407 INTERNATIONAL INC.

Management's Discussion and Analysis

March 31, 2019

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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. and its subsidiaries (the "Company") for the three-month period ended March 31, 2019 (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-month period ended March 31, 2019 (the "Financial Statements") and the Consolidated Financial Statements of the Company and the notes thereto for the years ended December 31, 2018 and 2017 (the "2018 Annual Financial Statements") as well as the management's discussion and analysis for the year ended December 31, 2018. The Financial Statements were prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34") and the 2018 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 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 2018 Annual Information Form dated February 7, 2019 (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 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 Highway 407 ETR (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 April 11, 2019, 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.

Non-IFRS Financial Measures

Earnings Before Interest and Other, Taxes, Depreciation and Amortization ("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. 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.

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 alternatives to net income (loss) or cash from operating activities as an indicator of the Company's performance or cash flows. 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 provided pursuant to and in compliance with National Instrument 44-102 *Shelf Distributions* of the Canadian Securities Administrators.

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 ("Highway 407 ETR") which is situated just north of Toronto and runs from Burlington to Pickering. 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. Highway 407 ETR consists of four, six, eight and ten-lane sections (expandable to eight and ten lanes) from Highway 403/ Queen Elizabeth Way ("QEW") in Burlington in the west, to Brock Road in Pickering in the east for a distance of 108 kilometres.

The Company, through its wholly-owned subsidiary, Canadian Tolling Company International Inc. ("Cantoll"), is also responsible for the development and operation of its integrated automation systems and the implementation and management of roadside tolling technologies and back-office systems.

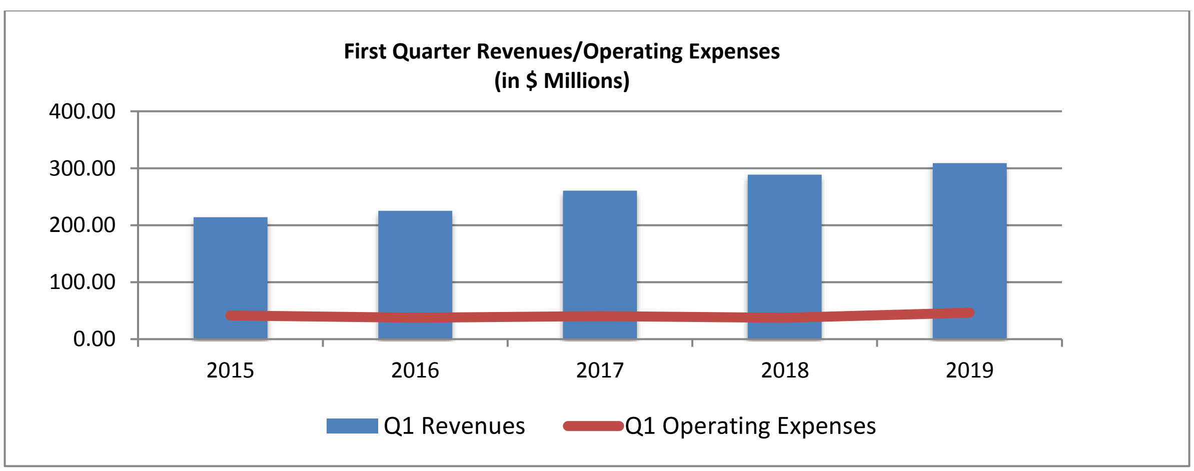
The Company's ability to create economic value depends largely on its ability to sustain revenue growth as well as to generate earnings and cash flows from operations growth by controlling the level of its operating expenditures while maintaining a safe highway and a high standard of customer service. 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 Highway 407 ETR 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 407 ETR corridor, economic conditions and the relative congestion of traditional alternative routes, such as Highway 401 and the QEW, the addition of lanes on Highway 407 ETR and additional traffic resulting from the opening of Highway 407 (as defined below), which begins at the eastern terminus of Highway 407 ETR and runs from Pickering to Oshawa.

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 Highway 407 ETR and the availability of funds on commercially reasonable terms to finance such expansions as well as its ability to finance operating and capital expenditures, interest to bondholders and income tax payments. Management is confident of the Company's current ability to access sufficient financial resources to finance such future amounts on commercially reasonable terms.

First Quarter 2019 Financial Highlights

(In $ Millions, except per share amounts)	Selected Financial Information	
	Q1 2019	Q1 2018
Revenues	309.1	288.5
Operating Expenses	46.4	37.5
EBITDA	262.7	251.0
Depreciation and Amortization	25.9	25.7
Interest and Other Expenses	107.0	93.5
Income Tax Expense	34.4	34.9
Net Income	95.4	96.9
Dividends per share	0.323	0.292
	As at March 31, 2019	As at December 31, 2018
Total assets	5,911.8	5,261.1
Total non-current liabilities	9,364.3	8,864.5

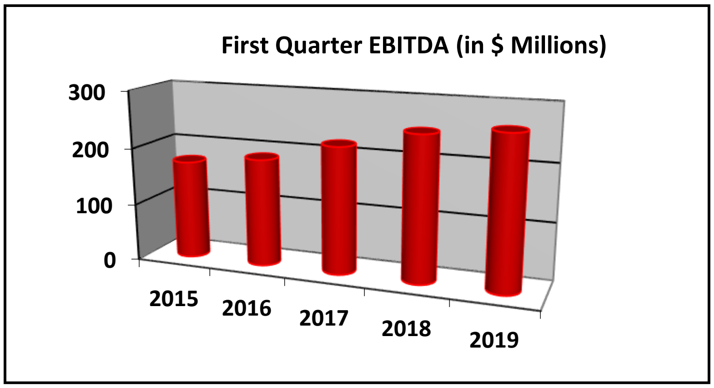
Revenues and Operating Expenses



Total revenues for the first quarter of 2019 amounted to $309.1 million, an increase of $20.6 million or 7.1% compared to the same period in 2018, primarily due to higher tolling revenues attributed to a toll rate increase. Average revenue per trip (defined as total toll and fee revenues over total trips) increased by 9.9% when compared to the same period in 2018.

Total operating expenses for the first quarter of 2019 amounted to $46.4 million, an increase of $8.9 million or 23.7% compared to the same period in 2018 due to lower general and administration expenses in 2018 resulting from a one-time recovery of certain indirect taxes relating to prior years, higher customer operations expenses due to higher collection and billing costs and higher highway operations expenses due to higher winter maintenance costs.

EBITDA

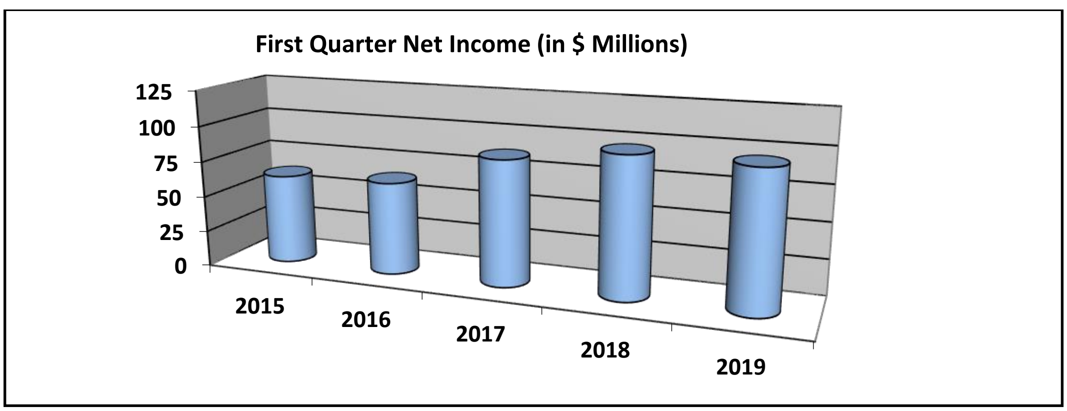


First Quarter EBITDA (in $ Millions)

	Q1 2019	Q1 2018
Net Income	95.4	96.9
Current income tax expense	32.8	32.6
Deferred income tax expense	1.6	2.3
Interest and other expenses	107.0	93.5
Depreciation and amortization	25.9	25.7
EBITDA	262.7	251.0

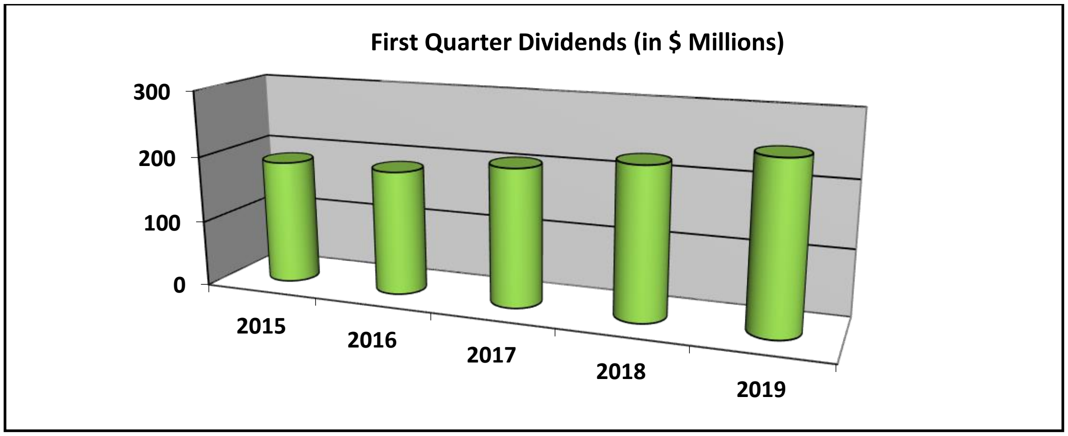
EBITDA increased by 4.7% or $11.7 million to $262.7 million in the first quarter of 2019 when compared to $251.0 million for the same period in 2018. The improvement in EBITDA was a result of revenue growth offset by higher operating expenses. EBITDA as a percentage of revenues was 85.0% in the first quarter of 2019 and was lower than 87.0% for the same period in 2018, mainly due to a one-time favourable adjustment in 2018 related to indirect taxes. See "Non-IFRS Financial Measures".

Net Income



Net income of $95.4 million in the first quarter of 2019 decreased by $1.5 million or 1.5% as compared to $96.9 million in the same period of 2018 mainly due to higher interest and other expenses, offset by lower income taxes and higher EBITDA.

Dividends



Dividends paid to shareholders in the first quarter of 2019 amounted to $250.0 million compared to $226.3 million in the same period of 2018.

Statement of Financial Position Items

Total assets were $5,911.8 million at March 31, 2019, compared to $5,261.1 million at December 31, 2018. The increase was primarily due to higher cash and cash equivalents due to net proceeds from long term debt of $796.4 million, offset by payments of dividends to shareholders of $250.0 million, and higher restricted cash and investments primarily due to the establishment of a refunding bond fund to refinance, in part, the Senior Bonds, Series 10-A2 and debt service reserve funds for Senior Bonds, Series 19-A1 and Senior Bonds, Series 19-A2, offset by a decrease in trade receivables due to seasonally lower revenues.

The non-current portion of long-term debt at March 31, 2019 amounted to $8,842.0 million compared to $8,345.3 million at December 31, 2018. The increase in non-current liabilities of $496.7 million during the first quarter of 2019 was mainly due to the issuances of $300.0 million of Senior Bonds, Series 19-A1 and $500.0 million of Senior Bonds, Series 19-A2 on March 6, 2019. Proceeds from the issuance of Senior Bonds Series 19-A1 were used, together with other available funds to early redeem all outstanding Senior Bonds, Series 10-A2, on April 3, 2019. As such, $300.0 million of Senior Bonds, Series 10-A2 was reclassified to current liabilities. Proceeds from the issuance of Senior Bonds Series 19-A2 were used to repay the outstanding balance of the Syndicated Credit Facility (as defined below) and for general corporate purposes. Adding to the increase in the non-current liabilities was the unfavourable non-cash fair value adjustment of Senior Bonds, Series 04-A2. These increases were partially offset by a decrease in the non-cash inflation compensation component of Senior Bonds, Series 99-A5, Series 99-A6, Series 99-A7 (collectively the "RRBs") and Senior Bonds, Series 04-A2 due to a decrease in the Consumer Price Index ("CPI") and the partial repayment of Senior Bonds, Series 99-A3.

The share capital and contributed surplus remained unchanged at March 31, 2019 at $775.0 million (775,000,003 number of common shares issued and outstanding) and $29.6 million, respectively, as compared to December 31, 2018.

Traffic Results

	Q1 2019	Q1 2018
Traffic/Trips (in millions) (1)	27.262	27.958
Average Workday Number of Trips (in thousands)	365.585	376.668
Vehicle Kilometres Travelled ("VKTs") (in millions) (2)	566.885	578.300
Average Trip Length (kilometres) ("ATL") (3)	20.79	20.68
Unbillable Trips (percent) (4)	2.48	2.72
Average Revenue per Trip ($) (5)	11.25	10.24
Transponder Penetration Rate (percent) (6)	83.8	84.1
Transponders in Circulation as at March 31 (7)	1,539,161	1,450,737

1. *Trips are measured during the reporting period based on the number of vehicle transactions recorded on Highway 407 ETR.*
2. *VKTs refer to the sum of distances travelled on Highway 407 ETR 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. *Average Revenue per Trip is calculated as total tolls and fee revenue over total number of trips in the reporting period.*
6. *Transponder Penetration Rate is the ratio of transponder trips to total trips in the reporting period.*
7. *Transponders in Circulation are measured at the end of the reporting period based on the number of transponders registered to customers.*

Total trips for the first quarter of 2019 were lower by 2.5% and VKTs were lower by 2.0% when compared to the same period of 2018 primarily due to unfavourable weather. Average workday trips were also lower by 2.9% when compared to the same period in 2018 mainly due to inclement weather which resulted in an unusually higher number of school closures and school bus cancellations impacting workday traffic. The increase in ATL of 0.5% was mainly due to longer trips by light vehicles. Unbillable trips decreased by 8.8% in the first quarter of 2019 when compared to the same period in 2018 mainly due to lower unreadable transactions resulting from tolling system enhancements, partly offset by impact of unfavourable weather and an increase in travel related to unbillable jurisdictions.

Overview of Current Operations

Construction

The Company continues to improve Highway 407 ETR 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 Highway 407 ETR. The Company also regularly undertakes various rehabilitation initiatives designed to improve and replace existing elements of the infrastructure, such as resurfacing the asphalt pavement, replacing concrete pavement, replacing and relining culverts under and along Highway 407 ETR and rehabilitating various bridge structures in order to continue to provide customers with fast, safe and reliable travel.

During the first quarter of 2019, the Company continued with the construction work between Markham Road and York-Durham Line and additional lanes are expected to be completed and opened to traffic in late 2019. The Company also continued the construction work for the Sideline 16 interchange on behalf of the Province of Ontario (the "Province") and the work is on schedule.

With completion of the detailed design work for the inside widening of Highway 407 ETR between Highway 401 and Highway 410, construction of this segment is expected to commence shortly.

The Company also substantially completed the detailed design of the inside widening of Highway 407 ETR between Highway 404 and Markham Road.

Information Technology

The Company continues to maintain and enhance its back-office systems. Formal processes are in place to identify, evaluate and implement potential system enhancements to ensure continued alignment with business strategies. The Company continues to focus on enhancing the core capabilities of capturing and processing vehicle information with continued investments in roadside equipment, automated licence plate recognition, complementary metal-oxide semi-conductor (CMOS) camera technology, and the operation of a front-capture camera enforcement system. The Company continues to enhance the security, functionality, scalability and usability of its self-service (website and interactive voice response) systems. The planning, preparation and business process optimization efforts to support the new Enterprise Resource Planning ("ERP") and Customer Relationship Management ("CRM") solutions were successfully completed and the Company has commenced with the actual development phase of the project. The development phase includes coding and implementation of functionalities, incorporating efficiencies identified during the planning stages.

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 Highway 407 ETR and gas savings to qualified 407 ETR customers. Since February 2006, the program has offered more than $186.4 million in benefits and savings to over 100,000 frequent light-vehicle transponder users.

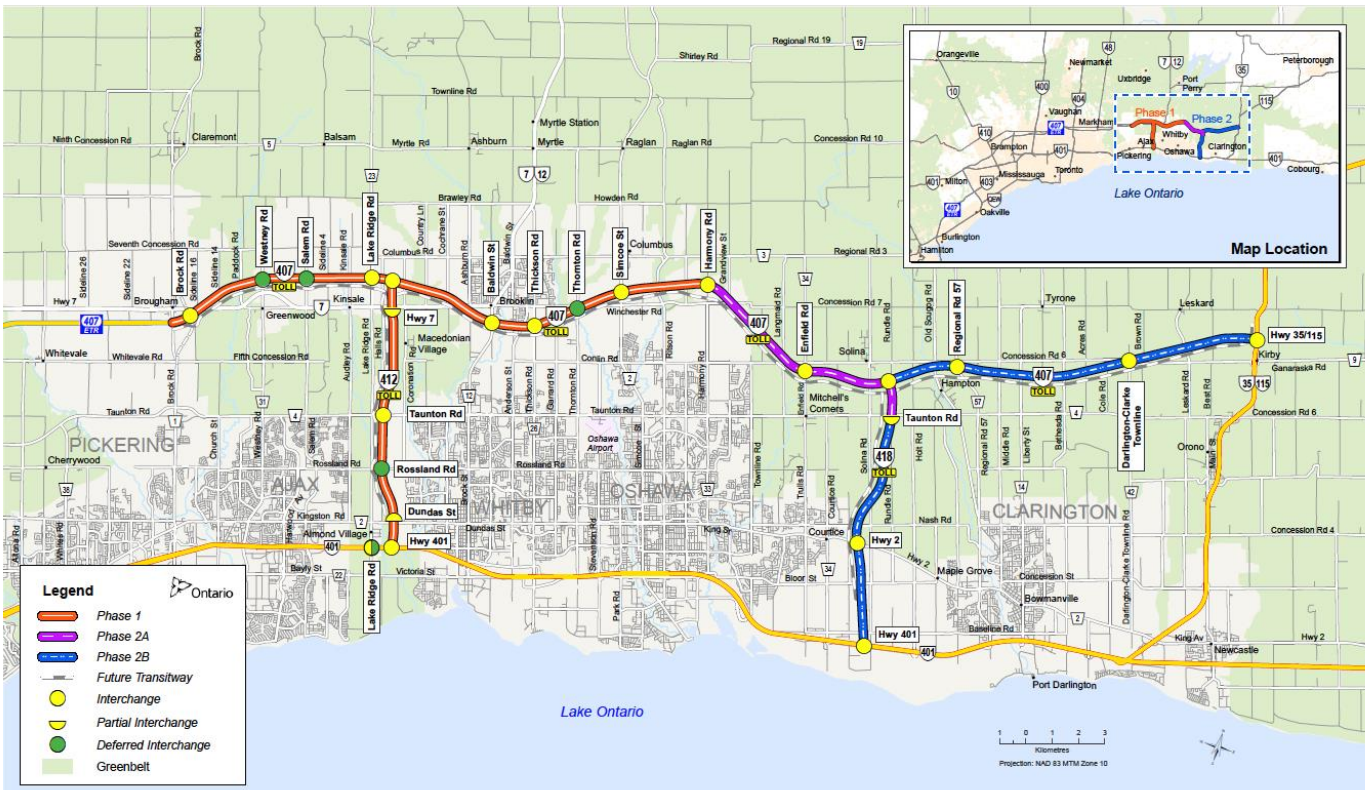
407 ETR in the Community

407 ETR and its employees continue to serve the communities surrounding the Highway 407 ETR corridor and support its corporate social responsibility goals in the GTA. 407 ETR directly supported many hospitals and rehabilitation centres across the Greater Toronto and Hamilton area and sponsored various children and youth sports teams, including its recent participation in the annual 'Icewave' volleyball tournament, which raises funds for childhood cancer research by the Hospital for Sick Children.

In addition to engaging its employees in volunteerism through the '407 for our Communities' program, the Company continues to focus on supporting the communities it serves through donations and by sponsoring community organizations.

Highway 407

Highway 407 begins at the eastern terminus of Highway 407 ETR at Brock Road in Pickering and extends towards Highways 35/115 ("Highway 407"). The Province maintains public ownership of Highway 407, sets tolls and receives toll revenues in respect of its use.



Highway 407 is being constructed by the Province in two phases ("Phase 1" and "Phase 2", respectively), as further described below:

- Phase 1 extends from Brock Road (at the eastern terminus of Highway 407 ETR) in Pickering to Harmony Road in Oshawa and includes Highway 412, which runs north-south and connects Highway 407 to Highway 401. Phase 1 was completed and opened to the public on a toll-free basis on June 20, 2016 until February 1, 2017 when tolling commenced.

- Phase 2, which is being constructed in two parts, will extend from Harmony Road in Oshawa to Highway 35/115 in Clarington and includes Highway 418, which will run north-south and connect Highway 407 to Highway 401.

- The first part of Phase 2 between Harmony Road to Taunton Road in Clarington ("Phase 2a") was completed and opened to the public on January 2, 2018, with tolling commencing immediately. The second part of Phase 2 ("Phase 2b") will complete the extension of Highway 407 to Highway 35/115 and will include the connection of Highway 418 from Taunton Road to Highway 401. Phase 2b is expected to be completed by 2020.

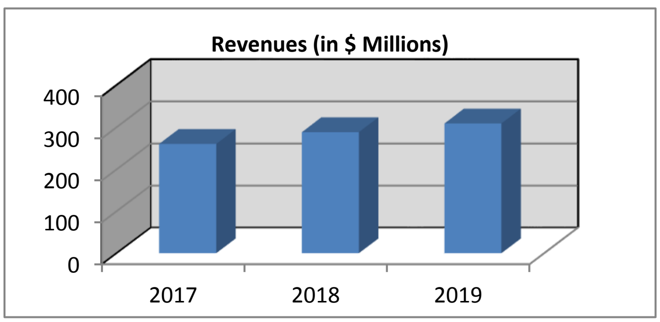
Cantoll continues to implement and maintain the roadside tolling technology and provide tolling, billing and back-office services (the "Tolling Services Contract") for Highway 407. The operational aspect of the Tolling Services Contract, which commenced in December 2015, has an initial term of 10 years and is renewable by 10-year increments for up to 30 years in total.

Highway 407 has increased the traffic levels on the eastern section of Highway 407 ETR.

The Company continues to perform the contract work associated with Phase 2b and maintains a $9.0 million segregated funds account which will be released upon full completion of Phase 2.

First Quarter 2019 Results of Operations

Revenues



Revenues (In $ Millions)	Q1 2019	Q1 2018
Tolls	287.2	267.4
Fees	21.9	21.1
Contract	-	-
Total Revenues	309.1	288.5

The Company's revenues are generated from toll charges for trips on Highway 407 ETR 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, enforcement fees for past due amounts sent to the Ontario Registrar of Motor Vehicles (the "Registrar") to refuse to renew or issue vehicle permits until outstanding amounts are paid or settled ("Licence Plate Denial") and service fees related to tolling, billing and back-office services. Account fees are driven by the number of non-transponder customers that travel on Highway 407 ETR 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 roadside tolling technology and back-office systems work performed under the Tolling Services Contract.

Toll Revenues

Toll revenues amounted to $287.2 million in the first quarter of 2019, an increase of $19.8 million or 7.4%, compared to $267.4 million for the same period in 2018. The increase in toll revenues was primarily attributable to a toll rate increase effective February 1, 2019.

Fee Revenues

Fee revenues amounted to $21.9 million in the first quarter of 2019, an increase of $0.8 million or 3.8% when compared to $21.1 million for the same period in 2018, primarily due to an increase in the annual transponder lease fee rate, coupled with higher volumes of transponders in circulation and higher net interest fee revenue.

Contract Revenues

Contract revenues were nil in both the first quarter of 2019 and in the first quarter of 2018. Due to the timing of contract work agreed with the Province, all contract work relating to the construction of tolling equipment for Phase 2b of Highway 407 was completed in the fourth quarter of 2018 and installation of tolling equipment will commence during the later half of 2019.

Outlook

Management anticipates higher revenues in 2019 compared to 2018 primarily due to the new toll rate structure that took effect on February 1, 2019 and higher traffic volumes.

Toll Rates

Toll rates were revised effective February 1, 2019 and are detailed in the following table:

TOLL RATE PER KM	2019 [1] (in $CAD)					
	Light Vehicle (LV)		Heavy Single Unit Vehicle (HSU)		Heavy Multiple Unit Vehicle (HMU)	
	EASTBOUND	WESTBOUND	EASTBOUND	WESTBOUND	EASTBOUND	WESTBOUND
Zone 1 [2] (AM Peak Periods) [3]	0.4208	0.3968	0.8416	0.7936	1.2624	1.1904
Zone 2 [2] (AM Peak Periods) [3]	0.4471	0.4118	0.8942	0.8236	1.3413	1.2354
Zone 3 [2] (AM Peak Periods) [3]	0.4392	0.4313	0.8784	0.8626	1.3176	1.2939
Zone 4 [2] (AM Peak Periods) [3]	0.3893	0.4313	0.7786	0.8626	1.1679	1.2939
Zone 1 [2] (PM Peak Periods) [4]	0.4078	0.4808	0.8156	0.9616	1.2234	1.4424
Zone 2 [2] (PM Peak Periods) [4]	0.4535	0.4681	0.9070	0.9362	1.3605	1.4043
Zone 3 [2] (PM Peak Periods) [4]	0.4807	0.4723	0.9614	0.9446	1.4421	1.4169
Zone 4 [2] (PM Peak Periods) [4]	0.4501	0.4039	0.9002	0.8078	1.3503	1.2117
Zone 1 [2] (AM Peak Hours) [5]	0.5105	0.4513	1.0210	0.9026	1.5315	1.3539
Zone 2 [2] (AM Peak Hours) [5]	0.5226	0.4712	1.0452	0.9424	1.5678	1.4136
Zone 3 [2] (AM Peak Hours) [5]	0.5225	0.5040	1.0450	1.0080	1.5675	1.5120
Zone 4 [2] (AM Peak Hours) [5]	0.4429	0.5086	0.8858	1.0172	1.3287	1.5258
Zone 1 [2] (PM Peak Hours) [6]	0.4639	0.5661	0.9278	1.1322	1.3917	1.6983
Zone 2 [2] (PM Peak Hours) [6]	0.5463	0.5134	1.0926	1.0268	1.6389	1.5402
Zone 3 [2] (PM Peak Hours) [6]	0.5763	0.5462	1.1526	1.0924	1.7289	1.6386
Zone 4 [2] (PM Peak Hours) [6]	0.5415	0.4589	1.0830	0.9178	1.6245	1.3767
Zone 1 [2] Midday -Weekdays [7]	0.3618	0.3618	0.7236	0.7236	1.0854	1.0854
Zone 2 [2] Midday -Weekdays [7]	0.3719	0.3618	0.7438	0.7236	1.1157	1.0854
Zone 3 [2] Midday -Weekdays [7]	0.3787	0.3719	0.7574	0.7438	1.1361	1.1157
Zone 4 [2] Midday -Weekdays [7]	0.3618	0.3618	0.7236	0.7236	1.0854	1.0854
Midday - Weekends & Holidays [8]	0.3330		0.6660		0.9990	
Off Peak Period [9]	0.2432		0.4864		0.7296	
Camera charge per trip	4.20		50.00		50.00	
Trip toll charge per trip	1.00		2.00		3.00	
Flat Toll Charge (up to) (Peak Period and Peak Hours) [3 to 6]	6.00		19.85		36.95	
Flat Toll Charge (up to) (All other times of the day) [7 to 9]	4.00		12.80		23.85	

Note 1: Toll rates are effective from February 1, 2019.
Note 2: Effective February 1, 2019, Zone 1 means the area of the Highway between QEW to Highway 401. Zone 2 means the area of the highway between Highway 401 to Highway 427. Zone 3 means the area of the highway between Highway 427 to Highway 404. Zone 4 means the area of the highway between Highway 404 to Brock Road.
Note 3: AM Peak Period means weekdays between 6am-7am, 9.30am-10.30am.
Note 4: PM Peak Period means weekdays between 2:30pm-3.30pm, 6pm-7pm.
Note 5: AM Peak Hours means weekdays between 7am-9.30am.
Note 6: PM Peak Hours means weekdays between 3.30pm-6pm.
Note 7: Midday - Weekdays means between 10.30am-2:30pm.
Note 8: Midday - Weekends/Holidays means between 11am-7pm.
Note 9: Off-Peak Period means weekdays between 7pm-6am, weekends and holidays between 7pm-11am.

For further details on the Company’s toll rates, please visit www.407etr.com.

Effective February 1, 2019, the Company implemented a new toll structure to address customer travel patterns and to manage overall traffic flow along Highway 407 ETR, while optimizing its revenues. It is possible that traffic volumes in certain zones of Highway 407 ETR may be lower than the prescribed thresholds under the Concession Agreement, which could lead to a congestion payment to the Province. The Company monitors the traffic thresholds along Highway 407 ETR in an effort to mitigate such payments. Toll revenue is influenced by the mix of customers on Highway 407 ETR, which includes video and transponder customers, the type of vehicle, time, direction and zone of travel, distance travelled per trip, trip toll charge and toll rates.

On February 1, 2019, toll rates for light vehicles, heavy single unit vehicles ("HSU") and heavy multiple unit vehicles ("HMU") increased by a weighted average of 9.0%. Camera charge for light vehicles increased by 1.2%, with no change to trip toll charge when compared to the 2018 pricing structure.

Calculated Tolls

The Company continues to charge a calculated toll, in addition to the trip toll charge, for trips taken on Highway 407 ETR where either the entry or exit point of a vehicle is not recorded by the Company's tolling systems:

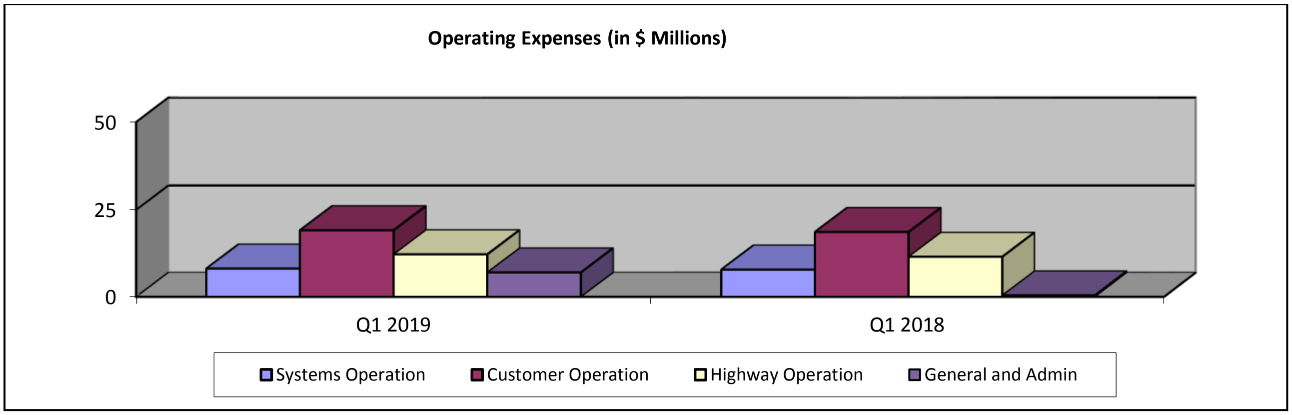
- For any vehicle (light or heavy) with a transponder for which there is a sufficient transponder trip history, a transponder vehicle median trip (referred to as a calculated trip) is charged using the median distance of the trips taken with the transponder in the preceding 72 days.
- For all light vehicles 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 if 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 details the flat toll charge for light and heavy vehicles:

	2019 (1)	2018 (1)	2019 and 2018 (1)	
	Light Vehicle (2)		HSU	HMU
Flat toll charge (up to) (Peak Period/Hours) (3)	6.00	5.50	19.85	36.95
Flat toll charge (up to) (All Other Periods) (4)	4.00	3.75	12.80	23.85

(1) Flat toll charge effective since February 1, 2019 and February 1, 2018.
(2) Applicable to light vehicles without a transponder.
(3) In 2019: AM Peak Period means weekdays between 6am-7am, 9.30am-10.30am; PM Peak Period means weekdays between 2:30pm-3.30pm, 6pm-7pm.
AM Peak Hours means weekdays between 7am - 9.30am; PM Peak Hours weekdays between 3.30pm - 6pm.
In 2018: AM Peak Period means weekdays between 6am-7am, 9am-10am; PM Peak Period means weekdays between 2:30pm-3.30pm, 6pm-7pm.
AM Peak Hours means weekdays between 7am - 9am; PM Peak Hours weekdays between 3.30pm - 6pm.
(4) In 2019: All Other Periods mean midday-weekdays between 10.30am-2:30pm; midday-weekends/holidays between 11am-7pm.
Off-Peak Period means weekdays between 7pm-6am, weekends and holidays between 7pm-11am.
2018: All Other Periods mean midday-weekdays between 10am-2:30pm; midday-weekends/holidays between 11am-7pm.
Off-Peak Period means weekdays between 7pm-6am, weekends and holidays between 7pm-11am.

Operating Expenses



Operating Expenses (recovery) (in $Millions)	Q1 2019	% of revenues	Q1 2018	% of revenues
Systems Operations	8.1	2.6%	7.8	2.7%
Customer Operations	19.1	6.2%	18.6	6.4%
Highway Operations	12.2	3.9%	11.5	4.0%
General and Administration	7.0	2.3%	(0.4)	(0.1%)
Contract	-	0.0%	-	0.0%
Total	46.4	15.0%	37.5	13.0%

Systems Operations

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

Systems operations expenses for the first quarter of 2019 amounted to $8.1 million, an increase of $0.3 million when compared to $7.8 million for the same period in 2018, mainly due to higher staffing cost, coupled with higher tolling equipment maintenance costs.

Outlook

Systems operations expenses for 2019 are expected to be higher than 2018 expenses mainly due to new licenses and support for infrastructure, security enhancements and data storage costs.

Customer Operations

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 and the provision for doubtful accounts.

Customer operations expenses for the first quarter of 2019 amounted to $19.1 million, an increase of $0.5 million when compared to $18.6 million for the same period in 2018. The increase was mainly due to higher collection costs, higher billing costs and higher bank charges driven by higher revenues and payments.

During the first quarter of 2019, the Company's call centre received 135 thousand telephone calls compared to 142 thousand calls received in the same period in 2018. The average wait time required for a customer to speak with a customer service representative was 36 seconds when compared to the average wait time of 18 seconds in the first quarter of 2018. 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 for the first quarter of 2019 was 77%. The slight decline in service levels was mainly due to lower customer service representative availability resulting from additional customer service training initiatives completed in the first quarter of 2019.

The Company's customer service approach is focused on enhancing customer satisfaction. Customers continue to have the ability to access various self-service options through the Company's interactive voice recognition system and website, through which customers can 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 Highway 407 ETR, as well as to educate drivers about environmentally and customer-friendly options, such as paperless billing, annual transponder leases and pre-authorized payment services. The Company continues to see growth in customers registering for paperless billing, pre-authorization and other services on the 407 ETR website, which benefit customers and also result in lower costs for the Company.

Outlook

Customer operations costs for 2019 are expected to be higher than 2018 due to a higher provision for doubtful accounts and higher bank charges due to higher revenues coupled with higher billing and collection costs.

Highway Operations

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

Highway operations expenses amounted to $12.2 million in the first quarter of 2019, an increase of $0.7 million when compared to $11.5 million for the same period in 2018 mainly due to higher winter maintenance costs due to unfavourable weather conditions.

Highway maintenance cost per lane kilometre in the first quarter of 2019 amounted to $10,000 and was higher compared to $9,600 in the first quarter of 2018 mainly due to the reasons mentioned above.

Outlook

Management anticipates highway operations expenses in 2019 to be higher than 2018 mainly due to higher winter maintenance costs coupled with higher policing and enforcement costs .

General and Administration

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

General and administration expenses amounted to $7.0 million in the first quarter of 2019, an increase of $7.4 million when compared to a recovery of $0.4 million in the first quarter of 2018, mainly due to a one-time recovery in 2018 of certain indirect taxes relating to prior years coupled with higher operations facility costs and higher staffing costs.

Outlook

General and administration expenses for 2019 are expected to be higher than 2018 primarily due to a one-time favourable adjustment in 2018 related to indirect taxes for prior years.

Contract

The Company's contract expenses relate to costs incurred for work performed in completing its contract obligations under the Tolling Services Contract.

Contract expenses were nil in both the first quarter of 2019 and in the first quarter of 2018. Contract costs relating to the installation of tolling equipment for Phase 2b will be incurred in the second half of 2019.

Outlook

Contract expenses in 2019 are expected to be in line with 2018.

Depreciation and Amortization

Depreciation and amortization expenses amounted to $25.9 million in the first quarter of 2019 and were comparable to $25.7 million in the first quarter of 2018.

Outlook

Management expects overall depreciation and amortization expenses in 2019 to be in line with 2018.

Interest and Other Expenses

(In $ Millions)	Q1 2019	Q1 2018
Interest expense	$ 108.3	$ 92.5
Non-cash inflation component of:		
Interest expense (recovery), RRBs	(5.3)	6.7
Interest expense(recovery), Senior Bond, Series 04-A2	(4.1)	0.7
Fair value adjustment, Senior Bond, Series 04-A2	14.2	(1.3)
Capitalized interest	(0.1)	(0.3)
Total Interest Expense on long-term debt	113.0	98.3
Interest income on financial assets designated as FVTPL	(6.1)	(4.9)
Other expense	0.3	0.3
Reclassification of gains and losses on cash flow hedges	(0.2)	(0.2)
	$ 107.0	$ 93.5

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

Interest and other expenses amounted to $107.0 million in the first quarter of 2019 compared to $93.5 million in the same period in 2018. Interest expense on long-term debt increased to $113.0 million in the first quarter of 2019 compared to $98.3 million in the first quarter of 2018, primarily due to the increase in interest expense on senior bonds by $15.8 million resulting from the early redemption premium on Senior Bonds, Series 10-A2 redeemed on April 3, 2019, interest expense on Senior Bonds, Series 18-A1 issued on May 9, 2018, interest expense on $300.0 million of Senior Bonds, Series 19-A1 issued on March 6, 2019 and interest expense on $500.0 million of Senior Bonds, Series 19-A2, issued on March 6, 2019. The higher net interest expense on long-term debt of $15.8 million was offset by the lower interest expense on the Bilateral Credit Facilities (as defined below) due to the repayment of the outstanding balance of these facilities, partially offset by upfront fees paid on the Syndicated Credit Facility established in the first quarter of 2019. The non-cash fair value adjustment to Senior Bonds, Series 04-A2 was unfavourable by $15.5 million as during the first quarter of 2019, the non-cash fair value adjustment expense on Senior Bonds, Series 04-A2 was $14.2 million due to an increase in the Break-Even Inflation Rate (the "BEIR") coupled with a decrease in the nominal discount rate. The non-cash inflation compensation component of the RRBs was favourable by $12.0 million and the non-cash accretion on Senior Bonds, Series 04-A2 was favourable by $4.8 million due to a decrease in the CPI level. Interest income from cash balances and investments was higher by $1.2 million primarily due to higher interest yields on investments.

Outlook

With the exception of the non-cash inflation compensation 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 2019 to be higher than 2018, primarily due to the full-year impact of bonds issued in 2018 and additional interest on bonds issued in 2019.

Income Taxes

Income Tax Expense (in $ Millions)	Q1-2019	Q1-2018
Current income tax expense	32.8	32.6
Deferred income tax expense	1.6	2.3
Total income tax expense	34.4	34.9

The combined current and deferred annual effective tax rate was 26.5% in the first quarter of 2019, consistent with the annual effective tax rate of 26.5% in the first quarter of 2018.

Current income tax expense amounted to $32.8 million in the first quarter of 2019 was comparable to the $32.6 million for the same period in 2018. Deferred income tax expense was $1.6 million in the first quarter of 2019 when compared to $2.3 million for the same period in 2018.

Outlook

With the exception of the non-cash inflation compensation 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 2019 to be higher than 2018 primarily due to a higher income before tax.

Liquidity and Capital Resources

Cash Flow

Cash Flows for the three-month period ended March 31 (In $ Millions)	2019	2018
Cash from operating activities	141.0	62.9
Cash used in investing activities	(380.3)	(51.5)
Cash generated (used in) financing activities	541.3	(229.9)
Increase (decrease) in cash	302.0	(218.5)
Cash beginning of period (1)	308.1	763.1
Cash end of period (1)	610.1	544.6
(1) includes cash equivalents		

Cash and cash equivalents at March 31, 2019 was $610.1 million, an increase of $302.0 million from December 31, 2018. The cash and cash equivalents amount includes a $10.0 million reserve required by the Master Trust 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) (the "Indenture").

The cash increase of $302.0 million during the first quarter of 2019 was mainly due to proceeds from long-term debt of $859.2 million, cash generated from operating activities of $141.0 million and a decrease in non-trade receivables of $2.8 million. These cash inflows were offset by an increase in restricted cash and investments of $367.8 million, dividends paid to shareholders of $250.0 million, repayment of long-term debt of $62.8 million, payments for additions to property, plant and equipment of $14.4 million, payments of debt issue costs of $4.0 million, payments of lease obligations of $1.1 million and an advance to a supplier of $0.9 million.

Cash generated from operating activities was $141.0 million in the first quarter of 2019 compared with $62.9 million in first quarter of 2018. The increase in cash generated from operating activities of $78.1 million was mainly due to lower payments for income taxes of $53.8 million primarily due to the timing of prior year income tax payments, higher cash receipts of $20.8 million resulting primarily from higher toll revenues, lower payments for operating expense of $1.2 million due to timing of payments, higher interest income received of $1.2 million due to higher interest yields earned on cash and investments and lower interest expense payments of $1.1 million primarily due to the lower interest payments on the Credit Facilities (as defined below).

Cash used in investing activities was $380.3 million in the first quarter of 2019 compared with $51.5 million in the same period in 2018. Included in investing activities are changes in the restricted cash and investments required to be maintained by the Indenture. The increase in restricted cash and investments of $367.8 million was due to the establishment of a refunding bond fund of $283.0 million to refinance, in part, the Senior Bonds, Series 10-A2 on April 3, 2019, contributions to the debt service fund of $111.6 million, the establishment of a debt service reserve fund for Senior Bonds, Series 19-A1 of $15.5 million, the establishment of a debt service reserve fund for Senior Bonds, Series 19-A2 of $27.6 million and interest received from restricted cash and investments of $4.2 million. These increases to restricted cash were offset by the partial repayment of Senior Bonds, Series 99-A3 of $2.8 million, coupon payments of $67.9 million and transfers to the general fund of $3.4 million. The increase in restricted cash and investments of $20.8 million in the previous year was due to the contributions to the debt service fund of $93.3 million and interest received from restricted cash and investments of $2.8 million. These increases to restricted cash were offset by the partial repayment of Senior Bonds, Series 99-A3 of $2.6 million, coupon payments of $67.7 million and transfers to the general fund of $5.0 million. Included in investing activities are investments in the widening of certain segments and replacement of certain components of the Highway 407 ETR, enhancements and replacements of toll equipment, operations centre expansion, continuing development and enhancement of the information systems, and purchasing of new transponders. Purchases of property, plant and equipment and intangible assets were $14.4 million in the first quarter of 2019 compared to $29.2 million in the first quarter of 2018, a decrease of $14.8 million primarily due to payments for construction of maintenance yard facilities in the previous year. Non-trade receivables and other decreased by $2.8 million in the first quarter of 2019 compared to an increase of $0.4 million in the first quarter of 2018. Advance payment to a supplier in the first quarter of 2019 was $0.9 million compared to $1.1 million in the first quarter of 2018.

Cash generated from financing activities was $541.3 million in the first quarter of 2019 compared with cash used in financing activites of $229.9 million for the first quarter of 2018. Proceeds from the issuance of long-term debt in the first quarter of 2019 amounted to $859.2 million, representing the issuance of Senior Bonds, Series 19-A1 of $299.8 million on March 6, 2019 to refinance Senior Bonds, Series 10-A2 on April 3, 2019, the issuance of Senior Bonds, Series 19-A2 of $499.4 million on March 6, 2019 and a draw-down on the Syndicated Credit Facility of $60.0 million, compared to $nil in the first quarter of 2018. Repayments of long-term debt amounted to $62.8 million during the first quarter of 2019, representing repayment of draws under the Syndicated Credit Facility of $60.0 million and the partial repayment of Senior Bonds, Series 99-A3 of $2.8 million compared to the partial repayment of Senior Bonds, Series 99-A3 of $2.6 million during the first quarter of 2018. Dividend payments to shareholders amounted to $250.0 million in the first quarter of 2019 compared to dividend payments of $226.3 million in the first quarter of 2018. Payments for debt issue costs in the first quarter of 2019 were $4.0 million compared with debt issue costs of $nil for the same period in 2018. Payments for lease obligations amounted to $1.1 million in first quarter of 2019 compared to $1.0 million for the same period in 2018.

The supplemental indenture for RRBs Series 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 March 31, 2019 and December 31, 2018, 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 March 31, 2019 and December 31, 2018, the Company is in compliance with the terms of the Indenture.

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.

Quarterly Financial Information

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

	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Revenues	309.1	356.6	382.7	362.5	288.5	327.3	348.7	331.0
Operating expenses	46.4	54.0	44.6	43.6	37.5	43.0	40.9	39.8
Depreciation and amortization	25.9	27.0	27.8	26.8	25.7	27.1	27.8	26.5
Interest and other expenses	107.0	63.6	96.8	116.4	93.5	101.1	85.7	94.4
Income tax expenses	34.4	56.1	56.5	46.5	34.9	41.2	51.1	45.7
Net income	95.4	155.9	157.0	129.2	96.9	114.9	143.2	124.6
Net income per share (basic and diluted)	0.123	0.201	0.203	0.167	0.125	0.148	0.185	0.161

* Figures for periods prior to Q1 2018 and Q1 2019 have not been adjusted for adoption of IFRS 9, 15 and 16, respectively as the Company has adopted these standards on a retrospective and modified retrospective basis, respectively, without restating comparative periods

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 and other 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. Contract revenues may fluctuate depending on the amount of contract work awarded, completed and accepted by the customer. 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 $143.2 million in the third quarter of 2017 was $18.6 million higher than the second quarter of 2017, mainly due to seasonally higher revenues and lower interest and other expenses due to a decrease in inflation resulting in a recovery of inflation compensation of RRBs and Senior Bonds Series 04-A2, offset by higher interest expense on Senior Bonds Series 17-A2 and Subordinated Bonds Series 17-D1, which were issued on September 8, 2017, and higher fair value adjustment on Senior Bonds Series 04-A2 due to unfavourable market conditions. These increases were offset by higher income tax expense due to higher earnings before tax, higher operating expenses and higher depreciation expense. Net income of $114.9 million in the fourth quarter of 2017 was $28.3 million lower than the third quarter of 2017, mainly due to seasonally lower revenues, higher interest and other expenses due to the full year impact of interest expense on the issuance of Senior Bonds, Series 16-A1 on May 19, 2016, coupled with interest expense on the issuances of Senior Bonds, Series 17-A1 on March 24, 2017 and Senior Bonds, Series 17-A2 on September 8, 2017 and higher operating expenses, offset by lower income tax expense and lower depreciation expense. Net income of $96.9 million in the first quarter of 2018 was $18.0 million lower than the fourth quarter of 2017, mainly due to seasonally lower revenues, offset by lower interest and other expenses due to a decrease in the fair value of Senior Bonds, Series 04-A2, coupled with lower interest expense on refinancing of Subordinated Bonds, Series 10-D1 with Subordinated Bonds, Series 17-D1 at a lower interest rate, lower income tax expense due to lower earnings before tax and lower operating expenses due to a one-time recovery of indirect taxes relating to prior years. Net income of $129.2 million in the second quarter of 2018 was $32.3

million higher than the first quarter of 2018, mainly due to seasonally higher revenues offset by higher interest and other expenses due to an increase in the non-cash inflation compensation component of the RRBs and non-cash accretion of Senior Bonds, Series 04-A2 due to an increase in the CPI and unfavourable non-cash fair value adjustment of Senior Bonds, Series 04-A2, offset by partial repayment of Senior Bonds, Series 99-A3, Senior Bonds, Series 00-A2 and reduction in the non-cash carrying amounts of the RRBs resulting from the adoption of IFRS 9 effective January 1, 2018, higher income tax expense due to higher earnings before tax and higher operating and depreciation expenses. Net income of $157.0 million in the third quarter of 2018, was $27.8 million higher than the second quarter of 2018, mainly due to seasonally higher revenues and lower interest and other expenses due to a favourable non-cash fair value adjustment of Senior Bonds, Series 04-A2, a decrease in the non-cash inflation compensation component of the RRBs and non-cash accretion of Senior Bonds, Series 04-A2, offset by higher interest expense on Senior Bonds, Series 18-A1. This was offset by higher income tax expense due to higher earnings before tax, higher depreciation expense and higher operating expenses. Net income of $155.9 million in the fourth quarter of 2018 was $1.1 million lower than the third quarter of 2018, mainly due to seasonally lower revenues and higher operating expenses, offset by lower interest and other expenses due to a favourable non-cash fair value adjustment on Senior Bonds, Series 04-A2, coupled with a favourable non-cash inflation compensation component of the RRBs and non-cash accretion of Senior Bonds, Series 04-A2 due to a decrease in CPI, lower depreciation expense and income tax expense.

The Company recorded net income of $95.4 million in the first quarter of 2019, $60.5 million lower than in the fourth quarter of 2018, mainly due to seasonally lower revenues, higher interest and other expenses due to the redemption premium of $10.0 million relating to Senior Bonds, Series 10-A2 and an unfavourable non-cash fair value adjustment on Senior Bonds, Series 04-A2, offset by a favourable non-cash inflation compensation component of the RRBs and non-cash accretion of Senior Bonds, Series 04-A2 due to a decrease in CPI, offset by lower income tax expense and lower operating expenses.

Earnings Coverage

Earnings Coverage (in $ Millions)	**Twelve month period ended March 31**	
	2019	**2018**
Income before income tax expenses and interest expense on long-term debt	1,137.1	1,043.5
Interest expense on long-term debt	406.1	391.0
Earnings coverage	**731.0**	**652.5**

The Company experienced earnings coverage ratios of 2.80 times and 2.67 times for the twelve month periods ended March 31, 2019 and 2018, 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. The earnings coverage ratio is different from the Company's debt service coverage ratio as such is defined in the Indenture. See "Non-IFRS Financial Measures".

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 $610.1 million as of March 31, 2019 consist of cash, guaranteed investment certificates, 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 Indenture and various supplemental indentures for the benefit of the bondholders and a segregated funds account under an agreement between Cantoll and the Province to implement and maintain the roadside tolling technology and back-office systems relating to the Tolling Services Contract. 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 Highway 407 ETR from the Province and to finance the construction of Highway 407 ETR extensions, widening projects, deferred interchanges, operating and capital expenditures, interest to bondholders and other general corporate purposes.

Credit Facilities

The Company has existing bi-lateral credit agreements with respect to three revolving credit facilities with Canadian chartered banks aggregating to an amount available to be drawn of $300.0 million (the "Bilateral Credit Facilities").

In February 2019, the Company entered into a separate credit agreement with respect to a syndicated revolving credit facility with four Canadian chartered banks in the principal amount of up to $500.0 million (the "Syndicated Credit Facility" and together with the Bilateral Credit Facilities, the "Credit Facilities"). The Syndicated Credit Facility will be used to refinance existing debt, fund future operating and capital expenditures, interest and tax payments and for general corporate purposes. The obligations under the Syndicated Credit Facility 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 $600.0 million, resulting in the indebtedness arising from the Syndicated Credit Facility being secured under the Indenture.

The Syndicated Credit Facility bears 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 on the Syndicated Credit Facility and is also obligated to pay a commitment fee to the banks, calculated on the undrawn portion of the Syndicated Credit Facility.

The Company may draw on the Syndicated Credit Facility until the maturity date. The maturity date is February 11, 2024. The Company may also repay a portion or all of the obligations owing under the Syndicated Credit Facility at any time during the term.

As at March 31, 2019, the Company has drawn nil under the Credit Facilities.

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 CPI at the time of payment divided by the applicable CPI at time of issue.

Accounting and Control Matters

Accounting Policies

The 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 Financial Statements.

The following amendments have been adopted on January 1, 2019:

IFRS 16 *Leases* ("IFRS 16"): This standard replaced IAS 17 Leases ("IAS 17") and IFRIC 4 Determining whether an arrangement contains a lease. IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. Applying IFRS 16, for all leases (except as noted below), the Company:

a) Recognizes right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;

b) Recognizes depreciation of right-of-use assets and interest expense on lease liabilities in the consolidated statements of income and comprehensive income;

c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Company has elected to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

The Company reviewed its lease portfolio and adopted IFRS 16 on January 1, 2019 and has reassessed whether a contract is or contains a lease, therefore, the Company did not apply the practical expedient. Accordingly, the Company has applied the definition of a lease in IFRS 16 to all contracts outstanding at the date of transition using the cumulative catch-up method by recognizing a right-of-use asset at a value equal to the lease liability.

The adoption of IFRS 16 has resulted in an increase in the Company's property, plant and equipment and an increase in lease obligations by $0.6 million at January 1, 2019. Under the cumulative catch-up method, the comparative period has not been restated.

IFRIC 23 *Uncertainty over income tax treatments ("IFRIC 23"):* This standard clarifies how to apply the recognition and measurement requirements of IAS 12 Income Taxes for taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates to determine current or deferred tax asset or liability when there is uncertainty over income tax treatments. The Company adopted IFRIC 23 on January 1, 2019. There was no material impact to the Financial Statements as a result of adopting this standard.

Critical Accounting Estimates

The preparation of the 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 Financial Statements, the reported amounts of revenues and expenses of the reporting period, as well as disclosures made in the notes accompanying the Financial Statements. Judgement is commonly used in determining whether a balance or transaction should be recognized in the 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. 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.

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 population growth, 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.

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 Highway 407 ETR 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 overruns, 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 Highway 407 ETR and its tolling system to avoid unexpected significant repairs.

Information Technology

The Company's operations for Highway 407 ETR and Highway 407 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 Company continues to monitor and enhance the core system capabilities to mitigate risk. The integrity, reliability, availability and confidentiality of information and supporting systems is critical to the Company's daily and strategic operations. Cyber security continues to be a focus with ongoing threat monitoring and improvements in areas of data security and network security given that cyber attacks and breaches could result in corruption of the Company's data, compromised confidential customer or employee information, damage to information technology infrastructure leading to disruption of services and lost revenues, loss of sensitive corporate information due to unauthorized access, and reputational damage. To address these risks, the Company's corporate security group is accountable for the planning, execution and governance of the framework-based security program. The Company uses an iterative risk-based approach to manage information technology and cyber security threats, addressing identified gaps in a prioritized and systematic manner within the security framework. The Company ensures it has adequate controls and procedures to detect, identify and address cyber security events, including security incident response, business continuity and data recovery plans. Execution of the security program relies on internal expertise, strong partnerships, industry leading security technologies, and consultation with third-party experts on cyber security strategies and remediation plans. The Company also promotes awareness of data security at the employee level, recognizing that employee vigilance is a contributing factor to mitigating this risk.

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 payments 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 depends 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 operating and capital expenditures.

Climate Change Risk

407 ETR strives to avoid significant adverse effects from its activities on individuals, communities and the natural environment within which Highway 407 ETR is located or, where this is not possible, to minimize such effects. To ensure regulatory compliance, 407 ETR stays abreast of new and evolving environmental laws and regulations and incorporates relevant changes into its Environmental Management Plan ("EMP"). Periodically, with the assistance of an external advisor, 407 ETR conducts a review of the EMP, including a review of environmental laws and regulations relevant to 407 ETR.

In addition, 407 ETR recognizes the effects of the increased frequency and potential impacts of extreme weather events due to climate change, such as heavy rainfall resulting in flooding and more extreme winter conditions. These effects may lead to more frequent or extensive damage to infrastructure or roadside tolling equipment, localized disruption to highway operations and traffic levels. Increasingly severe weather events could lead to additional costs, including those for managing response times, maintaining service levels, and addressing actual or potential impacts to infrastructure or equipment. 407 ETR follows a preventative maintenance plan that takes into account the effects of climate change in the design, rehabilitation and construction of highway infrastructure and roadside tolling equipment. 407 ETR will continue to assess and mitigate the impact of climate change on its longer-term operations and will adjust its preventative maintenance, infrastructure, rehabilitation and construction plans accordingly.

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 assets, 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 ongoing 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 March 31, 2019	As at December 31, 2018
Unbilled	$ 92.8	$ 77.8
0-60 days	64.4	90.7
61-90 days	10.6	10.1
91-120 days	8.3	7.1
121-150 days	8.1	8.6
151+ days	21.0	28.5
Sub total [1]	205.2	222.8
Other [2]	29.7	19.1
	$ 234.9	$ 241.9

1. Amounts are net of allowance for doubtful accounts and certain amounts that are billed to cutomers,but excluded from revenues in accordance with the revenue recognition policy for toll and fee revenues and includes contract receivable invoiced to customer, upon reaching contract milestones.
2. Other consists of salt inventory, prepaids, income tax paid, 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 Highway 407 ETR. 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 Registrar through refusing to issue or renew vehicle licence plate permits until outstanding amounts are paid or settled (“Licence Plate Denial”) as well as Management’s expectation of success rates for collection through collection agencies and legal proceedings. When a licence plate associated with a customer’s unpaid 407 ETR account becomes unattached from the vehicle or expired, the Registrar is required to refuse to renew another single vehicle permit issued to the same customer or issue a vehicle permit to that customer. The legislation affording 407 ETR the right to Licence Plate Denial requires that a series of notices 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, results in the successful collection of net trade receivables that are more than 151 days past due. The provision for doubtful accounts could materially change and may result in significant changes to trade 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 (“MTO”), as well as collections through collection agencies and 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, employ internal collections staff and take legal action where necessary. In conducting collections litigation, 407 ETR may from time to time receive judicial decisions that impact its 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 $3.1 million (2018 - $2.9 million) and decreased equity by approximately $2.3 million (2018 - $2.1 million) for the three-month period ended March 31, 2019.

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 March 31, 2019, all long-term debt is fixed rate debt (except for 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 $0.7 million (2018 - $0.8 million) and net income by approximately $0.5 million (2018 - $0.6 million) for the three month period ended March 31, 2019.

Inflation risk

The Company is exposed to inflation risk as interest expense and debt service payments relating to the RRBs and Senior Bonds Series 04-A2 are linked to the CPI. An increase of 50 basis points in the CPI would have increased interest expense by approximately $8.6 million (2018 - $8.6 million), decreased net income by approximately $6.3 million (2018 - $6.3 million) and increased debt service payments by approximately $0.1 million (2018 - $0.1 million) for the three-month period ended March 31, 2019. 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 $5.5 million (2018 - $5.8 million) and decreased net income by approximately $4.0 million (2018 - $4.3 million) for the three-month period ended March 31, 2019. A decrease of 10 basis points in the BEIR would have reduced interest expense by approximately $5.4 million (2018 - $5.7 million) and increased net income by approximately $4.0 million (2018 - $4.2 million) for the three-month period ended March 31, 2019. 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. 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 Company's commitments, contractual maturities and related interest obligations as at March 31, 2019:

	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	$ 51.8	$ -	$ -	$ -	$ -	$ -
Contract liabilities	19.9	-	-	-	-	-
Lease obligations	4.0	3.3	2.5	0.7	0.1	-
Interest payments on lease obligations	0.5	0.3	0.1	-	0.1	-
Long-term debt	315.7	16.7	717.5	318.7	519.8	7,661.2
Derivative financial liability	7.1	7.1	7.1	7.1	7.1	109.9
Interest payments on long-term debt	399.5	383.9	374.0	344.7	339.8	5,118.6
	$ 798.5	$ 411.3	$ 1,101.2	$ 671.2	$ 866.9	$ 12,889.7

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

Additional Information

Related Party Transactions

The Company entered into the following transactions with related parties:

($ millions) Related Party	Relationship	Classification in the Financial Statements	Nature of transaction with the related party	Three-month period ended March 31 2019		2018	
Cintra	Parent of shareholder	Operating expenses	Payment for administration costs	$	0.2	$	0.2
SNC-Lavalin Inc.	Parent of shareholder	Property, plant and equipment	Payment for design costs	$	0.1	$	0.1
Blackbird Infrastructure Group	Subsidiary of some parents	Operating expenses	Reimbursement of administration costs	$	(0.1)	$	(0.1)

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 March 31, 2019		December 31, 2018	
Cintra Servicios de Infraestructuras S.A.	Subsidiary of shareholder	Trade and other payables	$	0.6	$	0.5
Cintra Servicios de Infraestructuras S.A.	Subsidiary of shareholder	Trade and other receivables	$	(0.1)	$	-
Blackbird Infrastructure Group	Subsidiary of some parents	Trade and other receivables	$	(0.2)	$	(0.2)

Overall Outlook

The outlook for 2019 is positive with revenue growth primarily due to higher toll rates, higher traffic volumes and additional revenues from the operations of Highway 407 and the Tolling Services Contract. 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 Highway 407 ETR's presence in the GTA. As a result, 2019 income before income tax expenses and interest expense is expected to be higher than in 2018.