407 International

407 INTERNATIONAL INC.

Management's Discussion and Analysis

June 30, 2016

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Management's Discussion and Analysis

The following is a discussion of the consolidated financial condition and results of operations of 407 International Inc. (the "Company") for the three and six month periods ended June 30, 2016 (the "MD&A"). The MD&A should be read in conjunction with the Interim Condensed Consolidated Financial Statements of the Company and the notes thereto for the three and six month periods ended June 30, 2016 (the "Interim Financial Statements") and the Consolidated Financial Statements of the Company and the notes thereto for the years ended December 31, 2015 and 2014 (the "Annual Financial Statements") as well as management's discussion and analysis for the year ended December 31, 2015. The Interim Financial Statements are prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34") and the Annual Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts in the Interim Financial Statements, the Annual Financial Statements and the MD&A are shown in millions of Canadian dollars unless otherwise indicated. Additional information relating to the Company, including the Company's 2015 Annual Information Form dated February 11, 2016 (the "AIF"), can also be accessed on the System for Electronic Document Analysis and Retrieval ("SEDAR") (www.sedar.com).

Forward-Looking Statements

The MD&A includes statements about expected future events and financial and operating results that are forward-looking. Forward-looking statements may include words such as anticipate, believe, could, expect, goal, intend, may, outlook, plan, strive, target and will. These forward-looking statements, including those set out in the "Outlook" sections of the MD&A, reflect the internal projections, expectations, future growth, performance and business prospects and opportunities of the Company and are based on information currently available to the Company. Actual results and developments may differ materially from results and developments discussed in the forward-looking statements as they are subject to a number of risks and uncertainties as discussed under the section entitled "Risks and Uncertainties" and are made based on certain assumptions including those relating to traffic and the operation and maintenance of the Highway (as defined below). These forward-looking statements are also subject to the risks described in the AIF under the heading "Risk Factors". Readers are cautioned not to place undue reliance on the Company's forward-looking statements and assumptions as management of the Company and its subsidiaries ("Management") cannot provide assurance that actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. These forward-looking statements are made as of July 14, 2016, the date of the MD&A, and are subject to change as a result of new information, future events or other circumstances, as discussed above, in which case they will be updated by the Company as required by law.

Our Business

The Company, through its wholly-owned subsidiary, 407 ETR Concession Company Limited ("407 ETR"), operates, maintains and owns the right to toll the world's first all-electronic, open-access toll highway (the "Highway") which is situated just north of Toronto. The Company's mission is to serve the Greater Toronto Area (the "GTA") by providing customers a fast, safe, reliable travel alternative, maximizing both customer satisfaction and shareholder value.

The Company's ability to create economic value depends largely on its ability to sustain revenue growth as well as to generate earnings and cash flows from operations growth by controlling the level of its operating expenditures while maintaining a safe highway and a high standard of customer service. Revenue growth depends mostly on the future demand for this alternate transportation route in the GTA and the levels of toll rates. The Company has continued to expand the Highway to meet increasing demand and maintain a congestion-free experience for customers. Factors that could affect future demand include residential and commercial construction along the Highway corridor, economic conditions and the relative congestion of traditional alternative routes, such as Highway 401 and the Queen Elizabeth Way (the "QEW"), the addition of lanes on the Highway and additional traffic likely to result from the opening of Highway 407 East (as defined below).

The Company's ability to remain profitable and improve cash flow from operating activities also depends largely upon other factors, such as its ability to widen the Highway and the availability of funds on commercially reasonable terms to finance such an expansion as well as its ability to finance operating and capital expenditures and interest to bondholders. Management is confident of the Company's current ability to access sufficient financial resources to finance such future amounts on commercially reasonable terms.

Risks and Uncertainties

Toll Revenues

The Company's ability to derive revenue depends on a wide variety of factors, many of which are not within the control of the Company. These factors include the growth in the population and volatility of the economy of the GTA and southern Ontario, fuel prices, weather conditions and the construction of competing infrastructure. In addition, toll rate increases are subject to economic, price elasticity and political risks. To mitigate these risks, Management prepares a detailed operating budget consistent with the Company's strategic objectives, which includes revenue projections based on traffic growth and price elasticity assumptions supported, from time to time, by studies performed by third party expert traffic consultants. The operating budget and actual price setting is approved by the Company's board of directors (the "Board"). Actual results are monitored against the revenue projections on a monthly basis, giving Management adequate time to analyze and respond to variances.

Litigation

Proposed Class Action

In April 2012, the Company and 407 ETR were served with a statement of claim for a proposed class action commenced in the Ontario Superior Court of Justice. The proposed class of plaintiffs include all 407 ETR customers that have undergone bankruptcy proceedings and have been refused the renewal or issuance of vehicle permits until outstanding amounts are paid ("Licence Plate Denial"), pursuant to the *Highway 407 Act* (Ontario), for unpaid Highway tolls and related fees incurred prior to their bankruptcies.

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

The proposed class action has not been certified by the Ontario Superior Court of Justice and will be vigorously defended by 407 ETR. At this early stage of the proposed class action, it is not possible to predict the ultimate outcome but the Company has recorded a provision representing the expected value of the loss. The Company has not disclosed the expected value of the loss so as not to prejudice the position of 407 ETR in defending the proposed class action.

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

Management believes that the decision by the Supreme Court of Canada in the *Matthew Moore* case has no material effect on the Company's financial position. Management also believes that the final determination of the proposed class action will not materially affect the Company's financial position.

Limitation Period

A motion was brought by 407 ETR on August 6, 2014, to the Ontario Superior Court of Justice to determine a question of law in the case of *407 ETR v. Ira Day*, regarding the applicable limitation period for 407 ETR to commence civil proceedings in respect of certain debts owed to 407 ETR by its customers. On November 4, 2014, the Ontario Superior Court of Justice released the decision of Justice Edwards. The Ontario Superior Court of Justice determined that under the Ontario *Limitations Act*, 407 ETR has two years from the date of Licence Plate Denial to commence legal proceedings for debts owed by individual customers. On July 21, 2015, the Supplementary Reasons of Justice Edwards were released by the Ontario Superior Court of Justice, which confirmed that the two-year limitation period begins following the earliest possible delivery of a Licence Plate Denial notification. 407 ETR is appealing this decision to the Ontario Court of Appeal. The appeal was heard by the Ontario Court of Appeal on February 29, 2016 and a written decision is expected to follow. Management does not believe that the decision in the *Ira Day* case will materially affect the Company's financial position.

Capital Structure

The Company has a complex capital structure that may give rise to unforeseen challenges by tax authorities of the Company's interpretation of certain tax legislation. To mitigate such risks, Management seeks the advice of external tax experts.

Operations and Maintenance

The Company's operating and maintenance expenses for the future operation of the Highway are impacted by uncertainties related to costs of services, materials and equipment, changes in regulatory requirements, useful lives of productive assets, critical accounting estimates, weather conditions and other matters that are not certain. To address these risks, Management prepares a detailed operating budget in the third quarter of each year. This budget is approved by the Board. Management monitors the level of operating expenditures each month in comparison to the budget. Department heads are accountable for cost over-runs, and Management compensation is based, in part, on adherence to the approved spending limits. In addition, the Company follows a periodic maintenance and rehabilitation program for the Highway and tolling system to avoid unexpected significant repairs.

Information Technology

The Company's operations are substantially dependent on the information technology employed in its tolling and billing systems, including the roadside tolling equipment and the back-office systems used for account processing and collections. The ability of Canadian Tolling Company International Inc. ("Cantoll"), a wholly-owned subsidiary of the Company, to provide services to Highway 407 East (as defined below) in the future is dependent on the recently implemented enterprise architecture enhancements and other system changes necessary to accommodate these additional services. The effective management of these information technology initiatives is key to the successful implementation of the Highway 407 East Contract (as defined below) and the achievement of further operational efficiencies. The foundation laid by the enterprise architecture program continues to guide how the Company approaches its information technology development.

Debt Rating

The Company seeks to maintain an appropriate debt rating to ensure access to capital, on commercially reasonable terms, to finance its operating and capital expenditures and interest to bondholders, provide an appropriate investment return to its shareholders and refinance its existing indebtedness without, in each case, exceeding its debt capacity or resulting in a downgrade to the credit ratings assigned to its existing indebtedness. The Company's ability to do so will depend upon a number of factors, including, among other things, market conditions, rating agencies' criteria and the Company's debt structure. To control this risk, Management is focused on maintaining an optimal level of liquidity through maximizing cash flows by actively pursuing the collection of its trade receivables and by controlling the level of operating and capital expenditures.

Financial Instruments and Other Instruments

Financial instruments used by the Company consist of cash and cash equivalents, restricted cash and investments, trade receivables and other, contract receivables, amounts due from customers for contract, trade and other payables, long-term debt and derivative financial instruments.

Cash and cash equivalents

Cash and cash equivalents of $369.6 million as of June 30, 2016 consist of cash, government treasury bills and provincial promissory notes with maturities of three months or less. Cash and cash equivalents are used for working capital and other general corporate purposes.

Restricted cash and investments

Restricted cash and investments are required to be maintained in reserve accounts under the Master Trust Indenture (the “Indenture”) dated as of July 20, 1999 and effective as of May 5, 1999 between the Company, 407 ETR and The Trust Company of Bank of Montreal (now BNY Trust Company of Canada), and various supplemental indentures for the benefit of the bondholders and a segregated funds account under an agreement between Cantoll and the Province of Ontario (the “Province”) to implement and maintain the road-side tolling technology and back-office systems relating to the Highway 407 East Contract (as defined below). Restricted cash and investments consist of cash, bankers’ acceptances, floating rate notes, government treasury bills, provincial promissory notes and federal notes with, from time to time, both short-term and long-term maturities.

Long-term debt

Long-term debt was used to finance the acquisition of 407 ETR from the Province and to finance the construction of the extensions of the Highway, Highway widening projects, deferred interchanges, operating and capital expenditures, interest to bondholders and other general corporate purposes.

Senior Bank Credit Facilities

In 2012, the Company entered into a credit agreement with respect to a revolving credit facility with a Canadian chartered bank in the principal amount of up to $50.0 million. On March 26, 2013, the credit agreement was amended and the Company entered into two additional credit agreements with respect to two additional revolving credit facilities with two other Canadian chartered banks. The aggregate principal amount of the three revolving credit facilities was up to $300.0 million. The credit agreements were amended on November 28, 2014 and on December 1, 2015. The aggregate principal amount of the three revolving credit facilities is currently up to $1.0 billion and will be used to refinance existing debt, fund future operating and capital expenditures, interest payments and for general corporate purposes. The obligations under the credit facilities rank pari passu with the senior debt of the Company. The Company issued to the Canadian chartered banks senior pledged bonds with an aggregate principal amount of $1.2 billion, resulting in the indebtedness arising from the credit facilities being secured under the Indenture.

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

The Company may draw on these credit facilities until the maturity date. The maturity date is December 1, 2020. The Company may also repay a portion or all of the obligations owing under the credit facilities at any time during the term. As at June 30, 2016, the

Company has drawn $265.0 million (2015 - $581.0 million) under the credit facilities and has classified the drawn amount under current liabilities.

Derivative financial instrument

The Senior Bonds, Series 04-A2 is a derivative financial instrument and is reported at fair value. The Company is obligated to make semi-annual cash payments to the holders of Senior Bonds, Series 04-A2, (consisting of principal and interest) determined by the product of $13.0 million and the applicable Consumer Price Index ("CPI") at the time of payment divided by the applicable CPI at time of issue.

Risks Arising from Financial Instruments

Credit risk

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

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

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

Trade receivables and other are aged as follows:

($ Millions)	As at June 30, 2016	As at December 31, 2015
Unbilled	$ 80.8	$ 55.8
0-60 days	63.7	56.2
61-90 days	4.6	7.0
91-120 days	2.3	4.8
121-150 days	2.4	4.2
151+ days	12.8	10.9
Sub total [1]	166.6	138.9
Other [2]	13.6	14.9
	$ 180.2	$ 153.8

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

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

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

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

An increase of 1% in the weighted-average provision rate would have increased the provision for doubtful accounts by approximately $2.9 million and $5.2 million (2015 - $2.6 million and $4.7 million) and decreased equity by approximately $2.1 million and $3.8 million (2015 - $1.9 million and $3.4 million) for the three and six month periods ended June 30, 2016, respectively.

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

Interest rate risk

As at June 30, 2016, all long-term debt is fixed rate debt (except for the drawn portion of the Senior Bank Credit Facilities and the inflation-linked bonds as described below); therefore, changes in interest rates do not impact interest payments on its current bonds but may impact the fair value of such long-term debt.

The Company also manages this risk by investing its cash and cash equivalents and restricted cash and investments in debt instruments with credit ratings equal to or higher than those required by the Indenture. A decrease of 25 basis points in interest rates would have decreased interest income by approximately $0.6 million and $1.1 million (2015 - $0.7 million and $1.2 million) and equity by approximately $0.4 million and $0.8 million (2015 - $0.5 million and $0.9 million) for the three and six month periods ended June 30, 2016, respectively.

Inflation risk

The Company is exposed to inflation risk as interest expense and debt service payments relating to Senior Bonds, Series 99-A4, Series 99-A5, Series 99-A6, Series 99-A7, Series 00-A2 and Series 04-A2 collectively, Real Return Bonds (the “RRBs”) are linked to the CPI. An increase of 50 basis points in the CPI would have increased interest expense by approximately $10.0 million (2015 - $10.0 million), decreased equity by approximately $7.4 million (2015 - $7.4 million) and increased debt service payments by approximately $0.4 million (2015 - $0.2 million and $0.1 million) for both the three and six month periods ended June 30, 2016, respectively. The Break Even Inflation Rate (the “BEIR”) is highly volatile and may lead to significant changes in the fair value of Senior Bonds, Series 04-A2 that may not be representative of actual inflation paid or to be paid to the Senior Bonds, Series 04-A2 noteholders. An increase of 10 basis points in the BEIR would have increased interest expense by approximately $6.4 million (2015 - $6.9 million) and decreased equity by approximately $4.7 million (2015 - $5.0 million) for the three and six month periods ended June 30, 2016, respectively. A decrease of 10 basis points in the BEIR would have reduced interest expense by approximately $6.3 million (2015 - $6.7 million) and increased equity by approximately $4.6 million (2015 - $5.0 million) for the three and six month periods ended June 30, 2016, respectively. This inflation risk is partially mitigated by the Company’s right to increase toll rates.

Liquidity risk

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

The following are the commitments, contractual maturities and related interest obligations as at June 30, 2016:

(in $Millions)	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Beyond 5 years
Trade and other payables	$ 102.9	$ -	$ -	$ -	$ -	$ -
Obligation under finance leases	3.5	2.2	1.0	0.7	0.5	1.0
Interest payments on finance leases	0.5	0.2	0.1	0.1	0.1	0.1
Long-term debt	566.0	313.9	14.7	315.6	416.5	5,562.5
Derivative financial liability	5.8	5.8	5.8	5.8	5.8	106.8
Interest payments on long-term debt	334.2	315.8	309.2	308.3	291.5	4,348.5
	$ 1,012.9	$ 637.9	$ 330.8	$ 630.5	$ 714.4	$ 10,018.9

Interest payments on long-term debt and obligations under finance leases are funded by proceeds from long-term debt and the Company's cash generated from operations.

Accounting and Control Matters

Accounting Policies

The Interim Financial Statements are prepared in accordance with IAS 34. The Company has identified the accounting policies and estimates that are critical to the understanding of the Company's operations and financial results which have been disclosed in the Annual Financial Statements, except for the following new accounting pronouncements which have been adopted on January 1, 2016:

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations ("IFRS 5")*: This amendment sets out guidance on changes to a plan of sale or a plan to distribute to owners of non-current assets held for sale. There was no impact on the Interim Financial Statements as a result of adopting this amendment.

IFRS 7 *Financial Instruments: Disclosures ("IFRS 7"):* This amendment sets out the disclosure requirements of an entity's continuing involvement in a transferred financial asset when, as a part of the transfer, the entity retains the right to service the financial asset for a fee. There was no impact on the Interim Financial Statements as a result of adopting this amendment.

IAS 1 *Presentation of Financial Statements, Disclosure Initiatives ("IAS 1"):* This amendment sets out disclosure requirements with respect to the details to be included in a set of financial statements. This standard requires entities to take into consideration materiality and all relevant facts and circumstances when aggregating information, so as not to reduce the understandability of the financial statements. There was no impact on the Interim Financial Statements as a result of adopting this amendment.

IAS 16 *Property, Plant and Equipment, Clarification of Acceptable Methods of Depreciation and Amortization ("IAS 16"):* This amendment prohibits revenue-based depreciation in circumstances where achievement of a revenue threshold is not a predominant limiting factor that is inherent for the property, plant and equipment. There was no impact on the Interim Financial Statements as a result of adopting this amendment.

IAS 34 *Interim Financial Reporting ("IAS 34"):* This amendment sets out the disclosure requirements of significant amounts and transactions either in the interim financial statements or incorporated by a cross-reference from the interim financial statements to some other statement that is available to the users of the financial statements on the same terms as the interim financial statements and at the same time. There was no impact on the Interim Financial Statements as a result of adopting this amendment.

IAS 38 *Intangible Assets, Clarification of Acceptable Methods of Depreciation and Amortization ("IAS 38"):* This amendment prohibits revenue-based amortization in circumstances where achievement of a revenue threshold is not a predominant limiting factor that is inherent for the intangible asset. As a result of this amendment, effective January 1, 2016, the Company has adopted the straight-line method of amortizing its concession rights over the remaining term of the Concession Agreement. As a result of this change, the amortization expense of concession rights for the three and six month periods ended June 30, 2016 increased by $3.3 million and $7.0 million, respectively.

Critical Accounting Estimates

The preparation of the Interim Financial Statements in conformity with IAS 34 requires Management to make certain judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities as at the date of the Interim Financial Statements, the reported amounts of revenues and expenses of the reporting period, as well as disclosures made in the accompanying notes to the Interim Financial Statements. Judgement is commonly used in determining whether a balance or transaction should be recognized in the Interim Financial Statements, and estimates and assumptions are more commonly used in determining the measurement of recognized transactions and balances. However, judgements and estimates are often interrelated. The Interim Financial Statements have been prepared using similar estimation methods for the critical accounting estimates as were used for the Annual Financial Statements and they conform to the requirements of IAS 34. These estimates and associated assumptions are based on past experience and other factors that are considered relevant. Actual results could differ materially from these estimates.

Future changes in accounting policies

IFRS 9 *Financial Instruments ("IFRS 9"):* This standard replaces the current IAS 39 Financial Instruments Recognition and Measurement. This standard introduces new requirements for classifying and measuring financial assets and liabilities. The latest date of mandatory implementation of IFRS 9 is January 1, 2018. The Company is currently evaluating the impact on the financial statements.

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

IFRS 16 *Leases ("IFRS 16"):* This standard replaces IAS 17 Leases. This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is that lessees and lessors provide relevant information in a manner that faithfully represents lease transactions and gives a basis for users of financial statements to assess its effect on the financial position, financial performance and cash flows of an entity. The latest date of mandatory implementation of IFRS 16 is January 1, 2019. The Company is currently evaluating the impact on the financial statements.

IAS 7 *Statement of Cash Flows ("IAS 7"):* This amendment requires that an entity provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes. The latest date of mandatory implementation of IAS 7 is January 1, 2017. The Company is currently evaluating the impact on the financial statements.

IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses ("IAS 12"):* This amendment sets out restrictions on how an entity assesses whether taxable profits will be available against which it can utilize deductible temporary differences. The latest date of mandatory implementation of IAS 12 is January 1, 2017. The Company is currently evaluating the impact on the financial statements.

Overview of Current Operations

The Highway consists of four, six, eight and ten-lane sections (expandable to eight and ten lanes) from Highway 403/QEW in Burlington in the west to Highway 7 in Pickering in the east for a distance of 108 kilometres.

Traffic

Traffic Results

	Q2 2016	Q2 2015	% Increase/ (Decrease)	YTD 2016	YTD 2015	% Increase/ (Decrease)
Traffic/Trips (in millions) (1)	32.486	31.487	3.2%	59.278	58.084	2.1%
Average Workday Number of Trips (in thousands)	422.411	415.086	1.8%	391.424	388.050	0.9%
Vehicle Kilometres Travelled ("VKTs" in millions) (2)	677.925	647.957	4.6%	1,212.262	1,178.151	2.9%
Average Trip Length (kilometres) ("ATL") (3)	20.87	20.58	1.4%	20.45	20.28	0.8%
Unbillable Traffic (percent) (4)	2.04	2.14	(4.7%)	2.12	2.39	(11.3%)
Transponder Penetration Rate (percent) (5)	82.9	82.7	0.2%	84.0	83.5	0.6%
Transponders in Circulation at June 30(6)	1,297,990	1,238,914	4.8%	1,297,990	1,238,914	4.8%

1. *Trips are measured during the reporting period based on the number of vehicle transactions recorded on the Highway.*
2. *VKTs refer to the sum of distances travelled on the Highway during the reporting period.*
3. *Average Trip Length is calculated as the total VKTs divided by the total number of trips in the reporting period.*
4. *Unbillable Trips represents the number of trips that were not billed divided by the number of trips in the reporting period. Unbillable Trips includes unreadable transactions where a licence plate image was not captured, trips taken by vehicles from jurisdictions in which 407 ETR is unable to bill and trips taken by certain toll-exempt vehicles (such as emergency and 407 ETR service vehicles and vehicles with diplomatic plates).*
5. *Transponder Penetration Rate is the ratio of transponder trips to total trips in the reporting period.*
6. *Transponders in Circulation are measured at the end of the reporting period based on the number of transponders registered to customers.*

Second Quarter Performance

Total trips in the second quarter of 2016 were 3.2% higher than the same period in 2015. VKTs increased by 4.6% to 677.9 million in the second quarter of 2016 when compared with the same period in 2015 mainly due to economic growth, lower gas prices and favourable weather conditions, coupled with one extra workday in the second quarter of 2016. On June 30, 2016, the Company achieved a new one day record of 493,532 daily trips. Average workday trips were higher by 1.8% when compared to the same period in 2015. Unbillable trips decreased by 4.7% when comparing the second quarter of 2016 to the same period in 2015. The decrease was mainly attributable to favourable weather conditions coupled with tolling system enhancements. Transponder penetration, at 82.9% in the second quarter of 2016, increased by 0.2% when compared with the same period in 2015. The number of transponders in circulation increased 4.8% over a one-year period to 1,297,990 transponders registered as of June 30, 2016.

The opening of Phase 1 of Highway 407 East on June 20, 2016 had a positive impact on traffic on the eastern section of the Highway.

Construction

The Company continues to improve the Highway through construction projects designed to increase capacity and improve traffic flow and customer convenience, including investments in widening bridge structures and adding new lanes to the Highway. The Company also regularly undertakes various Highway rehabilitation initiatives designed to improve and replace existing elements of the infrastructure, such as resurfacing the asphalt pavement in certain sections of the Highway, replacement of concrete pavement, replacement and relining of culverts under and along the Highway and rehabilitating various bridge structures in order to continue to provide customers with fast, safe and reliable travel.

In 2012, the Company entered into an agreement with the Province for construction work relating to the connection with Highway 407 East (the "Brock Road Interchange"), for which the Company acted as agent and construction manager on behalf of the Province. The Company has completed the construction work related to the Brock Road Interchange, which commenced during the second quarter of 2013. The Brock Road Interchange, which connects with Highway 407 East (as defined below), was opened to traffic, along with the opening of Phase 1 of Highway 407 East, on June 20, 2016.

During the second quarter of 2016, the Company continued with the construction of the widening of the Highway between Highway 410 and Highway 427. The contract also includes the construction of the widening of the northbound and southbound Highway 427 bridge structures over the Highway's infrastructure, for which the Company acts as agent and construction manager on behalf of the Province. Construction work is expected to be completed with the new lanes opened to traffic in the second half of 2017.

During the second quarter of 2016, the Company commenced with detailed design work for the widening of the Highway from Markham Road to just west of Brock Road, including the Sideline 26 interchange work.

Information Technology

The Company continues to make upgrades to the back-office systems with enhanced software and hardware. A process is in place to identify, evaluate and implement potential enhancements to ensure the on-going alignment and optimization of business strategies and information technology efficiencies. The Company continues its focus on enhancing its ability to capture and process vehicle information with hardware and software investments in roadside equipment, automated licence plate recognition, complementary metal-oxide semi-conductor camera technology, and the operation of a front-capture camera enforcement system. The Company continues to enhance its website with on-going improvements to security, functionality, scalability and usability. Cyber security continues to be an area of focus with recent improvements in areas such as data security and network security, event management and overall information technology risk management. In addition, the Company continues to actively monitor its compliance with payment card industry data security standards. The Company has recently implemented substantially all of the required changes to its back-office systems in order to provide services to the Province as agreed under the Highway 407 East Contract (as defined below). The Company is currently evaluating a new enterprise resource planning platform and is gathering information to determine options that will best address the future business needs of the Company.

Customer Service

The Company offers customers a broad range of services through its website, operations centre and automated telephone attendant and is committed to increasing customer awareness and customer service. The Company engages an external call centre specialist in benchmarking customer satisfaction to continually survey its customers. The results of recent surveys continue to show high levels of customer satisfaction and are consistent with other market research studies commissioned by the Company. In addition, the Company conducts email-based communications from the President and Chief Executive Officer thanking customers and seeking their feedback on the services provided by the Company.

Many 407 ETR customers continue to enjoy the 407 ETR Rewards Program. The program provides free kilometres on the Highway and gas savings to qualified 407 ETR customers. Since inception, the program has offered more than $129.0 million in benefits and savings to over 100,000 frequent light-vehicle transponder users.

In early 2016, 407 ETR Customer Service was recognized as a certified World Class Call Centre, the Best Performing Small to Mid-size Contact Centre finalist and received the First Call Resolution Improvement Award (one of the industry’s most important indicators). This award was received as a result of customers’ very high level of satisfaction with the call centre and the effective and quick resolution of customer inquiries. The 407 ETR Call Centre has a large group of certified World Class Customer Service Representatives who work hard to achieve a high level of customer satisfaction and quick resolution of customer inquiries. In recognition of this, one of 407 ETR’s team members recently won the “2015 Supervisor of the Year” award at the Service Quality Management Group conference held in the USA.

407 ETR in the Community

The Company and its employees continue to support the communities served by 407 ETR by providing support to hospitals along the corridor and sponsoring local children and youth sports activities. Employees, together with the Company, participate in various fundraising and environmental stewardship programs.

407 ETR supports excellence in education through ongoing scholarships and support of York University and the Lassonde School of Engineering.

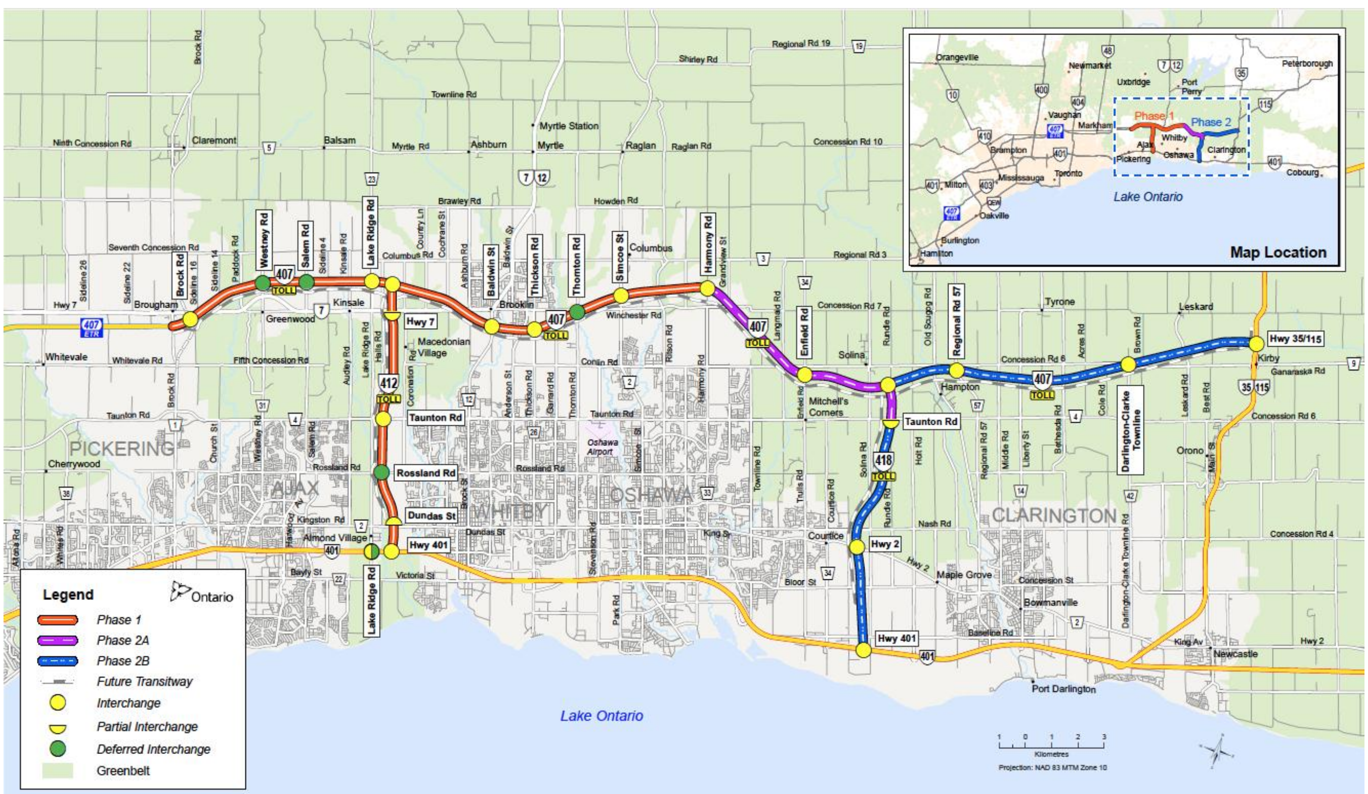
The Company is also an ongoing supporter of programs that teach young people how best to take on the new responsibilities associated with driving.

Highway 407 East

The Province announced that Highway 407 will be extended east from Brock Road/Highway 7, the eastern terminus of the Highway, to Highways 35/115 ("Highway 407 East"). The Province will maintain public ownership of Highway 407 East, set tolls and receive toll revenues in respect of its use. Highway 407 East is being constructed in two phases ("Phase 1" and "Phase 2" respectively), as further described below:

- Phase 1 of construction has been built from Brock Road (the eastern terminus of the Highway) to Harmony Road in Oshawa and includes Highway 412 (which runs north-south and connect Highway 407 East to Highway 401). Phase 1 has three lanes in each direction from Brock Road/Highway 7 and Highway 412, and two lanes in each direction from Highway 412 and Harmony Road.

- Phase 2 of construction will complete the extension of Highway 407 East from Harmony Road to Highway 35/115 in Clarington. Phase 2 will include Highway 418, which will run north-south and connect Highway 407 East to Highway 401. An interchange at Taunton Road and Highway 418 is expected to be completed in 2017. Phase 2 is expected to be completed between Harmony Road and Highway 418 by 2017, and between Highway 418 and Highway 35/115 by 2020.



In 2012, Ontario Infrastructure and Lands Corporation ("IO") and MTO contracted with 407 East Development Group ("EDG"), a consortium which includes Cintra and SNC-Lavalin Group Inc., to design, build, finance and maintain Phase 1 of Highway 407 East. The opening of Phase 1, originally planned for December 2015, and delayed during the construction phase, was opened to traffic on June 20, 2016. Prior to its opening, the Province announced a toll-free period on Highway 407 East, allowing drivers to travel on the road free of charge until January 2017.

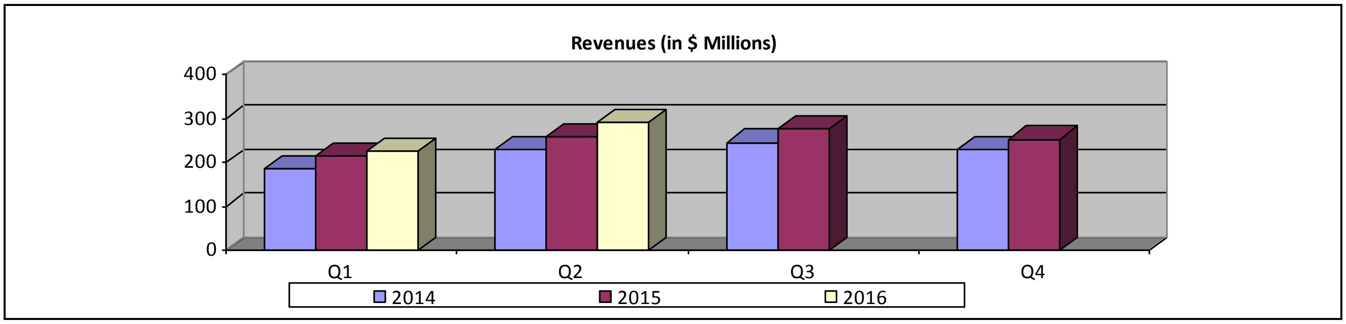
In January 2015, IO and MTO announced that they had selected the Blackbird Infrastructure Group, a consortium led by Cintra and Cement Roadstone Holdings plc, to design, build, finance and maintain Phase 2 of Highway 407 East. The Company believes that Highway 407 East will increase traffic levels on the eastern end of the Highway.

In December 2011, Cantoll entered into an agreement with the Province to implement and maintain the road-side tolling technology and back-office systems relating to Phase 1 of Highway 407 East (the "Highway 407 East Contract"). In October 2015, Cantoll and the Province amended and restated the Highway 407 East Contract to include Phase 2 of Highway 407 East. Under the terms of the Highway 407 East Contract, the Province will reimburse Cantoll for the cost of implementing both Phase 1 and Phase 2. Following implementation, Cantoll will provide tolling, billing and back-office services to the Province in a transparent and seamless way for customers. The operating agreement has an initial term of 10 years and is renewable by 10-year increments, for up to 30 years in total. Pursuant to the terms of the Highway 407 East Contract, Cantoll deposited $9.0 million into a segregated funds account which will be released gradually beginning at the commencement of operations.

In 2015, Cantoll substantially completed all of the key back-office system deliverables required for Phase 1 under the Highway 407 East Contract. During the second quarter of 2016, Cantoll continued with the installation of the road-side tolling equipment. However due to Phase 1 roadway construction delays, final preparations to enable tolling are expected to be completed by the end of 2016. During the second quarter, Cantoll also continued with the contract work associated with Phase 2 of the Highway 407 East Contract.

Second Quarter 2016 Results of Operations

Revenues



Revenues (In $Millions)	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Tolls	273.2	207.7	234.6	254.6	238.2	188.5	206.3	225.0
Fees	16.6	15.5	16.9	18.0	16.6	14.9	15.8	19.8
Contract	1.0	2.1	1.9	5.0	2.4	10.6	6.0	0.9
Total Revenue	290.8	225.3	253.4	277.6	257.2	214.0	228.1	245.7

The Company's revenues are generated from toll charges for trips on the Highway including camera charges for non-transponder trips ("Tolls"), monthly fees ("Fees") and contract revenues. Fees include transponder lease fees, account fees relating to the maintenance and billing of non-transponder customer accounts, late payment charges and enforcement fees for past due accounts sent to the Registrar for Licence Plate Denial. Account fees are driven by the number of non-transponder customers that travel on the Highway and are subject to seasonal fluctuation. Enforcement fees and late payment charges are applied to customers with overdue accounts. Contract revenues include the implementation of the road-side tolling technology and back-office systems work performed under the Highway 407 East Contract.

Total Revenues

<u>Second Quarter Performance</u>

Total revenues for the second quarter of 2016 amounted to $290.8 million, an increase of $33.6 million or 13.1%, compared to the same period in 2015. Average revenue per trip (defined as total toll and fee revenues over total trips) was $8.92 in the second quarter of 2016 compared to $8.09 in the second quarter of 2015, representing an increase of 10.4%.

<u>Year-to-Date Performance</u>

Total revenues for the first six months of 2016 amounted to $516.1 million, an increase of $44.9 million or 9.5%, compared to the same period in 2015. Average revenue per trip (defined as total toll and fee revenues over total trips) increased by 9.8% when compared to the same period of 2015.

Toll Revenues

Second Quarter Performance

Toll revenues amounted to $273.2 million in the second quarter of 2016, an increase of $35.0 million or 14.7%, compared to $238.2 million for the same period in 2015. The increase in toll revenues is primarily attributed to a toll rate increase effective February 1, 2016, coupled with higher trips and VKTs.

Year-to-Date Performance

Toll revenues amounted to $480.9 million for the first six months of 2016, an increase of $54.2 million or 12.7%, compared to $426.7 million for the same period in 2015. The increase in toll revenues is due to same reasons as mentioned above.

Toll Rates

Toll rates changed effective February 1, 2016. The following table illustrates the Company's toll rates in effect on February 1, 2016 and February 1, 2015. For further details on the Company's toll rates, please visit www.407etr.com.

	2016 (1)			2015 (2)		
	Light Vehicle	Heavy Single Unit Vehicle	Heavy Multiple Unit Vehicle	Light Vehicle	Heavy Single Unit Vehicle	Heavy Multiple Unit Vehicle
Toll Rate per km Regular zone (3) (AM Peak Period) (4)	$ 0.3300	$ 0.6600	$ 0.9900	$ 0.3056	$ 0.6112	$ 0.9168
Toll Rate per km Regular zone (3) (PM Peak Period) (5)	$ 0.3424	$ 0.6848	$ 1.0272	$ 0.3113	$ 0.6226	$ 0.9339
Toll Rate per km Regular zone (3) (AM Peak Hours) (6)	$ 0.3754	$ 0.7508	$ 1.1262	$ 0.3413	$ 0.6826	$ 1.0239
Toll Rate per km Regular zone (3) (PM Peak Hours) (7)	$ 0.3890	$ 0.7780	$ 1.1670	$ 0.3473	$ 0.6946	$ 1.0419
Toll Rate per km Light zone (3) (AM Peak Period) (4)	$ 0.3137	$ 0.6274	$ 0.9411	$ 0.2905	$ 0.5810	$ 0.8715
Toll Rate per km Light zone (3) (PM Peak Period) (5)	$ 0.3255	$ 0.6510	$ 0.9765	$ 0.2959	$ 0.5918	$ 0.8877
Toll Rate per km Light zone (3) (AM Peak Hours) (6)	$ 0.3567	$ 0.7134	$ 1.0701	$ 0.3243	$ 0.6486	$ 0.9729
Toll Rate per km Light zone (3) (PM Peak Hours) (7)	$ 0.3697	$ 0.7394	$ 1.1091	$ 0.3301	$ 0.6602	$ 0.9903
Toll Rate per km (Midday - Weekdays) (8)	$ 0.2833	$ 0.5666	$ 0.8499	$ 0.2575	$ 0.5150	$ 0.7725
Toll Rate per km (Midday - Weekends & Holidays) (9)	$ 0.2595	$ 0.5190	$ 0.7785	$ 0.2359	$ 0.4718	$ 0.7077
Toll Rate per km (Off Peak Period) (10)	$ 0.2162	$ 0.4324	$ 0.6486	$ 0.1974	$ 0.3948	$ 0.5922
Camera Charge per trip	$ 4.05	$ 50.00	$ 50.00	$ 4.00	$ 50.00	$ 50.00
Trip Toll Charge per trip	$ 1.00	$ 2.00	$ 3.00	$ 0.90	$ 1.80	$ 2.70

Note 1: Toll rates are effective from February 1, 2016.
Note 2: Toll rates are effective from February 1, 2015.
Note 3: Effective February 1, 2016, Regular zone means the area of the Highway between QEW to highway 401 and highway 427 to highway 404. Light zone means the area of the Highway between highway 401 to highway 427 and highway 404 to Brock Road.
Note 4: AM Peak Period means weekdays between 6am-7am, 9am-10am.
Note 5: PM Peak Period means weekdays between3pm-4pm,6pm-7pm.
Note 6: AM Peak Hours means weekdays between 7am-9am.
Note 7: PM Peak Hours means weekdays between 4pm-6pm.
Note 8: Midday - Weekdays means between 10am-3pm.
Note 9: Midday - Weekends/Holidays means between 11am-7pm
Note 10: Off-Peak Period means weekdays between 7pm-6am, weekends and holidays between 7pm-11am.

Effective February 1, 2016, the Company implemented a new toll structure, including the introduction of differing toll rates for AM and PM Peak Hours and Peak Periods, to address customer travel patterns and to optimize revenues. The Highway has been segmented into the regular zone for the area of the Highway from the QEW to highway 401 and from highway 427 to highway 404, and the light zone for the area of the Highway from highway 401 to highway 427 and highway 404 to Brock Road.

On February 1, 2016, toll rates for light vehicles, heavy single unit vehicles ("HSU") and heavy multiple unit vehicles ("HMU") increased by 8.0% and by 10.0% during AM and PM Peak Periods, respectively, by 10.0% and 12.0% during AM and PM Peak Hours respectively, by 10.0% for weekday midday hours and weekend and holiday midday and by 9.5% during off-peak periods. Camera Charge (previously referred to as Video Toll Charge) for light vehicles increased by 1.3% and trip toll charge increased by 11.1% when compared to the 2015 pricing structure. The overall toll revenue is influenced by the mix of customers on the Highway, which includes video and transponder customers, light and heavy vehicles, peak hours, peak period, midday period and off-peak period use, travel distance per trip, trip toll charge and regular zone and light zone toll rates.

Calculated Tolls

The Company continues to charge a Calculated Toll, in addition to the Trip Toll Charge, for trips taken on the Highway where either the entry or exit point of a vehicle is not recorded by the Company's tolling systems:

- For any vehicle (light or heavy), with a transponder for which there is a sufficient transponder trip history, a Transponder Vehicle Median Trip (referred to as a Calculated Trip) is charged using the median distance of the trips taken with the transponder in the preceding 72 days.
- For all light vehicles with a transponder for which there is insufficient transponder trip history, or if more than 25% of trips over the past 72 days did not accurately record either the entry or exit point, a Transponder Minimum Trip Toll is charged using the entry or exit nearest the recorded part of travel (in the same direction).
- For all light vehicles without a transponder, a Flat Toll Charge plus the Camera Charge is charged.
- For all heavy vehicles without a transponder, a Camera Charge of $50.00 plus a Heavy Vehicle Minimum Trip Toll using the entry or exit nearest the recorded part of travel (in the same direction) is charged.
- For all heavy vehicles with a transponder for which there is insufficient transponder trip history, or more than 25% of trips over the past 72 days did not accurately record either the entry or exit point, a Heavy Single or Heavy Multiple Unit Vehicle Flat Toll is charged.

The following table illustrates the Flat Toll Charge for light and heavy vehicles:

	2016 and 2015 [1]		
	Light Vehicle [2]	Heavy Single Unit Vehicle ("HSU")	Heavy Multiple Unit Vehicle ("HMU")
Flat Toll Charge (up to) (Peak Period/Hours) [3]	$ 4.50	$ 19.85	$ 36.95
Flat Toll Charge (up to) (All Other Periods) [4]	$ 3.20	$ 12.80	$ 23.85

(1) Flat Toll Charge effective since February 1, 2015
(2) Applicable to light vehicles without a transponder
(3) Peak Period/Hours means weekdays between 6am-10am and 3pm-7pm.
(4) All Other Periods means weekdays between 10am-3pm and 7pm-6am, weekends and holidays.

Fee Revenues

Second Quarter Performance

Fee revenues amounted to $16.6 million in the second quarter of 2016 and were in line with the same period in 2015.

Year-to-Date Performance

Fee revenues amounted to $32.1 million for the first six months of 2016, an increase of $0.6 million when compared to $31.5 million for the same period in 2015. The increase was mainly due to higher transponder lease fees as a result of an increase in the number of transponders in circulation, coupled with higher video account fee revenue due to higher rates, partially offset by lower net late payment charges on overdue account balances.

Contract Revenues

Second Quarter Performance

Contract revenues amounted to $1.0 million in the second quarter of 2016 when compared to $2.4 million for the same period in 2015, reflecting the higher volume of work completed in the prior year relating to the construction of tolling equipment.

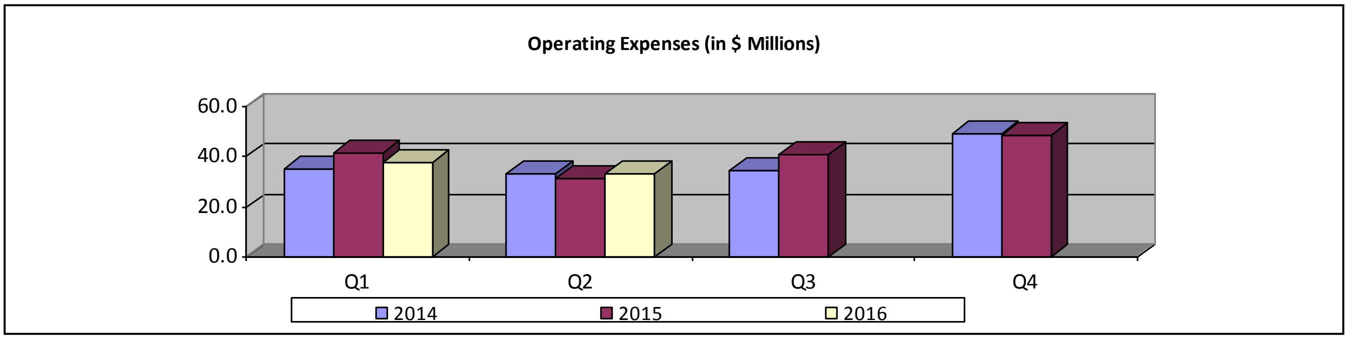
Year-to-Date Performance

Contract revenues amounted to $3.1 million for the first six months of 2016 when compared to $13.0 million for the same period in 2015, due to the reasons mentioned above.

Outlook

Management anticipates higher revenues in 2016 compared to 2015 primarily due to the new toll rate structure that took effect on February 1, 2016 and higher traffic volumes, offset by lower contract revenues relating to the Highway 407 East Contract as the majority of the work was completed in 2015.

Operating Expenses



Operating Expenses (in $Millions)	Q2 2016	% of revenues	Q2 2015	% of revenues	YTD 2016	% of revenues	YTD 2015	% of revenues
Systems Operations Expenses	4.7	1.6%	3.8	1.5%	9.4	1.8%	7.6	1.6%
Customer Operations Expenses	15.8	5.4%	14.2	5.5%	30.7	5.9%	27.7	5.9%
Highway Operations Expenses	6.2	2.1%	5.4	2.1%	16.8	3.3%	14.6	3.1%
General and Administration Expenses	5.8	2.0%	5.9	2.3%	11.4	2.2%	11.8	2.5%
Contract Expenses	0.9	0.3%	2.0	0.8%	2.8	0.5%	11.1	2.4%
Total	33.4	11.5%	31.3	12.2%	71.1	13.8%	72.8	15.4%

Total Operating Expenses

Second Quarter Performance

Total operating expenses amounted to $33.4 million in the second quarter of 2016, an increase of $2.1 million or 6.7% when compared to the same period in 2015. The increase was mainly due to higher customer operations expenses resulting from higher provision for doubtful accounts, coupled with higher systems operations expenses due to higher support and licence costs and higher highway operations expenses due to higher policing costs, offset by lower contract expenses as the majority of the work relating to the Highway 407 East Contract was completed in the prior year.

Year-to-Date Performance

Total operating expenses amounted to $71.1 million for the first six months in 2016, a decrease of $1.7 million or 2.3% when compared to the same period in 2015. The decrease was mainly due to lower contract expenses as the majority of the work relating to the Highway 407 East Contract was completed in the prior year and lower general and administration expenses mainly due to lower consulting costs. The decrease was partially offset by higher highway operations expenses due to higher policing costs, higher systems operations expenses due to higher support and licence costs and higher customer operations resulting from higher provision for doubtful accounts and billing costs.

Systems Operations Expenses

This category includes staff salaries and subcontractor costs for operating and maintaining the tolling system, salaries and the costs for operating and maintaining the Company's office computer network and salaries and other costs for developing, operating and maintaining the Company's integrated automation systems.

<u>Second Quarter performance</u>

Systems operations expenses amounted to $4.7 million in the second quarter of 2016, an increase of $0.9 million when compared to $3.8 million for the same period in 2015, mainly due to higher maintenance support and licences costs.

<u>Year-to-Date Performance</u>

Systems operations expenses amounted to $9.4 million for the first six months of 2016, an increase of $1.8 million when compared to the same period in 2015, due to the same reasons as mentioned above.

<u>Outlook</u>

Systems operations expenses for 2016 are expected to be higher than 2015 expenses mainly due to higher staffing and higher maintenance and support costs.

Customer Operations Expenses

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

<u>Second Quarter performance</u>

Customer operations expenses amounted to $15.8 million in the second quarter of 2016, an increase of $1.6 million when compared to $14.2 million for the same period in 2015. The increase was mainly due to higher provision for doubtful accounts due to higher revenues, coupled with higher billing costs due to increased postage rates and higher bank charges related to higher customer payments.

The Company's customer service approach is focused on enhancing customer satisfaction as the needs and expectations of customers continue to develop. This customer-focused approach is reflected in the service results of the call centre. During the second quarter of 2016, the Company's call centre received 150 thousand telephone calls compared to 142 thousand calls received during the same period in 2015. The increase in calls was mainly due to inquiries on the new customer invoice billing details. The average wait time required for a customer to speak with a customer service representative was 20 seconds in the second quarter of 2016, and was higher than the wait time of 16 seconds in the same period of 2015. The target level of service for customers calling into the 407 ETR call centre is 80% of all calls being answered within 30 seconds and the level of service in the second quarter of 2016 was slightly lower than the target. Customers continue to have the ability to access the various self-service options through the Company's interactive voice recognition system and website, allowing customers to perform a number of transactions without having to speak with a customer service representative.

The Company continues to use bill inserts, promotions and targeted advertising to communicate to customers about the benefits of using the Highway, as well as educating drivers about environmentally and customer-friendly options, such as 407 ETR paperless billing, annual transponder leases and pre-authorized payment services. The Company continues to see growth in customers registering for 407 ETR paperless billing on the 407 ETR website, pre-authorization and other services which benefit customers and also result in lower costs for the Company.

Year-to-Date performance

Customer operations expenses amounted to $30.7 million for the first six months of 2016, an increase of $3.0 million when compared to the same period in 2015. The increase was mainly due to higher provision for doubtful accounts due to higher revenues and higher billing costs due to increased postage rates.

Outlook

Customer operations costs for 2016 are expected to be lower than 2015 costs due to lower costs relating to customer litigation incurred in 2015, offset by higher billing costs due to increases in postage rates and higher provision for doubtful accounts.

Highway Operations Expenses

This category of expenses includes costs relating to operating activities such as maintenance of the major system elements of roadway surfaces, bridges and culverts, drainage and lighting systems, together with seasonal maintenance, highway patrol operations, road safety enforcement and police enforcement. Highway operations expenses are seasonal in nature mainly as winter maintenance expenses relating to snow plowing and salt application occur in the first and fourth quarters of the year, whereas most other repairs and maintenance take place in the second and third quarters of the year.

Second Quarter Performance

Highway operations expenses amounted to $6.2 million in the second quarter of 2016, an increase of $0.8 million when compared with the same period in 2015. The increase was due to higher policing costs, coupled with higher winter maintenance contract fixed costs and higher repair costs.

Year-to-Date Performance

Highway operations expenses amounted to $16.8 million for the first six months of 2016, an increase of $2.2 million when compared with the same period in 2015. The increase was due to the same reasons as mentioned above.

Highway maintenance cost per lane kilometre in the second quarter of 2016 increased to $5,300 from $4,500 during the same period of 2015 mainly due to the same reasons as mentioned above.

Outlook

Management anticipates higher highway operations expenses in 2016 mainly due to higher winter maintenance fixed costs due to the new contract.

General and Administration Expenses

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

Second Quarter Performance

General and administration expenses amounted to $5.8 million in the second quarter of 2016 and were in line when compared to the same period in 2015.

Year-to-Date Performance

General and administration expenses amounted to $11.4 million for the first six months of 2016, a decrease of $0.4 million when compared to the same period in 2015, mainly due to lower consultants' costs.

Outlook

General and administration expenses for 2016 are expected to be in line with 2015.

Contract Expenses

The Company's contract expenses relate to costs incurred for work performed in completing its contract obligations with customers.

Second Quarter Performance

Contract expenses amounted to $0.9 million in the second quarter of 2016, compared to $2.0 million for the same period in 2015. The decrease was mainly due to the substantial completion of construction of tolling equipment and back office initiatives in 2015 for Phase 1 of the Highway 407 East contract work .

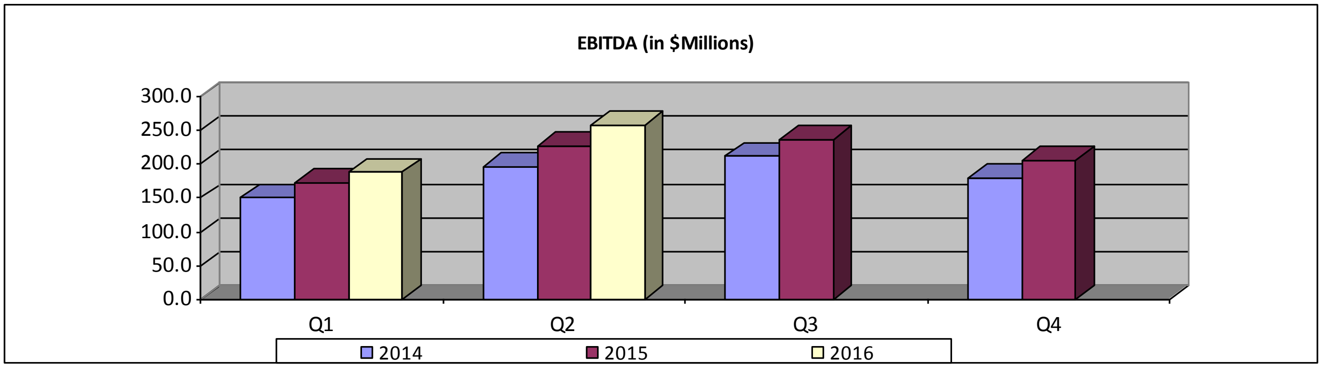
Year-to-Date Performance

Contract expenses amounted to $2.8 million for the first six months of 2016, compared to $11.1 million for the same period in 2015. The decrease was mainly due to the same reasons mentioned above.

Outlook

Contract expenses are expected to be lower in 2016 as the majority of the work related to Phase 1 of the Highway 407 East contract was completed in 2015.

Earnings Before Interest and Other, Taxes, Depreciation and Amortization ("EBITDA")



EBITDA is not a recognized measure under IFRS and investors are cautioned that EBITDA should not be construed as an alternative to net income (loss) or cash flows from operating activities as an indicator of the Company's performance or cash flows. The Company's method of calculating EBITDA may differ from other companies methods and may not be comparable to measures used by other companies. EBITDA, as defined by the Company, is net income before interest and other expenses, income tax expenses and depreciation and amortization expenses. Management uses EBITDA to assist in identifying underlying operating trends and allows for a comparison of the Company's operating performance on a consistent basis. Investors may also use EBITDA, amongst other financial measures, to assist in the valuation of the Company.

Second Quarter Performance

EBITDA increased by 13.9% or $31.5 million to $257.4 million in the second quarter of 2016 as compared to $225.9 million in the second quarter of 2015. The improvement in EBITDA was a result of growth in revenues. EBITDA as a percentage of revenues was 88.5% in the second quarter of 2016 and was higher than 87.8% for the same period of 2015.

Year-to-Date Performance

EBITDA increased by 11.7% or $46.6 million to $445.0 million for the first six months of 2016 as compared to $398.4 million for the same period of 2015. EBITDA as a percentage of revenues was 86.2% for the first six month period ended June 30, 2016 and was higher than 84.6% for the same period of 2015.

EBITDA and Net Income (in $ Millions)

	Q2 2016	Q2 2015	YTD 2016	YTD 2015
Net Income	94.4	76.6	159.0	139.3
Current income tax expense	14.8	-	25.2	-
Deferred income tax expense	19.6	29.1	32.6	51.7
Interest and other expenses	101.6	98.5	175.4	165.3
Depreciation and amortization	27.0	21.7	52.8	42.1
EBITDA	257.4	225.9	445.0	398.4

Depreciation and Amortization

Second Quarter Performance

Depreciation and amortization expenses amounted to $27.0 million in the second quarter of 2016, an increase of $5.3 million when compared to the same period in 2015. The increase was primarily due to the change in the method of amortizing concession rights, coupled with higher additions.

Year-to-Date Performance

Depreciation and amortization expenses amounted to $52.8 million for the first six months of 2016, an increase of $10.7 million when compared to the same period in 2015 for the same reasons as mentioned above.

Outlook

Management expects overall depreciation and amortization expenses in 2016 to be higher than 2015 due to the change in the method of amortizing concession rights.

Interest and Other Expenses

Interest and Other Expenses (in $ Millions)	Q2 2016	Q2 2015	YTD 2016	YTD 2015
Interest expense	$ 86.5	$ 85.8	$ 171.3	$ 167.0
Non-cash inflation component of:				
Interest expense, RRBs	17.2	22.1	11.9	2.7
Interest expense/(recovery), Senior Bond, Series 04-A2	3.9	5.8	0.2	(2.8)
Fair value adjustment, Senior Bond, Series 04-A2	(3.1)	(12.9)	(3.0)	3.9
Capitalized interest	(0.1)	(0.1)	(0.2)	(0.3)
Total interest expense on long-term debt	104.4	100.7	180.2	170.5
Interest income on financial assets designated as FVTPL	(2.9)	(2.3)	(4.9)	(5.3)
Other expense	0.3	0.3	0.5	0.5
Other income:				
Reclassification of gains and losses on cash flow hedges	(0.2)	(0.2)	(0.4)	(0.4)
	$ 101.6	$ 98.5	$ 175.4	$ 165.3

Interest and other expenses include interest expense on long-term debt and obligations under finance leases, reclassification of gains and losses on cash flow hedges from accumulated other comprehensive income, interest income on fair value through profit and loss ("FVTPL") of financial assets, and fair value adjustment of derivative financial instruments.

Second Quarter Performance

Interest and other expenses amounted to $101.6 million for the second quarter of 2016 compared with $98.5 million for the same period in 2015. Interest expense on long-term debt increased to $104.4 million during the second quarter of 2016 from $100.7 million during the second quarter of 2015 primarily due to the unfavourable variance on non-cash fair value adjustment on Senior Bonds, Series 04-A2 of $9.8 million and higher interest expenses on the Senior Bank Credit Facilities of $0.7 million due to higher average outstanding balances. During the second quarter of 2016, the non-cash fair value adjustment recovery on

Senior Bonds, Series 04-A2 was $3.1 million primarily due to a decrease in the BEIR offset by a decrease in the nominal discount rate as compared to the $12.9 million non-cash fair value adjustment recovery in the second quarter of 2015 primarily due to an increase in the nominal discount rate, coupled with a decrease in the BEIR. The interest expense resulting from the issuance of Senior Bonds, Series 16-A1 was offset by the overlapping of interest resulting from the refinancing of Senior Bonds, Series 10-A1 with Senior Bonds, Series 15-A2 during the prior year. The unfavourable variances to interest on long-term debt were offset by the favourable variance on the non-cash inflation compensation component of the RRBs of $4.9 million and the favourable non-cash accretion expense on Senior Bonds, Series 04-A2 of $1.9 million due to a lower increase in the CPI during the second quarter of 2016 as compared to the increase in CPI in the second quarter of 2015. Interest income was higher by $0.6 million primarily due to higher investment yields being earned on investments.

Year-to-Date Performance

Interest and other expenses amounted to $175.4 million during the first six months of 2016 compared to $165.3 million for the same period in 2015. Interest on long-term debt increased to $180.2 million compared to $170.5 million for the same period in 2015, primarily due to the unfavourable variance in non-cash interest expense on the RRBs of $9.2 million, the unfavourable variance on non-cash accretion on Senior Bonds, Series 04-A2 of $3.0 million due to a higher increase in the CPI level. Adding to the unfavourable variance to interest expense on long-term debt was the higher interest expense on senior bonds of $4.3 million primarily due to the issuance of $500.0 million of Senior Bonds, Series 16-A1 on May 19, 2016, the full year interest expense impact on the issuance of $150.0 million of Senior Bonds, Series 15-A1 on March 27, 2015 and a higher interest expense on the Senior Bank Credit Facilities mainly due to timing of draws and repayments. Unfavourable variances to interest expense on long-term debt was offset by the favourable non-cash fair value adjustment on Senior Bonds, Series 04-A2 of $6.9 million. During the first six months of 2016, the non-cash fair value adjustment recovery on Senior Bonds, Series 04-A2 of $3.0 million was primarily due to a decrease in the BEIR offset by a decrease in the nominal discount rate as compared to a non-cash fair value adjustment expense on Senior Bonds, Series 04-A2 of $3.9 million for the same period in 2015 primarily due to an increase in the BEIR offset by an increase in the nominal discount rate. Interest income was lower by $0.4 million primarily due to lower investment yields earned on investments.

Outlook

With the exception of the non-cash inflation component of interest expense relating to the RRBs and Senior Bonds, Series 04-A2 and the non-cash fair value adjustment on Senior Bonds, Series 04-A2, the Company expects interest and other expenses for 2016 to be higher than 2015, primarily due to the issuance of Senior Bonds, Series 16-A1, the full-year impact of bonds issued in 2015, and a higher average outstanding balance on the Senior Bank Credit Facilities.

Income Taxes

Second Quarter Performance

The 2016 annual effective tax rate of 26.7% was lower than the 2015 annual effective tax rate of 27.5% due to adjustments relating to prior periods being recorded in the prior year.

Current income tax expense amounted to $14.8 million in the second quarter of 2016 compared to $nil in the same period in 2015 primarily due to the full utilization of the Company's non-capital tax losses. Correspondingly, deferred income tax expense reduced to $19.6 million in the second quarter of 2016 compared to $29.1 million in the same period in 2015.

Year-to-Date Performance

Current income tax expense amounted to $25.2 million for the first six months of 2016 compared to $nil in the same period in 2015 primarily due to the full utilization of the Company's non-capital tax losses. Correspondingly, deferred income tax expense reduced to $32.6 million for the first six months of 2016 compared to $51.7 million in the same period in 2015.

Outlook

With the exception of the non-cash inflation component of interest expense relating to the RRBs and Senior Bonds, Series 04-A2 and the non-cash fair value adjustment on Senior Bonds, Series 04-A2, the Company expects income tax expenses for 2016 to be higher than 2015 due to a higher income before taxes expense.

Quarterly Financial Information

Net Income and Net Income per Share
(in $Millions, except per share amounts)

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Revenues	290.8	225.3	253.4	277.6	257.2	214.0	228.1	245.7
Operating expenses	33.4	37.7	48.6	40.8	31.3	41.5	49.2	34.4
Depreciation and amortization	27.0	25.8	21.7	22.2	21.7	20.4	27.3	18.4
Interest and other expenses	101.6	73.8	81.3	80.3	98.5	66.8	68.3	82.8
Income tax expenses	34.4	23.4	27.8	36.4	29.1	22.6	22.0	29.2
Net income	94.4	64.6	74.0	97.9	76.6	62.7	61.3	80.9
Net income per share (basic and diluted)	0.122	0.083	0.095	0.126	0.099	0.081	0.079	0.104

Toll and fee revenues are subject to seasonal fluctuations that may materially impact quarter-to-quarter financial results; therefore one quarter's revenues are not necessarily indicative of another quarter's revenues. Seasonal trends affecting the Company's revenues include factors such as economic activity, recreational travel, weather conditions, pricing structure, fuel prices and traffic volumes on neighbouring infrastructure. In particular, this seasonality generally results in relatively lower revenues during the first quarter, relatively higher levels of toll and fee revenues in the second and fourth quarters and the highest revenue in the third quarter. The Company expects toll and fee revenues to continue to grow on an annualized basis.

Interest expense on RRBs and Senior Bonds, Series 04-A2 is calculated based on changes in CPI; as such, interest expense in respect of RRBs and Senior Bonds, Series 04-A2 will fluctuate due to the volatility of CPI.

Net income of $61.3 million in the fourth quarter of 2014 was $19.6 million lower than the third quarter of 2014, mainly due to seasonally lower revenues and higher operating expenses, higher depreciation and amortization expenses, offset by lower interest and other expenses, resulting from favourable non-cash inflation compensation of RRBs and a favourable non-cash fair value adjustment on Senior Bonds Series 04-A2, coupled with lower deferred income tax expense. Net income of $62.7 million in the first quarter of 2015 was $1.4 million higher than the fourth quarter of 2014, mainly due to lower operating expenses and depreciation and amortization expenses, lower interest and other expenses, resulting from favourable non-cash inflation compensation of RRBs and a favourable non-cash fair value adjustment on Senior Bonds Series 04-A2, partially offset by seasonally lower revenues and higher deferred income tax expense. Net income of $76.6 million in the second quarter of 2015 was $13.9 million higher than the first quarter of 2015, mainly due to higher revenues and lower operating expenses, offset by higher interest and other expenses resulting from unfavourable non-cash inflation compensation of RRBs and an unfavourable non-cash fair value adjustment on Senior Bonds Series 04-A2, coupled with higher deferred income tax expense and higher depreciation and amortization expenses. Net income of $97.9 million in the third quarter of 2015 was $21.3 million higher than the second quarter of 2015, mainly due to higher revenues and lower interest and other expenses resulting from a favourable non-cash fair value adjustment on Senior Bonds Series 04-A2, offset by an unfavourable non-cash inflation compensation of RRBs, coupled with higher deferred income tax expense, higher operating expenses, and higher depreciation and amortization expenses. Net income of $74.0 million in the fourth quarter of 2015, was $23.9 million lower than the third quarter of 2015, mainly due to seasonally lower revenues coupled with higher operating expenses and higher interest and other expenses due to a favourable non-cash fair value adjustment on Senior Bonds Series 04-A2, offset by an unfavourable non-cash inflation compensation of RRBs, partially offset by lower deferred income tax expense and lower depreciation and amortization expenses. Net income of $64.6 million in the first quarter of 2016, $9.4 million lower than the fourth quarter of 2015, mainly due to seasonally lower revenues and higher depreciation and amortization expenses primarily due to the change in the method of amortizing concession rights, offset by lower operating expenses, lower interest and other expenses due to a favourable non-cash inflation compensation of RRBs and Senior Bonds Series 04-A2, coupled with non-cash fair value adjustment on Senior Bonds Series 04-A2 and lower income tax expense due to lower earnings before tax.

The Company recorded net income of $94.4 million in the second quarter of 2016, $29.8 million higher than the first quarter of 2016, mainly due to seasonally higher revenues and lower operating expenses, offset by higher income tax expense due to higher earnings before tax, coupled with higher depreciation and amortization expenses primarily due to the change in the method of amortizing concession rights and higher interest and other expenses due to an unfavourable non-cash inflation compensation of RRBs and Senior Bonds Series 04-A2 and additional debt issued during the quarter.

Liquidity and Capital Resources

Cash Flow

Cash Flows for the three and six month periods ended June 30 (In $ Millions)	Q2 2016	Q2 2015	YTD 2016	YTD 2015
Cash from operating activities	119.3	88.6	252.6	199.7
Cash from/(used in) investing activities	(12.4)	11.7	(57.7)	(41.3)
Cash used in financing activities	(130.3)	(195.8)	(202.2)	(120.8)
(Decrease)/Increase in cash	(23.4)	(95.5)	(7.3)	37.6
Cash in the beginning of the period (1)	393.0	527.2	376.9	394.1
Cash end of period (1)	369.6	431.7	369.6	431.7
(1) includes cash equivalents				

Cash and cash equivalents at June 30, 2016 was $369.6 million, a decrease of $7.3 million from December 31, 2015. The cash and cash equivalents amount includes a $10.0 million reserve required by the Indenture.

Second Quarter Performance

The cash decrease of $23.4 million during the second quarter of 2016 was mainly due to the partial repayment of the Senior Bank Credit Facilities and partial repayment of Senior Bonds, Series 00-A2 of $467.9 million, dividends paid to shareholders of $187.5 million, purchases of property, plant and equipment of $10.4 million, payments for debt issue cost of $3.3 million, a net increase in restricted cash and investments of $1.2 million, payments of obligations under finance leases of $1.0 million and a net increase in non-trade receivables and others of $0.8 million. These cash outflows were offset by cash generated from operating activities of $119.3 million and proceeds from long-term debt of $529.4 million.

Cash generated from operating activities was $119.3 million for the second quarter of 2016 compared with $88.6 million for the second quarter of 2015. The increase in cash generated from operating activities of $30.7 million was a result of higher cash receipts of $31.0 million due to higher revenues and lower cash payments for operating expenses of $0.8 million due to timing of payments. This increase in cash generated from operating activities was offset by higher interest payments of $0.7 million due to increased debt and timing of interest payments, lower interest income received of $0.3 million and higher income tax payments of $0.1 million.

Cash used in investing activities was $12.4 million for the second quarter of 2016 compared with cash generated from investing activities of $11.7 million for the second quarter of 2015. Included in investing activities are changes in the restricted cash and investments required to be maintained by the Indenture. The net increase in restricted cash and investments was $1.2 million during the second quarter of 2016 compared to a net decrease of $24.1 million in the second quarter of 2015. The net increase in restricted cash and investments for the second quarter of 2016 was due to contributions to the debt service fund of $86.2 million, the establishment of a $27.4 million debt service reserve fund for the $500.0 million of Senior Bonds, Series 16-A1 and interest income received of $1.5 million. These increases to restricted cash were offset by interest payments and partial long-term debt repayment of $111.2 million and transfer to the general fund of $2.7 million. The net decrease in restricted cash and investments for the second quarter of 2015 was due to repayments of long-term debt of $502.8 million representing repayment of Senior Bonds, Series 10-A1 of $500.0 million on June 16, 2015 and partial repayment of Senior Bonds, Series 00-A2 of $2.8 million, coupon payments of $108.0 million and release of Senior Bonds, Series 10-A1 reserve to the general fund of $28.9 million. These decreases were offset by the establishment of a refunding bond fund of $500.0 million used to repay Senior Bonds, Series 10-A1, contributions to the debt service fund of $85.5 million, the establishment of a $28.2 million debt service reserve fund for the $500.0 million of Senior Bonds, Series 15-A2, and interest income received of $1.9 million. Non-trade receivables and other increased by $0.8 million in the second quarter of 2016 compared to a decrease of $0.8 million in the second quarter of 2015. Included in investing activities are investments in the widening of certain segments of the Highway, replacement of certain components of the Highway, enhancements and replacements of toll equipment, continuing development and enhancement of the information systems, and purchasing of new transponders. Purchases of property, plant and equipment amounted to $10.4 million for the second quarter of 2016 compared with $12.1 million in the second quarter of 2015. Advance payment to a supplier was $nil in the second quarter of 2016 compared to advance payment of $1.1 million in the second quarter of 2015.

Cash used in financing activities was $130.3 million in the second quarter of 2016 compared with $195.8 million in the second quarter of 2015. Repayments of long-term debt amounted to $467.9 million representing partial repayment of Senior Bank Credit Facilities of $465.0 million and partial repayment of Senior Bonds, Series 00-A2 of $2.9 million in the second quarter of 2016 compared to repayment of long-term debt of $642.8 million representing repayment of Senior Bonds, Series 10-A1 of $500.0 million on June 16, 2015, partial repayment of advances under the Senior Bank Credit Facilities of $140.0 million and partial repayment of Senior Bonds, Series 00-A2 of $2.8 million in the second quarter of 2015. Payments for obligations under finance leases amounted to $1.0 million in the second quarter of 2016 compared with $1.3 million in the second quarter of 2015. Proceeds from long-term debt in the second quarter of 2016 amounted to $529.4 million, representing proceeds from issuance of Senior Bonds, Series 16-A1 of $499.4 million and draws under the Senior Bank Credit Facilities were $30.0 million compared to $639.2 million in the second quarter of 2015 representing proceeds from the issuance of Senior Bonds, Series 15-A2 of $499.2 million and drawdowns of $140.0 million from the Senior Bank Credit Facilities. Debt issue costs amounted to $3.3 million in the second quarter of 2016 compared to $3.4 million in the second quarter of 2015. Dividends to shareholders amounted to $187.5 million in the second quarter of both 2016 and 2015 respectively.

The supplemental indenture for RRBs Series 99-A4, 99-A5, 99-A6 and 99-A7 requires the Company to fund a series excess inflation reserve should the principal outstanding multiplied by the difference between the applicable CPI at the time of measurement divided by the applicable CPI at the time of issue exceed a pre-established threshold level. As at December 31, 2015 and June 30, 2016, CPI had not reached the levels to require funding of the excess inflation reserve and Management does not anticipate CPI to reach these levels. Sufficient cash from operations will be generated in the event that funding of the reserve becomes necessary.

Certain Events of Default under the Indenture would allow bondholders to declare the bonds to be immediately payable. These Events of Default are described in the Company’s AIF available at www.sedar.com. As at December 31, 2015 and June 30, 2016, the Company is in compliance with the terms of the Indenture.

Year-to-Date Performance

The cash decrease of $7.3 million during the first six months of 2016 was mainly due to repayment of long-term debt of $470.2 million, dividends paid to shareholders of $375.0 million, increase in restricted cash of $29.7 million, additions of property, plant and equipment of $28.0 million, payments of debt issue costs of $3.4 million, payments of obligations under finance leases of $2.0 million and advance payments to suppliers of $1.3 million. These outflows were offset by proceeds from issuance of long-term debt of $648.4 million, cash generated from operating activities of $252.6 million and a decrease in non-trade receivables and other of $1.3 million.

Cash generated from operating activities was $252.6 million for the first six months of 2016 compared with $199.7 million for the same period in 2015. The increase in cash generated from operating activities of $52.9 million was mainly due to higher cash receipts of $55.0 million resulting from higher revenues and lower cash payments for operations at $3.6 million due to lower contract costs and timing of payments. These increases to cash flow from operations were offset by higher interest expense payments of $4.2 million primarily due to the additional long-term debt issued in 2015 and a higher outstanding balance on the Senior Bank Credit Facilities, higher payments for income taxes of $0.8 million and lower interest income received of $0.7 million.

Cash used in investing activities was $57.7 million for the first six months of 2016 compared with $41.3 million for the same period in 2015. The net increase in restricted cash was $29.7 million during the first six months of 2016 compared to $13.1 million during the same period in 2015. The increase in restricted cash and investments of $29.7 million was due to the contributions to the debt service fund of $170.2 million, the establishment of a debt service reserve fund for Senior Bonds, Series 16-A1 of $27.4 million and interest received from restricted cash and investments of $3.0 million. These net increases to restricted cash were offset by the partial repayment of Senior Bonds, Series 00-A2 of $2.9 million, partial repayment of Senior Bonds, Series 99-A3 of $2.3 million, coupon payments of $163.0 million and transfers of $2.7 million to the general fund. During the same period in 2015, the increase in restricted cash and investments of $13.1 million was due to the establishment of a refunding bond fund of $500.0 million used to repay Senior Bonds, Series 10-A1, contributions to the debt service fund of $168.0 million, the establishment of a debt service reserve fund for Senior Bonds, Series 15-A2 of $28.2 million, the establishment of a debt service reserve fund for Senior Bonds, Series 15-A1 of $7.9 million, and interest received from restricted cash and investments of $3.5 million. These net increases to restricted cash were offset by the repayment of Senior Bonds, Series 10-A1 of $500.0 million, partial repayment of Senior Bonds, Series 00-A2 of $2.8 million, partial repayment of Senior Bonds, Series 99-A3 of $2.1 million, coupon payments of $160.2 million, release of the debt service reserve fund for Senior Bonds, Series 10-A1 of $28.9 million and transfers of $0.5 million to the general fund. Additions to property, plant and equipment amounted to $28.0 million for the first six months of 2016 compared with $27.1 million for the same period in 2015. Non-trade receivables and other decreased by $1.3 million in the first six months of 2016 compared with a decrease of $0.6 million for the same period in 2015. Advance payments to suppliers amounted to $1.3 million for the first six months of 2016 compared to $1.7 million for the same period in 2015.

Cash used in financing activities was $202.2 million in the first six months of 2016 compared with $120.8 million for the same period in 2015. Proceeds from issuance of long-term debt in the first six months of 2016 amounted to $648.4 million representing issuance of $499.4 million of Senior Bonds, Series 16-A1 on May 19, 2016 and advances under the Senior Bank Credit Facilities of $149.0 million compared to proceeds from issuance of long-term debt in the same period in 2015 of $905.7 million representing issuance of $149.7 million of Senior Bonds, Series 15-A1 on March 27, 2015, issuance of $499.2 million of Senior Bonds, Series 15-A2 on May 11, 2015, and advances under the Senior Bank Credit Facilities of $256.8 million. Repayments of long-term debt amount of $470.2 million during the first six months of 2016 representing repayments of advances under the Senior Bank Credit Facilities of $465.0 million, partial repayment of Senior Bonds, Series 00-A2 of $2.9 million and partial repayment of Senior Bonds, Series 99-A3 of $2.3 million compared to repayments of long-term debt amount of $644.9 million during the first six months of 2015 representing repayment of Senior Bonds, Series 10-A1 of $500.0 million, repayments of advances under the Senior Bank Credit Facilities of $140.0 million, partial repayment of Senior Bonds, Series 00-A2 of $2.8 million and partial repayment of Senior Bonds, Series 99-A3 of $2.1 million. Debt issue costs for the first six months of 2016 were $3.4 million compared with debt issue costs of $4.2 million for the same period in 2015. Payments for obligations under finance leases amounted to $2.0 million for the first six months of 2016 compared to $2.4 million for the same period in 2015. Dividend payments to shareholders amounted to $375.0 million in the first six months of both 2016 and 2015.

Outlook

The Company is committed to maintaining its current credit ratings on all debt obligations. The Company expects to maintain sufficient liquidity and to generate cash from operations to meet all of its ongoing obligations and to pay dividends to its shareholders. The Company expects to gradually increase its financial leverage to fund operating and capital expenditures, to pay interest to debtholders, and to pay income tax while maintaining healthy debt service coverage and earnings coverage ratios.

Earnings Coverage

Earnings Coverage (in $Millions)	**Twelve-month period ended June 30**	
	2016	**2015**
Income before income tax expenses and interest expense on long-term debt	799.4	712.1
Interest expense on long-term debt	346.5	327.7
Earnings coverage	**452.9**	**384.4**

The Company experienced earnings coverage ratios of 2.31 times and 2.17 times for the twelve-month period ended June 30, 2016 and 2015, respectively. The Company expects income before income tax expenses and interest expense on long-term debt to continue to be sufficient to cover interest expense on long-term debt. Earnings coverage, as defined by the Company, is income before income tax expenses and interest expense on long-term debt less interest expense on long-term debt. Earnings coverage ratio, as defined by the Company, is income before income tax expenses and interest expense on long-term debt, divided by interest expense on long-term debt. The earnings coverage and the earnings coverage ratio are not recognized measures under IFRS and investors are cautioned that the earnings coverage and earnings coverage ratio should not be construed as an alternative to net income (loss) or cash from operating activities as an indicator of the Company's performance or cash flows. The earnings coverage and the earnings coverage ratio are provided pursuant to and in compliance with National Instrument 44-102 *Shelf Distributions* of the Canadian Securities Administrators. The earnings coverage ratio is different from the Company's debt service coverage ratio as such is defined in the Indenture.

Statements of Financial Position

Selected Statement of Financial Position Items (in $Millions)	**As at June 30, 2016**	**As at December 31, 2015**
Trade receivables and other	180.2	153.8
Property, plant and equipment	2,356.8	2,374.2
Trade and other payables	102.9	87.1
Accrued interest on long-term debt	66.8	65.8
Current portion of long-term debt	571.8	883.5
Non-current portion of long-term debt	6,747.2	6,249.8

Total assets were $5,126.5 million at June 30, 2016 compared with $5,131.5 million at December 31, 2015.

Trade receivables from customers, net of the provision for doubtful accounts, increased to $166.6 million at June 30, 2016 from $138.9 million at December 31, 2015 mainly due to higher revenues. Prepayments and other receivables of $13.6 million as at June 30, 2016 were lower than the $14.9 million at December 31, 2015 mainly due to timing of prepayments offset by higher outstanding receivables for construction work performed on behalf of the Province. The Company's trade receivables from customers are subject to certain risks, as discussed earlier under "Risks and Uncertainties".
The decrease in property, plant and equipment during the period reflects depreciation, offset by additions.

Trade and other payables include operating payables, amounts payable for income taxes, accrued charges and amounts payable for construction. Trade and other payables, including accrued interest on long-term debt, were $169.7 million as at June 30, 2016 compared to $152.9 million as at December 31, 2015 mainly due to higher income taxes payable.

Current portion of long-term debt at June 30, 2016 amounted to $571.8 million compared with $883.5 million at December 31, 2015. The decrease of $311.7 million was mainly due to partial repayments of the Senior Bank Credit Facilities.

Non-current portion of long-term debt at June 30, 2016 amounted to $6,747.2 million compared with $6,249.8 million at December 31, 2015. The increase of $497.4 million was mainly due to the issuance of Senior Bonds, Series 16-A1 on May 19, 2016 for $500.0 million, increase in the non-cash inflation compensation component of the RRBs and the non-cash accretion of Senior Bonds, Series 04-A2 due to an increase in CPI offset by the partial repayments of Senior Bonds, Series 99-A3 and Senior Bonds, Series 00-A2.

The share capital and contributed surplus remained unchanged at June 30, 2016 at $775.0 million and $29.6 million, respectively, as compared to December 31, 2015.

Additional Information

Outstanding Share Capital

(In $ Millions)	Outstanding Share Capital at June 30, 2016	
	Number of Shares	Amount
Common Shares		
Authorized - Unlimited		
Issued and Outstanding	775,000,003	$ 775.0

Related Party Transactions

The Company entered into the following transactions with related parties:

Relationship	Classification in the Financial Statements	Nature of transaction with the related party	Three-month period ended June 30 2016	Three-month period ended June 30 2015	Six-month period ended June 30 2016	Six-month period ended June 30 2015
Parent of shareholder	Property, plant and equipment	Payment for design costs	$ 0.1	$ -	$ 0.1	$ 0.1
Parent of shareholder	Operating expenses	Payment for administration costs	$ -	$ -		$ 0.2
Parent of shareholder	Operating expenses	Payment for administration costs	$ 0.2	$ 0.4	$ 0.5	$ 0.6
Subsidiary of shareholder	Operating expenses	Reimbursement of administration costs	$ (0.1)	$ (0.3)	$ (0.2)	$ (0.4)
Subsidiary of shareholder	Operating expenses	Reimbursement of administration costs	$ (0.1)	$ -	$ (0.2)	$ -

Transactions with related parties are measured at their exchange amounts, which is the consideration agreed to by the parties.

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

Related Party	Relationship	Classification in the Financial Statements	As at June 30, 2016	As at December 31, 2015
SNC-Lavalin Inc.	Parent of shareholder	Trade and other payables	$ -	$ 0.2
Cintra	Parent of shareholder	Trade and other payables	$ 0.3	$ 0.3
Cintra	Parent of shareholder	Trade and other receivables	$ (0.1)	$ (0.1)
407 East Development Group	Subsidiary of shareholder	Trade and other receivables	$ (0.1)	$ (0.1)
Blackbird Infrastructure Group	Subsidiary of shareholder	Trade and other receivables	$ (0.1)	$ -

Overall Outlook

The outlook for 2016 is positive with revenue growth primarily due to higher toll rates and higher traffic volumes. Management's goals and objectives are focused on driving business growth while containing expenses, maintaining a high level of customer satisfaction and achieving efficiencies throughout the organization, as well as strengthening the Highway's presence in the GTA. As a result, 2016 income before income tax expenses and interest expense is expected to be higher than in 2015.