

407 International Inc.

Management's Discussion and Analysis

March 31, 2020

407 ETR
Express Toll Route
FAST. SAFE. RELIABLE.

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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, 2020 (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, 2020 (the "Financial Statements") and the Consolidated Financial Statements of the Company and the notes thereto for the years ended December 31, 2019 and 2018 (the "2019 Annual Financial Statements") as well as the management's discussion and analysis for the year ended December 31, 2019. The Financial Statements were prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34") and the 2019 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 2019 Annual Information Form dated February 19, 2020 (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) and those relating to the novel coronavirus ("COVID-19") pandemic. 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 ("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 23, 2020, 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 and Hamilton 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, 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 on page 11), which begins at the eastern terminus of Highway 407 ETR and runs from Pickering to Oshawa. Future demand could also be affected by economic conditions such as shocks to the macroeconomic environment (changes in fuel prices, inflation, employment and general spending) including the measures taken in respect of the COVID-19 pandemic.

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.

Global Pandemic – Coronavirus (COVID-19) Update

In early 2020, COVID-19 was confirmed in multiple countries throughout the world and on March 11, 2020, the World Health Organization declared a pandemic. On March 17, 2020 the Province of Ontario (the "Province") declared a state of emergency, followed by the mandated closure of schools, public facilities and non-essential businesses. The pandemic and resulting economic contraction has had, and is expected to continue to have, a negative impact on the demand for highway travel in the GTA. Since mid-March of 2020, Highway 407 ETR has experienced significant declines in traffic volume as compared to the same period in 2019. The traffic reduction is having a significant negative impact on the Company's revenues and results of operations. Despite lower revenues, the Company maintains sufficient liquidity to satisfy all of its financial obligations during 2020. Despite this liquidity, if the pandemic continues for a prolonged period of time or the timing and pace of economic recovery and traffic levels is slower, the Company may not be able to satisfy certain financial covenants under its master trust indenture (the "Indenture") and credit agreements, which would restrict interest payments on subordinated debt and dividend payments to shareholders. The COVID-19 pandemic may also impact the cost of capital in the future as a result of disrupted credit markets or potential credit rating actions in relation to the Company's debt.

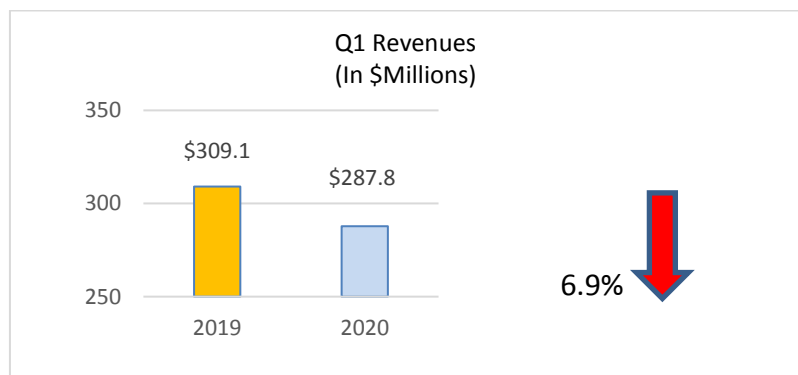
In response to the challenges presented by the COVID-19 pandemic, Management has scaled back non-essential business operations, including the closure of its call centre, and will continue to adapt its operations accordingly. Given the rapidly evolving situation, Management continues to analyze the extent of the financial impact of the COVID-19 pandemic, which could be material depending on the scope and duration of the pandemic. While the full duration and scope of the pandemic remain unknown, Management does not believe that the pandemic will have a long-term impact on the financial condition of the Company. In addition, the Company is also reviewing potential reductions to operating and capital expenditures.

First Quarter 2020 Financial Highlights

(In \$Millions, except per share amounts)

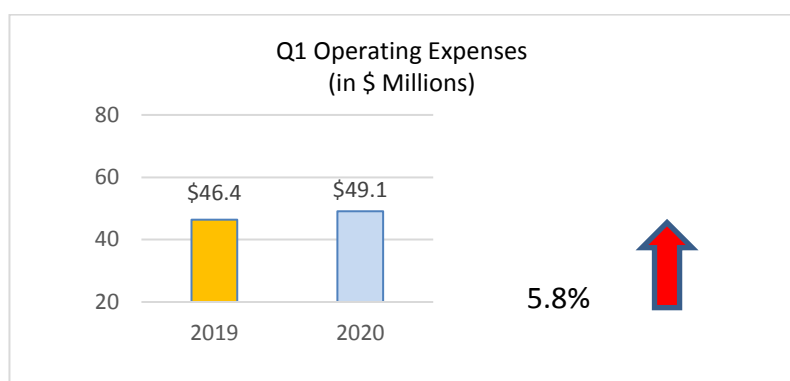
	Selected Financial Information	
	Q1 2020	Q1 2019
Revenues	287.8	309.1
Operating Expenses	49.1	46.4
EBITDA	238.7	262.7
Depreciation and Amortization	27.4	25.9
Interest and Other Expenses	55.6	107.0
Income Tax Expense	41.2	34.4
Net Income	114.5	95.4
Dividend paid	312.5	250.0
Dividend per share	0.403	0.323
	As at March 31, 2020	As at December 31, 2019
Total Current Assets	2,004.6	811.8
Total Non-current Assets	4,565.8	4,539.7
Total Current Liabilities	999.6	241.9
Total Non-current Liabilities	10,056.8	9,397.4

Revenues



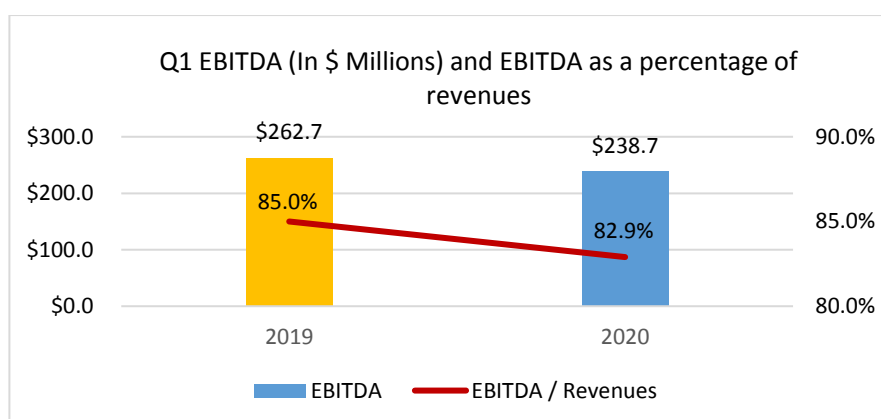
Total revenues for the first quarter of 2020 were lower when compared to the same period in 2019, primarily due to lower traffic volumes from mid-March 2020 due to the COVID-19 pandemic, offset by a toll rate increase. Traffic levels have since steadily declined as the Province mandated the closure of all non-essential businesses and companies across the Province, along with restricted public and in-person gatherings to combat the spread of COVID-19. Average revenue per trip (defined as total toll and fee revenues over total trips) in the first quarter increased by 7.6% when compared to the same period in 2019.

Operating Expenses



Total operating expenses for the first quarter of 2020 were higher when compared to the same period in 2019 due to higher system operations costs due to higher Enterprise Resource Planning (“ERP”) and security costs, higher customer operations costs due to higher provision for doubtful accounts, staffing costs and bank charges and higher general and administration expenses. The increase in expenses was offset by lower highway operations costs due to the reclassification of certain winter maintenance costs to depreciation expense coupled with lower salt usage due to favourable weather conditions.

EBITDA

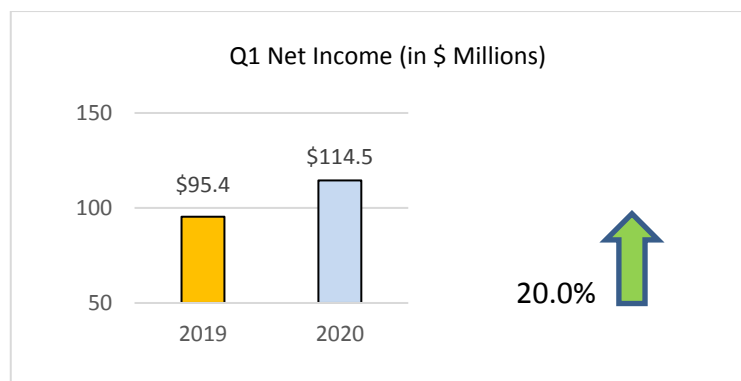


(in \$ Millions)	Q1 2020	Q1 2019
Net Income	114.5	95.4
Current income tax expense	33.8	32.8
Deferred income tax expense	7.4	1.6
Interest and other expenses	55.6	107.0
Depreciation and amortization	27.4	25.9
EBITDA	238.7	262.7

EBITDA decreased by \$24.0 million to \$238.7 million in the first quarter of 2020 when compared to \$262.7 million for the same period in 2019. The decrease in EBITDA was a result of lower revenues resulting from decreasing traffic levels due to the COVID-19 pandemic, coupled with higher operating expenses. EBITDA as a percentage of revenues was 82.9% in the first

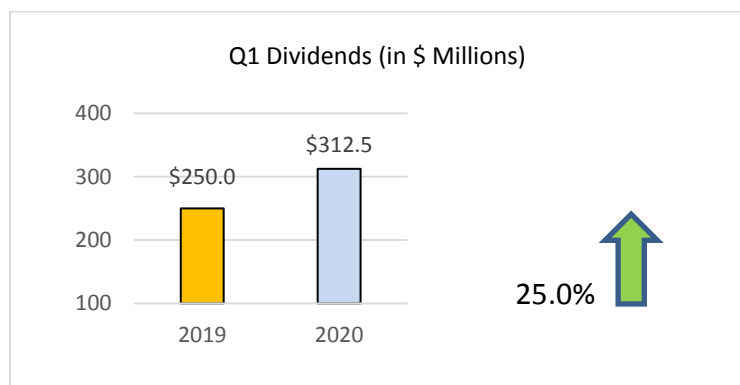
quarter of 2020 and was lower than 85.0% for the same period in 2019, for reasons mentioned above. See “Non-IFRS Financial Measures”.

Net Income



Net income in the first quarter of 2020 increased by \$19.1 million or 20.0% to \$114.5 million when compared to \$95.4 million for the same period in 2019 mainly due to lower non-cash inflation component of interest and other expenses, offset by higher income taxes and lower EBITDA.

Dividends



Dividends in the first quarter of 2020 amounted to \$312.5 million compared to \$250.0 million in the same period in 2019 and were paid to shareholders on February 22, 2020.

The share capital and contributed surplus remained unchanged at March 31, 2020 at \$775.0 million (775,000,003 common shares issued and outstanding) and \$29.6 million, respectively, as compared to December 31, 2019.

Statement of Financial Position Items

Current Assets

Total current assets were \$2,004.6 million at March 31, 2020 compared to \$811.8 million at December 31, 2019, and are comprised of cash and cash equivalents, short-term investments, restricted cash and investments, trade receivables and other and contract assets. The increase was primarily due to higher cash and cash equivalents and short-term investments due to additional leverage from draws on the Company's credit facilities and the issuance of senior bonds, higher restricted cash and investments primarily due to additional debt service on the new bonds issued in the quarter and the timing of debt service contributions and interest payments. These increases were offset by the payment of a dividend to shareholders, payments for plant, property and equipment, lower trade receivables and other balances due to lower revenues.

Current Liabilities

Total current liabilities were \$999.6 million at March 31, 2020 compared to \$241.9 million at December 31, 2019, and are comprised of current portion of long-term debt, trade and other payables, income tax payable, contract liabilities, lease obligations and accrued interest on long-term debt. The increase in current liabilities was mainly due to an increase in the current portion of long term debt due to draws on the Credit Facilities, the issuance of senior bonds and an increase in accrued interest on long-term debt, partially offset by a decrease in income tax payable due to timing of payments.

Non-current Assets

Total non-current assets were \$4,565.8 million at March 31, 2020 compared to \$4,539.7 million at December 31, 2019, and are comprised of restricted cash and investments, deferred tax assets, intangible assets and property, plant and equipment. The increase was primarily due to higher restricted cash and investments resulting from the establishment of debt service reserve funds on Senior Bonds, Series 20-A1 and additions to property, plant and equipment.

Non-current Liabilities

Total non-current liabilities were \$10,056.8 million at March 31, 2020 compared to \$9,397.4 million at December 31, 2019, and are comprised of lease obligations, deferred tax liabilities and long-term debt. The increase in long-term debt is due to the issuance of \$700.0 million Senior Bonds, Series 20-A1 and an increase in the non-cash inflation compensation component of Senior Bonds, Series 99-A5, Series 99-A6 and Series 99-A7 (collectively, the "RRBs") due to an increase in the Consumer Price Index ("CPI"). These increases were offset by a favourable non-cash fair value adjustment and the non-cash accretion of Senior Bonds, Series 04-A2.

Traffic Results

	Q1		
	2020	2019	% change
Traffic/Trips (in millions) ¹	23.509	27.262	(13.8%)
Vehicle Kilometers Travelled ("VKTs") (in millions) ²	490.765	566.885	(13.4%)
Average Workday Trips (in thousands)	314.054	365.585	(14.1%)
Average Trip Length ("ATL") (kilometres) ³	20.88	20.79	0.4%
Unbillable Trips (percent) ⁴	2.04	2.48	(17.7%)
Average Revenue per Trip (\$) ⁵	12.11	11.25	7.6%
Transponder Penetration Rate (percent) ⁶	84.3	83.8	0.6%
Transponders in Circulation at March 31 ⁷	1,607,815	1,539,161	4.5%

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. ATL 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 2020 were lower by 13.8%. VKTs were lower by 13.4% and average workday trips were lower by 14.1% when compared to the same period in 2019 mainly due to a decrease in traffic levels due to measures adopted by the Province to combat the spread of COVID-19 resulting in the closure of schools and non-essential businesses, the increased use of work from home arrangements, and the need for people to stay at home. Prior to the COVID-19 pandemic, traffic volumes were comparable to the same period in 2019, with slightly higher VKTs. Since the onset of the COVID-19 pandemic, traffic levels have declined steadily across Highway 407 ETR, with average trip volume reductions of 75%. Unbillable trips decreased by 17.7% in the first quarter of 2020 when compared to the same period in 2019 mainly due to lower unreadable transactions resulting from tolling system enhancements, coupled with a decrease in travel by 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. The Company's on-going construction projects are expected to continue as an essential service.

Construction work for the Sideline 26 interchange on behalf of the Province has been deferred pending commencement of the construction of Whites Road by the Region of Durham.

During the first quarter of 2020, the Company continued with the construction work for the inside widening of Highway 407 ETR between Derry Road and Highway 410. The work is progressing on schedule and additional lanes in each direction are expected to be opened in the latter half of 2020.

The Company completed the detailed design of the inside widening of Highway 407 ETR between Highway 404 and Markham Road. Construction is expected to commence in first half of 2023.

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 network equipment, camera technology using complementary metal-oxide semi-conductor (CMOS) technology, and the operation of front-image capture system. The Company continues to enhance the security, functionality, scalability and usability of its self-service (website and interactive voice response) systems.

Upon successful completion of the planning, preparation and business process optimization efforts to support the new ERP and Customer Relationship Management (“CRM”) solutions, the Company commenced the development and implementation phase of the project. A phased approach has been undertaken to manage implementation risks and 407 ETR has developed a release strategy that will balance the demands of introducing functionality while assuring quality and stability of business operations.

During the first quarter of 2020, the Company continued to develop new functionalities for its mobile application to enhance the driver and customer experience.

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 \$208.5 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. The Company is focused on making life better for customers and surrounding communities. 407 ETR directly supports 13 local hospitals and rehabilitation centres across the GTA and recently donated over \$300,000 in free Highway 407 ETR travel to front-line workers of the COVID -19 pandemic at the various hospitals along Highway 407 ETR.

Highway 407

Highway 407 begins at the eastern terminus of Highway 407 ETR at Brock Road in Pickering and extends towards Highways 35/115 and includes Highway 412, which runs north-south and connects Highway 407 to Highway 401, and Highway 418 which connects Taunton Road to Highway 401 (collectively “Highway 407”).

Highway 407, which was constructed by the Province in two phases, was fully completed in late December 2019 with tolling operations seamlessly commencing as the phases were opened to the public. The Province maintains public ownership, sets tolls and receives toll revenues in respect of its use.

Cantoll continues to 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 continues to increase the traffic levels on the eastern section of Highway 407 ETR.

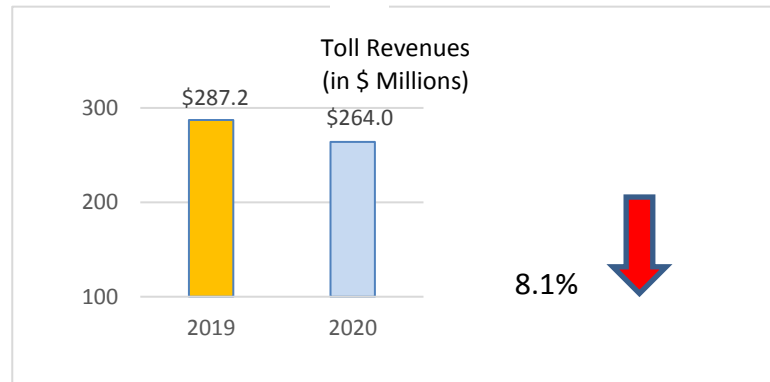
The Company maintains a \$9.0 million segregated funds account of which a portion will be released in 2020 as contract implementation is now complete.

First Quarter 2020 Results of Operations

Revenues

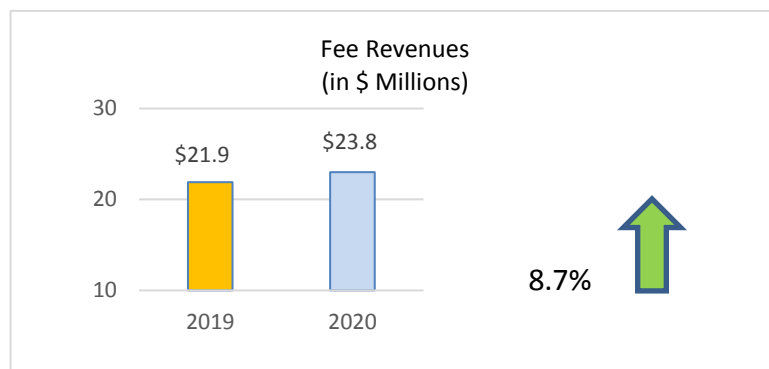
The Company’s revenues are generated from toll charges for trips on Highway 407 ETR including camera charges for non-transponder trips (“Tolls”), monthly fees (“Fees”) and contract revenues. Fees include transponder lease fees, account fees relating to the maintenance and billing of non-transponder customer 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.

Toll Revenues



Toll revenues for the first quarter of 2020 were lower due to lower traffic volumes as a result of measures adopted by the Province to combat the spread of COVID-19 resulting in closure of schools and non-essential businesses and lower levels of travel as commuters have been asked to stay at home, offset by a toll rate increase effective February 1, 2020.

Fee Revenues



Fee revenues for the first quarter of 2020 were higher primarily due to higher net late payment charges, coupled with higher service fees due to the opening of the second phase of Highway 407 in late 2019 and higher transponder lease fees due to an increase in transponders in circulation.

Outlook

Management anticipates lower revenues in 2020 compared to 2019 primarily due to a steady decline in traffic levels resulting from the on-going COVID-19 pandemic. Depending on the duration of the outbreak, this is likely to have a significant impact on the Company's revenues.

Toll Rates

Effective February 1, 2020, the Company implemented a new seasonal toll structure to address customer travel patterns and to manage overall traffic flow along Highway 407 ETR, while optimizing its revenues. 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.

Under Schedule 22 of the Concession and Ground Lease Agreement, certain Highway 407 ETR traffic levels are measured against annual minimum traffic thresholds for each of the 24 segments of the highway, which escalate annually up to a prescribed lane capacity. If the traffic level measurement for a segment is below the corresponding traffic threshold, an amount calculated under Schedule 22 is payable to the Province (“Schedule 22 Payment”).

On February 1, 2020, the Company introduced seasonal toll rates for light vehicles, heavy single unit vehicles (“HSU”) and heavy multiple unit vehicles (“HMU”). Given the impact of the COVID-19 pandemic, the Company will continue applying the current toll rate structure, in effect since February 1, 2020, and postponing the seasonal toll rate changes announced last December 2019. Current toll rates are detailed in the following table:

Light Vehicle Rates for vehicles 5,000 kgs or less (cars, minivans, SUVs) (in \$CAD)

Per km Rates Effective: February 1, 2020

Entire trip is based on time of entry.		Zone 1 QEW to Highway 401		Zone 2 Highway 401 to Highway 427		Zone 3 Highway 427 to Highway 404		Zone 4 Highway 404 to Brock Road	
		WESTBOUND	EASTBOUND	WESTBOUND	EASTBOUND	WESTBOUND	EASTBOUND	WESTBOUND	EASTBOUND
Weekdays	12 a.m. –	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢
	6 a.m. –	42.85 ¢	43.78 ¢	42.83 ¢	48.29 ¢	46.31 ¢	47.43 ¢	44.86 ¢	42.04 ¢
	7 a.m. –	48.74 ¢	55.13 ¢	50.89 ¢	56.44 ¢	54.43 ¢	56.43 ¢	54.93 ¢	47.83 ¢
	9:30 a.m. –	42.53 ¢	45.45 ¢	44.02 ¢	48.29 ¢	46.58 ¢	47.43 ¢	46.58 ¢	42.04 ¢
	10:30 a.m. –	39.07 ¢	39.07 ¢	39.07 ¢	40.17 ¢	40.17 ¢	40.80 ¢	39.07 ¢	38.47 ¢
	2:30 p.m. –	51.93 ¢	44.04 ¢	50.55 ¢	48.98 ¢	51.01 ¢	51.92 ¢	43.62 ¢	48.61 ¢
	3:30 p.m. –	61.14 ¢	50.10 ¢	55.45 ¢	59.00 ¢	58.99 ¢	62.24 ¢	49.56 ¢	58.48 ¢
	6 p.m. –	51.93 ¢	44.04 ¢	50.55 ¢	48.98 ¢	51.01 ¢	51.92 ¢	43.62 ¢	46.81 ¢
Weekends & Holidays	7 p.m. –	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢
	12 a.m. –	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢
	11 a.m. –	34.63 ¢	35.96 ¢	35.96 ¢	35.96 ¢	35.96 ¢	35.96 ¢	34.63 ¢	34.63 ¢
	7 p.m. –	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢

The Heavy Single Unit Vehicle (“HSU”) Rate for vehicles over 5,000 kg (large trucks and buses) is two times the Light Vehicle Rate. The Heavy Multiple Unit Vehicle (“HMU”) Rate (tractor trailers) is three times the Light Vehicle Rate.

- A Trip Toll Charge is charged for each trip on the highway at \$1.00 (HSU - \$2.00, HMU - \$3.00) and is not a per kilometer charge.
- A \$4.20 Camera Charge per trip is added when a Light Vehicle travels on the highway without a valid transponder.
- All HSUs and HMUs must have a valid transponder. Without a valid transponder, a \$50.00 Camera Charge plus tolls per trip are billed.

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

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:

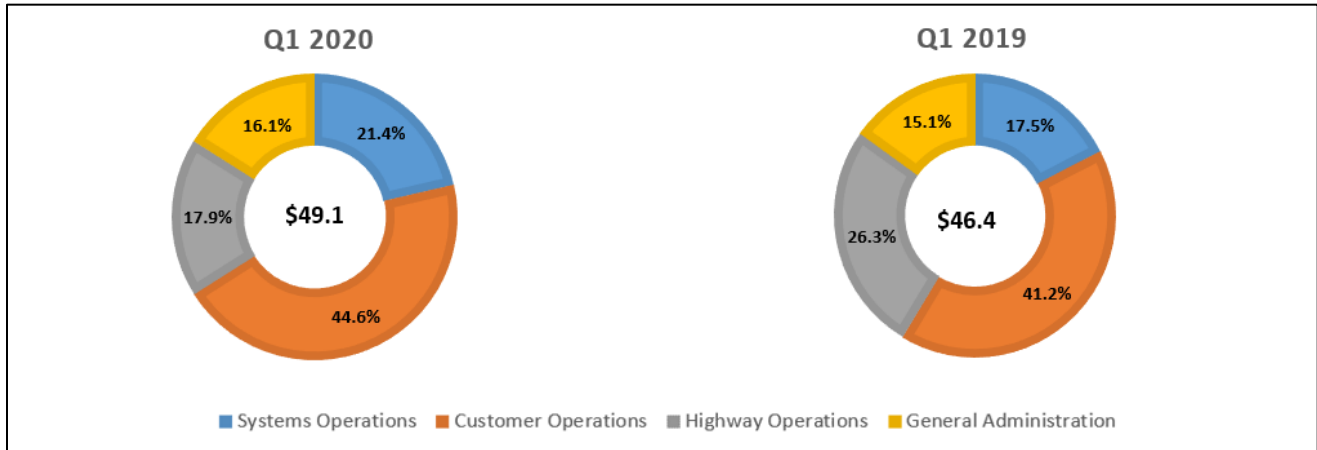
- For any vehicle (light or heavy) with a transponder for which there is a sufficient transponder trip history, a transponder vehicle median trip (referred to as a calculated trip) is charged using the median distance of the trips taken with the transponder in the preceding 72 days.
- For all light vehicles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

(In \$CAD)	2020		
	Light Vehicles	HSU	HMU
Flat Toll Charge (up to) (Peak Period, Peak Hours)	6.50	19.85	36.95
Flat Toll Charge (up to) (Off Peak, Weekday Midday, Weekends and Holidays)	4.25	12.80	23.85

- Flat Toll Charge effective February 1, 2020.
- Applicable to Light Vehicles without a transponder.
- Peak Period, Peak Hours, Off Peak, Weekday Midday, and Weekends and Holidays have the meanings shown in the Light Vehicle Rates chart above.

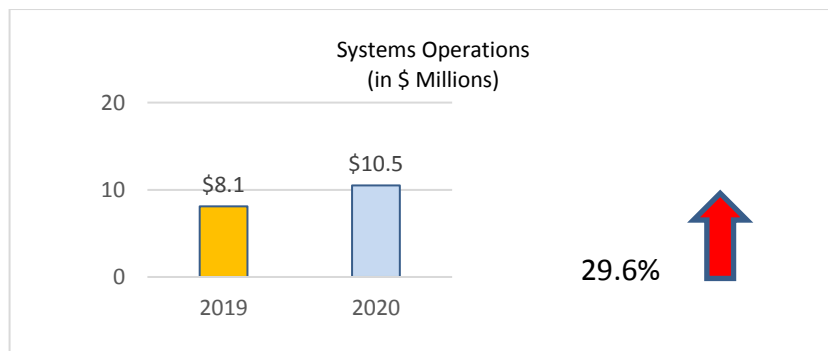
Operating Expenses



(In \$ Millions)	Q1	
	2020	2019
Systems Operations	10.5	8.1
Customer Operations	21.9	19.1
Highway Operations	8.8	12.2
General and Administration	7.9	7.0
Total Operating Expenses	49.1	46.4

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.



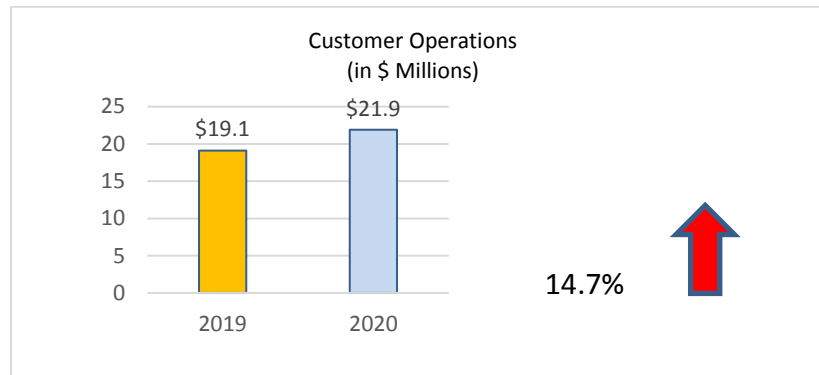
Systems operations were higher mainly due to higher ERP consulting costs, coupled with higher security enhancements, licenses and support expenses.

Outlook

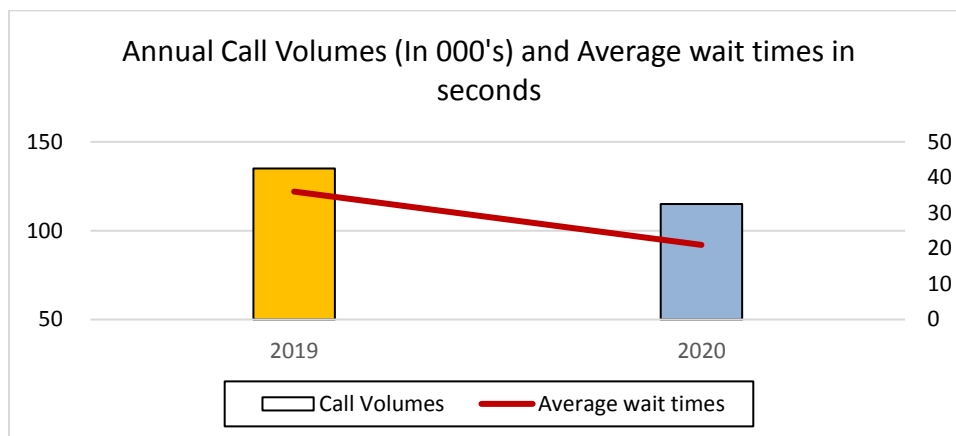
Systems operations expenses for 2020 are expected to be higher than 2019 mainly due to higher ERP consulting costs, higher security enhancements, licenses and support expenses.

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 were higher mainly due to higher provision for doubtful accounts, coupled with higher staffing and restructuring costs and higher bank charges due to higher cash collections.



During the first quarter of 2020, the Company's call centre received 115 thousand telephone calls compared to 135 thousand calls received in the same period in 2019. The average wait time required for a customer to speak with a customer service representative was 21 seconds compared to the average wait time of 36 seconds in the first quarter of 2019. The target level of service in the first quarter of 2020 at 86.9% exceeded the target of 80% of all calls answered within 30 seconds.

Throughout the COVID-19 pandemic, the Company has prioritized the safety of its employees and recognized its corporate social responsibility. Following the Province's state of emergency declaration, the Company officially closed the call centre on March 30, 2020. In an effort to alleviate financial burdens faced by our customers resulting from the COVID-19 pandemic, the Company implemented measures that provide assistance to our customers including the temporary suspensions of interest

charges and new issuances of License Plate Denial notices on all unpaid balances, and the temporary suspension of all regular collections programs. Eligibility for the Company's Financial Hardship Program will also be expanded for those customers impacted by COVID-19.

Notwithstanding the closure of the Company's call centre, customers will continue to have the ability to access various self-service options through the Company's secure website, through which customers can perform a number of transactions without having to speak with a customer service representative.

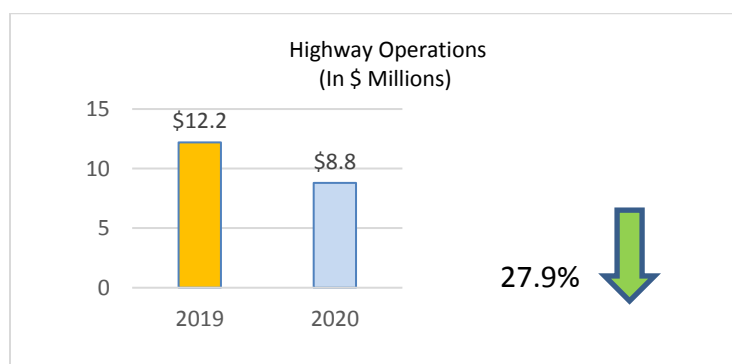
The Company continues to use bill inserts, promotions and targeted advertising to communicate with customers about the benefits of using Highway 407 ETR, as well as to educate drivers about environmentally and customer-friendly options, such as paperless billing, annual transponder leases and pre-authorized 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 2020 are expected to be lower than 2019 due to the temporary closure of the call centre and scaled down customer operations which will result in lower billing costs, collections costs and bank charges in coming months.

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 in the first quarter of 2020 were lower mainly due to an accounting reclassification of certain winter equipment to depreciation expense, coupled with lower salt usage due to favourable weather conditions.

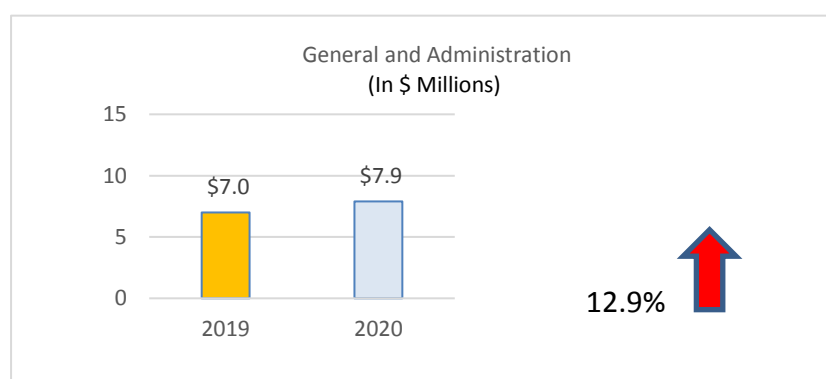
Highway maintenance cost per lane kilometre in the first quarter of 2020 amounted to \$7,250 and was lower compared to \$10,000 in the first quarter of 2019 mainly due to the reasons mentioned above.

Outlook

Highway operations expenses in 2020 are expected to be in line with 2019. Taking into account the impact of the COVID-19 pandemic, the Company will continue to carry out routine maintenance of Highway 407 ETR to ensure the safety of the commuters and businesses that provide essential services on a daily basis.

General and Administration

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

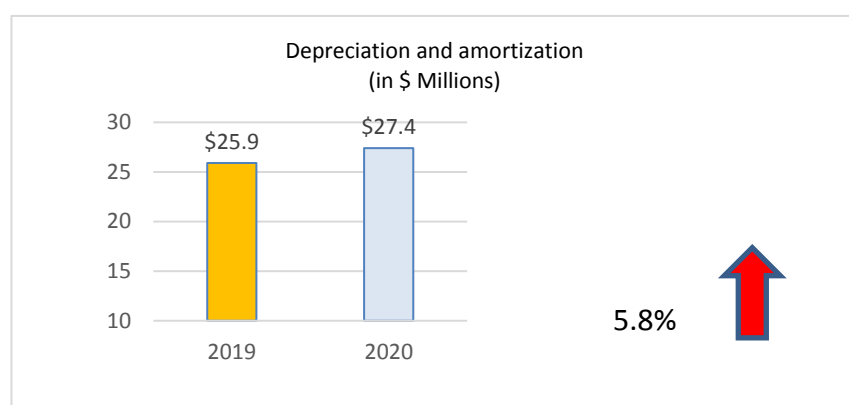


General and administration expenses in the first quarter of 2020, were higher mainly due to higher staffing and restructuring costs.

Outlook

General and administration expenses for 2020 are expected to be higher than 2019 primarily due to higher restructuring costs, offset by deferral of certain non-essential initiatives as the Company adapts to the impacts of the COVID-19 pandemic in the coming months.

Depreciation and Amortization



Depreciation and amortization expenses in the first quarter of 2020 were higher due to capitalized winter equipment.

Outlook

Overall depreciation and amortization expenses in 2020 are expected to be in-line with 2019.

Interest and Other Expenses

(In \$ Millions)	Q1	
	2020	2019
Interest expense on Bonds and Credit Facilities	101.0	108.3
Non-cash inflation component of:		
Interest expense (recovery), RRBs	1.1	(5.3)
Interest recovery, Senior Bonds Series 04-A2	(1.7)	(4.1)
Fair value adjustment, Senior Bonds, Series 04-A2	(39.3)	14.2
Capitalized Interest	(0.7)	(0.1)
Total Interest Expense on Long-Term Debt	60.4	113.0
Interest income on financial assets designated as FVTPL	(4.9)	(6.1)
Other expense	0.3	0.3
Reclassification of gain and losses on cash flow hedges	(0.2)	(0.2)
Total Interest and Other Expenses	55.6	107.0

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 expense on Bonds and Credit Facilities:

Interest expense on Senior Bonds and Credit Facilities for the first quarter of 2020 was lower by \$7.3 million when compared to the same period in 2019. The interest expense on senior bonds was lower by \$6.9 million, primarily due to the redemption premium expense incurred in the prior year resulting from the refinancing of \$300.0 million of Senior Bonds, Series 10-A2 with \$300.0 million of Senior Bonds, Series 19-A1 at a lower interest rate. This favourable variance was partially offset by the full year-to-date impact on interest expense of \$500.0 million of Senior Bonds, Series 19-A2, interest expense on \$700.0 million of Senior Bonds, Series 20-A1 and higher cash interest expense on the RRBs and Senior Bonds, Series 04-A2 due to an increase in

inflation. Interest expenses on junior and subordinated bonds for 2020 amounted to \$11.6 million, and was comparable to the same period in 2019. Interest expense on the Credit Facilities decreased by \$0.2 million in 2020 when compared to the same period in 2019 due to one-time upfront fees on the Syndicated Credit Facility in the previous year, offset by higher average outstanding balance in 2020.

Non-cash inflation component of interest expense:

The non-cash inflation compensation component of the RRBs was unfavourable by \$6.4 million and the non-cash accretion expense on Senior Bonds, Series 04-A2 was unfavourable by \$2.4 million in the first quarter of 2020 when compared to the same period in 2019, mainly due to an increase in the CPI level in the current period as compared to a decrease in the prior period.

Fair value adjustment, Senior Bonds, Series 04-A2:

The non-cash fair value adjustment to Senior Bonds, Series 04-A2 in the first quarter of 2020 was favourable by \$53.5 million when compared to the same period in 2019. The non-cash fair value adjustment recovery of \$39.3 million was primarily due to a significant increase in the nominal discount rate, coupled with a significant decrease in the Break-Even Inflation Rate (the "BEIR"). The non-cash fair value adjustment expense of \$14.2 million in the first quarter of 2019 was primarily due to a significant decrease in the nominal discount rate coupled with an increase in the BEIR.

Interest income on financial assets:

Interest income from cash balances and investments in the first quarter of 2020 was lower by \$1.2 million when compared to the same period in 2019 primarily due to fair value losses on investments, partially offset by higher average cash balances.

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 2020 to be higher than 2019, primarily due to the full-year impact of bonds issued in 2019 and additional interest on bonds issued in 2020.

Income Taxes

(in \$ Millions)	Q1	
	2020	2019
Current income tax expense	33.8	32.8
Deferred income tax expense	7.4	1.6
Total Income Tax Expense	41.2	34.4

The combined current and deferred annual effective tax rate was 26.5% in the first quarter of 2020, consistent with the annual effective tax rate of 26.5% for the same period in 2019.

Current income tax expense amounted to \$33.8 million in the first quarter of 2020 when compared to \$32.8 million for the same period in 2019 primarily due to higher earnings before taxes. Deferred income tax expense was \$7.4 million in the first quarter of 2020 when compared to \$1.6 million for the same period in 2019 primarily due to an increase in taxable temporary differences incurred in the current quarter.

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 in 2020 to be lower than 2019 primarily due to the economic implications of the COVID-19 pandemic.

Liquidity and Capital Resources

Cash Flow Statement

(In \$ Millions)	Q1	
	2020	2019
Cash flows from operating activities	141.3	141.0
Cash flows used in investing activities	(371.6)	(380.3)
Cash flows from in financing activities	1,150.9	541.3
Increase in cash and cash equivalents	920.6	302.0
Cash and cash equivalents, beginning of period	296.4	308.1
Cash and cash equivalents, end of period	1,217.0	610.1

The cash increase of \$920.6 million during the first quarter of 2020 was mainly due to proceeds from a draw down on the Credit Facilities of \$910.0 million, net proceeds from the issuance of Senior Bonds, Series 20-A1 of \$699.0 million, cash generated from operating activities of \$141.3 million and a decrease in non-trade receivables of \$0.2 million. These cash inflows were offset by dividends paid to shareholders of \$312.5 million, the purchase of short-term investments of \$297.0 million, the repayment of long-term debt of \$138.0 million represented by the repayment of the Senior Bank Credit Facility of \$135.0 million and the repayment of long-term debt of \$3.0 million, an increase in restricted cash and investments of \$57.5 million, payments for additions to property, plant and equipment and intangibles of 17.2 million, payments for debt issue costs of \$4.1 million and payments of lease obligations of \$3.5 million.

Cash flows from operating activities:

Cash flow from operations increased by \$0.3 million during the first quarter of 2020 when compared to the same period in 2019, mainly due to lower payments for income taxes of \$14.5 million due to timing of payments and higher cash receipts of \$8.1 million primarily from timing of cash receipts offset by lower revenues. These favourable cash inflows were offset by higher interest payments on long-term debt of \$15.0 million, primarily due to timing of interest payments from senior bonds issued in the prior year, higher payments for operating expenses of \$6.8 million mainly due to higher operating expenses and the timing of payments, and lower interest income received of \$0.5 million due to the timing of interest income receipts.

Cash flows used in investing activities:

Cash flows used in investing activities were lower by \$8.7 million for the first quarter of 2020 when compared to the same period in 2019. 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 \$57.5 million was due to contributions to the debt service fund of \$103.9 million, the establishment of a debt service reserve fund for Senior Bonds, Series 20-A1 of \$34.8 million and interest income received from cash balances and investments of \$3.7 million. These increases to restricted cash were offset by partial repayment of Senior Bonds, Series 99-A3 of \$3.0 million and coupon payments of \$81.9 million. The increase in restricted cash and investments of \$367.8 million in the previous year 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 income 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. Purchases of short-term investments amounted to \$297.0 million in the first quarter of 2020 compared to nil in the same period in 2019. Also 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 Company's information systems, and the purchase of new transponders. Purchases of property, plant and equipment and intangible assets were \$17.2 million in the first quarter of 2020 compared to \$14.4 million in the same period in 2019. Non-trade receivables decreased by \$0.2 million during the first quarter of 2020 compared to a decrease of \$2.8 million in same period in 2019. Advance payments to a supplier in the first quarter of 2020 were \$0.1 million compared to \$0.9 million in the same period in 2019.

Cash flows from financing activities:

Cash flows from financing activities was higher by \$609.6 million for the first quarter of 2020 when compared to the same period in 2019. Proceeds from long-term debt amounted to \$1,609 million in the first quarter of 2020, represented by draws on the Credit Facilities of \$910 million and proceeds from issuance of Senior Bonds, Series 20-A1 of \$699.0 million. This is compared to \$859.2 million in the same period in 2019, represented by the issuance of Senior Bonds, Series 19-A1 of \$299.8 million 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 draws on the Syndicated Credit Facility of \$60.0 million. Repayment of long-term debt amounted to \$138.0 million, represented by the repayment of the Syndicated Credit Facility of \$135.0 million and partial repayment of Senior Bonds, Series 99-A3 of \$3.0 million in the first quarter of 2020 compared to repayment of \$62.8 million, represented by the repayment of Syndicated Credit Facility of \$60.0 million and partial repayments of Senior Bonds, Series 99-A3 of \$2.8 million during the first quarter of 2019. Dividend payments to shareholders amounted to \$312.5 million in first quarter of 2020 compared to dividend payments of \$250.0 million in the first quarter of 2019. Payments towards finance lease obligations were \$3.5 million in the first quarter of 2020 compared with payments towards finance lease obligations of \$1.1 million for the same period in 2019. Payments for debt issue costs were comparable at \$4.1 million in the first quarter of 2020 compared to \$4.0 million for the same period in 2019.

The supplemental indenture for the RRBs 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, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, 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, as appropriate. The Company expects to gradually increase its financial leverage, as appropriate, 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

(In \$ Millions)	Twelve-month period ended March 31	
	2020	2019
Income before income tax expenses and interest expense on long-term debt	1,203.6	1,137.1
Interest expense on long-term debt	394.5	406.1
Earnings Coverage	809.1	731.0

The Company experienced earnings coverage ratios of 3.05 times and 2.80 times for the twelve month periods ended March 31, 2020 and 2019, 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 is defined in the Indenture. See "Non-IFRS Financial Measures".

Risks and Uncertainties

COVID-19

With the recent developments of the COVID-19 pandemic, the Company faces new challenges and uncertainties. The potential effects and impact of COVID-19 have been disclosed earlier in the MD&A under "Global Pandemic – Coronavirus (COVID-19) Update".

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.

To mitigate its exposure to climate change risks, in 2019 the Company engaged an external consultant to complete a climate change study on the impact of rising temperatures on the various pavements along Highway 407 ETR. The results of the study show that Highway 407 ETR pavements are robust and resilient to such changes with little or no expected impact.

Additionally, a flood hazard and risk study based on computer modelling and simulations were also carried out in 2019 on certain sections of Highway 407 ETR with a historical and perceived vulnerability to flooding. While certain areas were identified as having a potential risk of local flooding, the results of the study confirm that the design of Highway 407 ETR combined with its topographical area and high standard of maintenance makes the highway resilient to such risks, and unlikely to be impacted in any major way. The Company will continue to evaluate if it can minimize any risk of flooding by increasing drainage capacity and resilience in those areas.

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:

(In \$ Millions)	As at	
	March 31, 2020	December 31, 2019
Unbilled	52.3	82.2
0 to 60 days	76.7	90.5
60 to 90 days	10.9	10.5
90 to 120 days	7.4	8.1
121 to 150 days	8.3	7.8
151 + days	32.3	33.8
Sub-total ¹	187.9	232.9
Other ²	20.5	17.6
	208.4	250.5

1. Amounts are net of allowance for doubtful accounts and certain amounts that are billed to customers, but excluded from revenues in accordance with the revenue recognition policy for toll and fee revenue and includes contract receivables invoiced to customers upon reaching contract milestones.

2. Other consists of salt inventory, prepaids, other non-trade 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 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.

As a result of the COVID-19 pandemic, Management has considered and evaluated the impact of temporarily suspending all collection programs and new issuances of License Plate Denial notices which may result in delayed or reduced collections and/or lower collectability or increased default of customer accounts, which could result in an increase in the allowance for doubtful accounts. Management does not expect a significant impact at this time.

An increase of 1% in the weighted-average provision rate would have increased the provision for doubtful accounts by approximately \$2.9 million (2019 - \$3.1 million) and decreased net income by approximately \$2.1 million (2019 - \$2.3 million) for the three month period ended March 31, 2020.

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, 2020, 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, short-term investments 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 \$0.8 million (2019 - \$0.7 million) and net income by approximately \$0.6 million (2019 - \$0.5 million) for the three-month period ended March 31, 2020.

Inflation Risk

The Company is exposed to inflation risk as interest expense and debt service payments relating the RRBs and Senior Bonds, Series 04-A2 are linked to the Consumer Price Index (the "CPI"). An increase of 50 basis points in the CPI would have increased interest expense by approximately \$8.6 million (2019 - \$8.6 million), decreased net income by approximately \$6.3 million (2019 - \$6.3 million) and increased debt service payments by approximately \$0.1 million (2019 - \$0.1 million). 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 bondholders. An increase of 10 basis points in the BEIR would have increased interest expense by approximately \$4.6 million (2019 - \$5.5 million) and decreased net income by approximately \$3.4 million (2019 - \$4.0 million). A decrease of 10 basis points in the BEIR would have reduced interest expense by approximately \$4.5 million (2019 - \$5.4 million) and increased net income by approximately \$3.3 million (2019 - \$4.0 million) for the three-month period ended March 31, 2020. 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 seeks to maintain 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.

Despite the impact of lower revenues due to the COVID-19 pandemic, the Company maintains sufficient liquidity to satisfy all of its obligations during 2020.

The following are the Company's commitments, contractual maturities and related interest obligations as at March 31, 2020:

(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	49.7	-	-	-	-	-
Contract liabilities	17.1	-	-	-	-	-
Lease obligations	3.8	2.6	0.8	0.2	0.1	-
Interest payments on lease obligations	0.3	0.2	-	-	-	-
Long-term debt	816.9	724.9	319.0	20.1	271.3	7,411.7
Derivative financial liability	7.9	7.9	7.9	7.9	7.9	114.3
Interest payments on long-term debt	384.6	375.6	345.9	341.0	334.9	4,791.7
	1,280.3	1,111.2	673.6	369.2	614.2	12,317.7

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.

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 of \$1,217.0 million as of March 31, 2020 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.

Short-term investments

Short-term investments of \$297.0 million as of March 31, 2020 consist of government backed treasury bills and promissory notes with investment terms ranging from 91 days to 365 days. Short-term investments 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, guaranteed investment certificates, floating rate notes, 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 bilateral credit agreements with respect to three revolving credit facilities with Canadian chartered banks in an aggregate 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. As at March 31, 2020, the Company has drawn \$800.0 million (2019 - \$25 million) under the Credit Facilities.

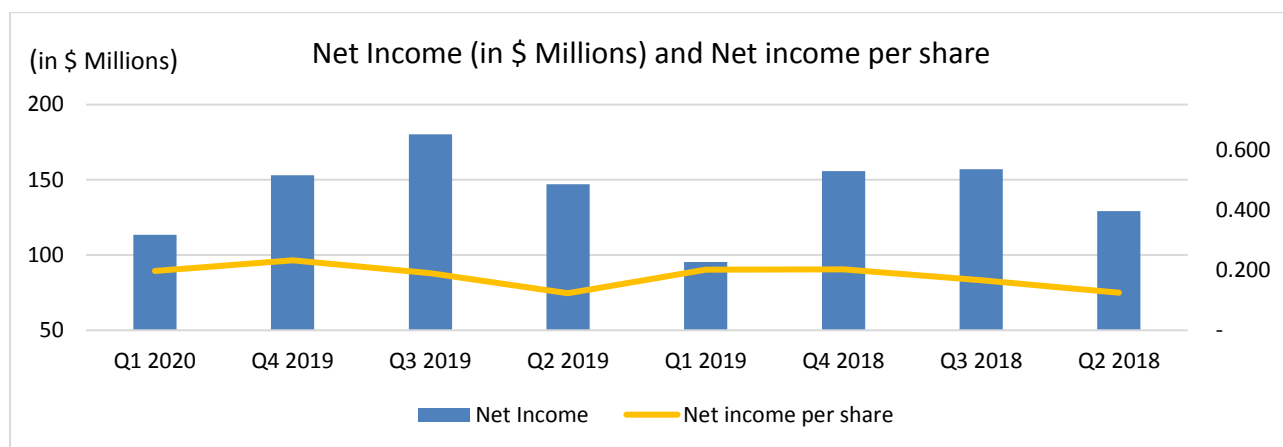
Derivative financial instrument

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.

Quarterly Financial Information

Net Income and Net Income per Share *	2020				2019				2018			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
(In \$ Millions, except per share amounts)												
Revenues	287.8	379.3	426.4	390.5	309.1	356.6	382.7	362.5				
Operating Expenses	49.1	54.1	52.6	43.1	46.4	54.0	44.6	43.6				
Depreciation and amortization	27.4	27.1	26.4	26.1	25.9	27.0	27.8	26.8				
Interest and other expenses	55.6	89.7	102.4	121.3	107.0	63.6	96.8	116.4				
Income tax expenses	41.2	55.4	64.8	52.9	34.4	56.1	56.5	46.5				
Net income	114.5	153.0	180.2	147.1	95.4	155.9	157.0	129.2				
Net income per share (basic and diluted)	0.148	0.197	0.233	0.190	0.123	0.201	0.203	0.167				

*Figures for periods prior to Q1 2019 have not been adjusted for adoption of IFRS 16, as the Company has adopted these standards on a retrospective and modified re 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. Revenues may be significantly impacted if the COVID-19 pandemic continues for a prolonged period of time. Contract revenues will fluctuate depending on the amount and timing of contract work awarded and completed. 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.

The Company recorded net income of \$114.5 million in the first quarter of 2020, \$38.5 million lower than the fourth quarter of 2019, mainly due to seasonally lower revenues, coupled with the impact of declining traffic levels due to COVID-19, offset by lower interest and other expenses due to a favourable fair value adjustment on Senior Bonds, Series 04-A2 primarily due to a significant increase in the nominal discount rate coupled with a significant decrease in the BEIR, partially offset by the full year to date impact of interest expense on the issuance of \$500.0 million of Senior Bonds, Series 19-A2 in the prior year and interest expense on the issuance of \$700.0 million of Senior Bonds, Series 20-A1 on March 6, 2020.

Net income of \$153.0 million in the fourth quarter of 2019, \$27.2 million was lower than the third quarter of 2019, mainly due to seasonally lower revenues and slightly higher operating expenses, offset by lower income tax expense and lower interest and other expenses due to the favourable non-cash inflation compensation component of the RRBs and non-cash accretion of Senior Bonds, Series 04-A2 due to a decrease in the CPI level. These decreases were offset by an unfavourable non-cash fair value adjustment of Senior Bonds, Series 04-A2 primarily due to increase in the BEIR.

Net income of \$180.2 million in the third quarter of 2019 was \$33.1 million higher than the second quarter of 2019, mainly due to seasonally higher revenues and lower interest and other expenses due to the 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 level and a favourable non-cash fair value adjustment of Senior Bonds, Series 04-A2, offset by higher operating expenses and higher income tax expense.

Net income of \$147.1 million in the second quarter of 2019 was \$51.7 million higher than the first quarter of 2019, mainly due to seasonally higher revenues and lower operating expenses, offset by higher interest and other expenses due to the unfavourable non-cash inflation compensation component of the RRBs and non-cash accretion of Senior Bonds, Series 04-A2 due to a large increase in CPI level and higher income tax expense.

Net income of \$95.4 million in the first quarter of 2019 was \$60.5 million lower than 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.

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.

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.

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.

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.

Additional Information

Related Party Transactions

The Company entered into the following transactions with related parties:

(In \$ Millions)		Classification in the Financial Statements	Nature of transaction with the related party	Three-month period ended March 31	
Related Party	Relationship			2020	2019
Cintra	Subsidiary of Shareholder	Operating Expenses	Payment for administration costs	0.2	0.2
SNC Lavalin Inc.	Parent of Shareholder	Property, plant and equipment	Payment of design costs	-	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:

(In \$ Millions)		Classification in the Financial Statements	As at	
Related Party	Relationship		March 31, 2020	December 31, 2019
Cintra Servicios de Infraestructuras S. A.	Subsidiary of shareholder	Trade and other payables	0.7	0.5
Blackbird Infrastructure Group	Subsidiary of some parents	Trade and other receivables	(0.1)	(0.2)

Overall Outlook

Due to the COVID-19 pandemic, Management anticipates lower revenues as a result of a decline in traffic levels, including potentially lower recoveries on unpaid balance, due to the temporary suspension of interest charges and collection activities. As the pandemic has progressed, Management continues to prioritize the safety of the Company's employees and its customers, scaling back non-essential business operations such as the closure of its call centre. With the rapid development and fluidity of the situation, the full duration, scope and adverse impact of the COVID-19 pandemic remains unknown. The Company expects that it will continue to be able to satisfy its obligations and anticipates that traffic levels will rebound as the situation stabilizes and the COVID-19 pandemic related business restrictions are eased in the Province and economic recovery progresses.