers on and off the highway and provide new benefits to our best customers.”

Benefits for 407 ETR customers arising from the settlement include:

- The introduction of a \$40 million customer benefit program;
- Savings for heavy usage and heavy-vehicle drivers;
- The addition of over 100 kilometres of new highway capacity by late 2007;
- Settlement of all outstanding disputes between the 407 ETR and the Province; and
- The appointment of an ombudsman to advocate on behalf of 407 ETR users.

As part of the settlement, all existing disputes and litigation between the two parties will be settled. In particular, the Government will dismiss its pending appeals of the toll setting and base year disputes and will accept as final and binding all court and arbitration decisions released to date.

In the settlement, the parties agree to work together to improve customer service and to deter individuals from refusing to pay after using 407 ETR.

407 International Inc. is the sole shareholder of 407 ETR, the operator and manager of Highway 407, which extends 108 kilometres east-west, just north of Toronto. 407 International Inc. is owned by a consortium comprised of Cintra Concesiones de Infraestructuras de Transporte, Macquarie Infrastructure Group and SNC-Lavalin.

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