

# **407** *International*

**407 INTERNATIONAL INC.**

**Interim Condensed Consolidated Financial Statements**

**September 30, 2020**

**407 INTERNATIONAL INC.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(in millions of Canadian dollars)  
(Unaudited)

|                                     | Notes | <u>As at September 30,<br/>2020</u> | <u>As at December 31,<br/>2019</u> |
|-------------------------------------|-------|-------------------------------------|------------------------------------|
| <b>Assets</b>                       |       |                                     |                                    |
| Current assets                      |       |                                     |                                    |
| Cash and cash equivalents           | 17    | \$ 528.0                            | \$ 296.4                           |
| Restricted cash and investments     | 5     | 276.6                               | 260.9                              |
| Trade receivables and other         | 8     | 197.9                               | 250.5                              |
| Income tax receivable               |       | 3.2                                 | -                                  |
| Contract assets                     |       | <u>1.3</u>                          | <u>4.0</u>                         |
| Total current assets                |       | <u>1,007.0</u>                      | <u>811.8</u>                       |
| Non-current assets                  |       |                                     |                                    |
| Restricted cash and investments     | 5     | 529.6                               | 490.8                              |
| Other receivable                    |       | 2.0                                 | -                                  |
| Deferred tax assets                 |       | 45.6                                | 42.1                               |
| Intangible assets                   | 7     | 1,498.1                             | 1,513.2                            |
| Property, plant and equipment       | 6     | <u>2,514.0</u>                      | <u>2,493.6</u>                     |
| Total non-current assets            |       | <u>4,589.3</u>                      | <u>4,539.7</u>                     |
| <b>Total assets</b>                 |       | <u>\$ 5,596.3</u>                   | <u>\$ 5,351.5</u>                  |
| <b>Liabilities and equity</b>       |       |                                     |                                    |
| Current liabilities                 |       |                                     |                                    |
| Trade and other payables            |       | \$ 56.9                             | \$ 59.9                            |
| Income tax payable                  |       | -                                   | 21.4                               |
| Contract liabilities                |       | 17.0                                | 18.0                               |
| Accrued interest on long-term debt  |       | 99.2                                | 86.9                               |
| Lease obligations                   | 12    | 3.8                                 | 6.4                                |
| Long-term debt                      | 11    | <u>25.4</u>                         | <u>49.3</u>                        |
| Total current liabilities           |       | <u>202.3</u>                        | <u>241.9</u>                       |
| Non-current liabilities             |       |                                     |                                    |
| Lease obligations                   | 12    | 2.7                                 | 4.4                                |
| Deferred tax liabilities            |       | 536.4                               | 529.0                              |
| Long-term debt                      | 11    | <u>9,589.1</u>                      | <u>8,864.0</u>                     |
| Total non-current liabilities       |       | <u>10,128.2</u>                     | <u>9,397.4</u>                     |
| Total liabilities                   |       | <u>10,330.5</u>                     | <u>9,639.3</u>                     |
| Equity                              |       |                                     |                                    |
| Issued capital                      | 9     | 804.6                               | 804.6                              |
| Reserve                             | 10    | 11.1                                | 11.7                               |
| Retained deficit                    |       | <u>(5,549.9)</u>                    | <u>(5,104.1)</u>                   |
| Total deficit                       |       | <u>(4,734.2)</u>                    | <u>(4,287.8)</u>                   |
| <b>Total liabilities and equity</b> |       | <u>\$ 5,596.3</u>                   | <u>\$ 5,351.5</u>                  |

On behalf of the Board:

*(signed)*  
DAVID MCFADDEN  
Director

*(signed)*  
MICHAEL BERNASIEWICZ  
Director

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

**407 INTERNATIONAL INC.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
(in millions of Canadian dollars, except per share amounts)  
**(Unaudited)**

|  | Notes | Three-month period ended |                 | Nine-month period ended |                 |
|--|-------|--------------------------|-----------------|-------------------------|-----------------|
|  |       | September 30             |                 | September 30            |                 |
|  |       | 2020                     | 2019            | 2020                    | 2019            |
| Revenues   | 14    | \$ 265.7                 | \$ 426.4        | \$ 683.1                | \$ 1,126.0      |
| Expenses   | 15    | 63.2                     | 79.0            | 197.9                   | 220.5           |
| Interest expense   |       | 138.7                    | 108.6           | 340.7                   | 349.2           |
| Interest income  |       | (3.3)                    | (6.3)           | (13.4)                  | (18.8)          |
| Other expense  |       | 0.1                      | 0.3             | 0.6                     | 0.9             |
| Other income   |       | (0.2)                    | (0.2)           | (0.6)                   | (0.6)           |
| Interest and other expenses                                  | 11    | 135.3                    | 102.4           | 327.3                   | 330.7           |
| Income before tax  |       | 67.2                     | 245.0           | 157.9                   | 574.8           |
| Current income tax expense                                   |       | 17.9                     | 65.9            | 37.3                    | 149.1           |
| Deferred income tax expense (recovery)                       |       | 0.2                      | (1.1)           | 3.9                     | 3.0             |
| Income tax expense   |       | 18.1                     | 64.8            | 41.2                    | 152.1           |
| Net income   |       | <u>\$ 49.1</u>           | <u>\$ 180.2</u> | <u>\$ 116.7</u>         | <u>\$ 422.7</u> |
| Net income   |       | 49.1                     | 180.2           | 116.7                   | 422.7           |
| Other comprehensive loss:                                    |       |                          |                 |                         |                 |
| Reclassification to income of gains on cash flow hedges, net | 10    | (0.2)                    | (0.2)           | (0.6)                   | (0.6)           |
| Total comprehensive income                                   |       | <u>\$ 48.9</u>           | <u>\$ 180.0</u> | <u>\$ 116.1</u>         | <u>\$ 422.1</u> |
| <b>Earnings per share</b>                                    |       |                          |                 |                         |                 |
| Net income per share, basic and diluted                      | 9     | <u>\$ 0.063</u>          | <u>\$ 0.233</u> | <u>\$ 0.151</u>         | <u>\$ 0.545</u> |

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

**407 INTERNATIONAL INC.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(in millions of Canadian dollars)  
(Unaudited)

|   | <u>Issued<br/>capital</u> | <u>Reserve</u> | <u>Retained<br/>deficit</u> | <u>Total<br/>deficit</u> |
|---|---------------------------|----------------|-----------------------------|--------------------------|
| Balance at January 1, 2020              | \$ 804.6                  | \$ 11.7        | \$ (5,104.1)                | \$ (4,287.8)             |
| Payment of dividends                    | -                         | -              | (562.5)                     | (562.5)                  |
| Net income for the period               | -                         | -              | 116.7                       | 116.7                    |
| Other comprehensive loss for the period | -                         | (0.6)          | -                           | (0.6)                    |
| Balance at September 30, 2020           | <u>\$ 804.6</u>           | <u>\$ 11.1</u> | <u>\$ (5,549.9)</u>         | <u>\$ (4,734.2)</u>      |
| Balance at January 1, 2019              | \$ 804.6                  | \$ 12.4        | \$ (4,629.8)                | \$ (3,812.8)             |
| Payment of dividends                    | -                         | -              | (750.0)                     | (750.0)                  |
| Net income for the period               | -                         | -              | 422.7                       | 422.7                    |
| Other comprehensive loss for the period | -                         | (0.6)          | -                           | (0.6)                    |
| Balance at September 30, 2019           | <u>\$ 804.6</u>           | <u>\$ 11.8</u> | <u>\$ (4,957.1)</u>         | <u>\$ (4,140.7)</u>      |

The accompanying notes are an integral part of these interim condensed consolidated financial statement

**407 INTERNATIONAL INC.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in millions of Canadian dollars)  
(unaudited)

|   | Notes | Three-month period ended<br>September 30 |                 | Nine-month period ended<br>September 30 |                 |
|---|-------|--|-----------------|---|-----------------|
|   |       | 2020                                     | 2019            | 2020                                    | 2019            |
| <b>Cash flows from operating activities</b>           |       |  |                 |   |                 |
| Receipts from customers                               |       | \$ 221.1                                 | \$ 411.2        | \$ 725.8                                | \$ 1,073.2      |
| Payments to suppliers and employees                   |       | (25.7)                                   | (39.7)          | (116.0)                                 | (133.8)         |
| Cash generated from operations                        |       | 195.4                                    | 371.5           | 609.8                                   | 939.4           |
| Interest received                                     |       | 5.7                                      | 5.5             | 15.3                                    | 18.0            |
| Interest paid   |       | (93.0)                                   | (82.6)          | (328.6)                                 | (282.8)         |
| Income tax paid                                       |       | (5.6)                                    | (43.6)          | (63.1)                                  | (161.0)         |
|   |       | <u>102.5</u>                             | <u>250.8</u>    | <u>233.4</u>                            | <u>513.6</u>    |
| <b>Cash flows from investing activities</b>           |       |  |                 |   |                 |
| Additions to property, plant and equipment            |       | (32.9)                                   | (45.9)          | (75.1)                                  | (81.2)          |
| Additions to intangible assets                        |       | -  | -               | (0.9)                                   | -               |
| Advance payment                                       |       | (0.7)                                    | (0.3)           | (0.9)                                   | (1.9)           |
| Restricted cash and investments                       | 5     | (12.9)                                   | (21.0)          | (56.7)                                  | (57.2)          |
| Non-trade receivables and other                       |       | 1.4                                      | (1.6)           | 1.5                                     | 0.6             |
|   |       | <u>(45.1)</u>                            | <u>(68.8)</u>   | <u>(132.1)</u>                          | <u>(139.7)</u>  |
| <b>Cash flows from financing activities</b>           |       |  |                 |   |                 |
| Proceeds from issuance of long-term debt              |       | -  | -               | 2,358.7                                 | 859.2           |
| Debt issue costs                                      |       | (0.3)                                    | (0.1)           | (9.3)                                   | (5.5)           |
| Repayment of long-term debt                           |       | (603.0)                                  | (2.9)           | (1,649.6)                               | (369.1)         |
| Repayment of lease obligations                        |       | (0.9)                                    | (1.0)           | (7.0)                                   | (3.1)           |
| Dividends paid to shareholders                        |       | (250.0)                                  | (250.0)         | (562.5)                                 | (750.0)         |
|   |       | <u>(854.2)</u>                           | <u>(254.0)</u>  | <u>130.3</u>                            | <u>(268.5)</u>  |
| Increase (decrease) in cash and cash equivalents      |       | (796.8)                                  | (72.0)          | 231.6                                   | 105.4           |
| <b>Cash and cash equivalents, beginning of period</b> |       | <u>1,324.8</u>                           | <u>485.5</u>    | <u>296.4</u>                            | <u>308.1</u>    |
| <b>Cash and cash equivalents, end of period</b>       |       | <u>\$ 528.0</u>                          | <u>\$ 413.5</u> | <u>\$ 528.0</u>                         | <u>\$ 413.5</u> |
| <b>Supplementary Cash Flow Information</b>            |       |  |                 |   |                 |
| Net change in financial liabilities                   | 18    | <u>\$ (556.5)</u>                        | <u>\$ 22.9</u>  | <u>\$ 709.2</u>                         | <u>\$ 552.3</u> |

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

**407 INTERNATIONAL INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**Period ended September 30, 2020**  
**(in millions of Canadian dollars, except per share amounts)**

**1. GENERAL INFORMATION**

407 International Inc. and its subsidiaries (the "Company") are privately-held companies incorporated under the laws of Ontario, Canada and continued under the laws of Canada. The Company's address and principal place of business is 6300 Steeles Avenue West, Woodbridge, Ontario, L4H 1J1, Canada. The principal business of the Company is the ownership of 407 ETR Concession Company Limited ("407 ETR") and, through 407 ETR, the operation, maintenance and management of Highway 407 ETR (the "Highway") along with the construction of extensions and certain deferred interchanges, lane widenings and additional interchanges under the 99-year Highway 407 Concession and Ground Lease Agreement (the "Concession Agreement") with the Province of Ontario (the "Province") dated April 6, 1999. The interim condensed consolidated financial statements of the Company for the three and nine month periods ended September 30, 2020 (the "Financial Statements") were approved by the Board of Directors of the Company (the "Board") on October 28, 2020.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**a) Statement of compliance and application of new International Financial Reporting Standards ("IFRS")**

The Financial Statements are prepared on a going concern basis and have been presented in millions of Canadian dollars. These Financial Statements have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB").

The Financial Statements have been prepared using the same accounting policies and methods as were used for the Company's consolidated financial statements and the notes thereto for the years ended December 31, 2019 and 2018 (the "2019 Annual Financial Statements"). The Financial Statements should be read in conjunction with the 2019 Annual Financial Statements

**b) Basis of preparation**

The Financial Statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value. Historical cost is based on the fair value of consideration given or received in exchange for assets.

**c) Principles of consolidation**

The Financial Statements include the accounts of 407 International Inc., consolidated with those of its wholly-owned subsidiaries, 407 ETR, Canadian Tolling Company International Inc. ("Cantoll"), 9665641 Canada Inc. ("9665641 Inc.") and 11783378 Canada Inc. ("11783378 Inc."). Cantoll was incorporated in December 2001 to assume ownership of an integrated computerized accounting, billing and customer relationship management system and new transponders, and is responsible for the development of its integrated automation systems and the implementation and management of roadside tolling technologies and back-office systems. 9665641 Inc. was incorporated in March 2016 and 11783378 Inc. was incorporated in December 2019 to assist in the implementation of the Company's tax planning strategies. All inter-company transactions, balances, revenues and expenses have been eliminated on consolidation.

**407 INTERNATIONAL INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**Period ended September 30, 2020**  
**(in millions of Canadian dollars, except per share amounts)**

**3. FUTURE CHANGES TO ACCOUNTING POLICIES**

**IAS 1 Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (“IAS 1”):** This amendment states that an entity shall classify a liability as current when it does not have the right at the end of reporting period to defer settlement of liability for at least twelve months after the reporting period. The right to defer settlement must have substance, and if subject to complying with specified conditions, the right exists at the end of reporting period only if the entity complies with those conditions. Furthermore, classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period. If a liability meets the criteria for classification as non-current, it is classified as such even if management intends or expects to settle the liability within twelve months after the reporting period, or even if it settles the liability between the end of the reporting period and the date the financial statements are authorized for issue. However, in either of those circumstances, the entity is required to disclose information about the timing of settlement to enable users of the financial statements to understand the impact of the liability on the entity's financial position. The latest mandatory implementation of this amendment is January 1, 2022. The Company is currently evaluating the impact on the Financial Statements.

**4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENT**

The preparation of the Financial Statements in conformity with IFRS requires management of the Company (“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 accompanying notes to the Financial Statements. Judgement is commonly used in determining whether a balance or transaction should be recognized in the consolidated 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.

**a) Critical Estimates**

Toll revenues are recognized on the date trips are taken on the Highway. Certain exit and entrance transactions which are unbilled remain in queues to create the best match to form a complete trip. The unrated toll revenues in the queue are estimated using certain attributes of recently-rated trips which are then applied to the traffic transactions in the queue.

Depreciation of property, plant and equipment is estimated based on projected Vehicle Kilometres Travelled (“VKTs”) and estimated useful lives.

Deferred tax assets arising from the carry forward of unused tax losses and unused tax credits are recognized to the extent that it is probable that future taxable income will be available against which the unused tax losses and unused tax credits can be utilized. Projected taxable income is based on reasonable and prudent operating projections, assumptions and hypotheses. Taxable income is primarily impacted by traffic volume, toll rates, operating and maintenance expenses, and interest income and interest expense. Based on these projections, the Company anticipates that it will generate sufficient taxable income to utilize existing tax losses and tax credits prior to their expiration dates. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and derecognized to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the assets to be utilized in the future.

**407 INTERNATIONAL INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**Period ended September 30, 2020**  
**(in millions of Canadian dollars, except per share amounts)**

**4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENT (continued)**

Senior Bonds, Series 04-A2 is accounted for as a derivative financial instrument and is measured at its fair value. Given that the market for this financial instrument is not active, fair value is established by using a valuation technique that employs the break-even inflation rate ("BEIR") as a market proxy for future inflation and discounted cash flow analysis. BEIR is highly volatile and may lead to significant non-cash 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 holders of Senior Bonds, Series 04-A2.

Refer to the following notes for further details of other estimates:

| <b>Estimate</b>                 | <b>Note Reference</b> |
|---------------------------------|-----------------------|
| Provision for doubtful accounts | Note 13 (c)           |

These estimates and associated assumptions are based on past experience and other factors that are considered relevant and are reviewed on an on-going basis. Actual results could differ materially from these estimates.

**b) Judgement**

The identification of cash-generating units involves judgement. Cash inflows which are generated from customers' use of Highway 407 ETR are classified as a single cash-generating unit, while the cash inflows which are generated from contract work are classified as a separate cash-generating unit.

The Company has only one reportable segment. All non-current assets are located and revenues are generated in Canada.



**407 INTERNATIONAL INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**Period ended September 30, 2020**  
**(in millions of Canadian dollars, except per share amounts)**

**5. RESTRICTED CASH AND INVESTMENTS**

Pursuant to the Company's Master Trust Indenture (the "Indenture"), the Company established the debt service funds, the operating and maintenance and renewal and replacement funds, and debt service reserve funds, all of which are fully funded with Qualified Investments (as defined in the Indenture). The current portion is expected to become unrestricted within the next twelve months.

Pursuant to an agreement to provide tolling, billing and back-office services relating to Highway 407 (the "Tolling Services Contract"), the Company established a Tolling Services Contract segregated funds account which is funded with cash and cash equivalents.

Restricted cash and investments consist of:

|   | <b>As at</b>              |                          |
|---|---------------------------|--------------------------|
|   | <b>September 30, 2020</b> | <b>December 31, 2019</b> |
| Current   |                           |                          |
| Debt service funds  | \$ 101.0                  | \$ 86.8                  |
| Operating and maintenance reserve and renewal and replacement funds ("O&M and R&R Funds") | 175.6                     | 174.1                    |
|   | <u>\$ 276.6</u>           | <u>\$ 260.9</u>          |
| Non-current   |                           |                          |
| Debt service reserve funds  | \$ 520.6                  | \$ 481.8                 |
| Tolling Services Contract segregated funds  | 9.0                       | 9.0                      |
|   | <u>\$ 529.6</u>           | <u>\$ 490.8</u>          |
| Total   | <u>\$ 806.2</u>           | <u>\$ 751.7</u>          |

Restricted cash and investments consist of:

|                                    | <b>As at</b>              |                          |
|------------------------------------|---------------------------|--------------------------|
|                                    | <b>September 30, 2020</b> | <b>December 31, 2019</b> |
| Cash                               | \$ 234.7                  | \$ 246.4                 |
| Bankers' Acceptances               | 56.1                      | 86.6                     |
| Guaranteed Investment Certificates | 149.9                     | 151.2                    |
| Bank Bonds                         | 30.5                      | -                        |
| Federal Notes                      | 97.2                      | 10.3                     |
| Floating Rate Notes                | 182.6                     | 111.7                    |
| Treasury Bills                     | 44.0                      | 106.0                    |
| Provincial Promissory Notes        | 11.2                      | 39.5                     |
|                                    | <u>\$ 806.2</u>           | <u>\$ 751.7</u>          |

**407 INTERNATIONAL INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**Period ended September 30, 2020**  
**(in millions of Canadian dollars, except per share amounts)**

**5. RESTRICTED CASH AND INVESTMENTS (continued)**

Cash movements in restricted cash and investments were as follows:

|   | <u>Three-month period ended</u><br><u>September 30</u> |                | <u>Nine-month period ended</u><br><u>September 30</u> |                |
|---|--|----------------|---|----------------|
|   | <u>2020</u>  | <u>2019</u>    | <u>2020</u>   | <u>2019</u>    |
| Contributions to debt service funds         | \$ 102.9   | \$ 102.4       | \$ 347.5  | \$ 316.2       |
| Contributions to refunding bond fund        | -  | -              | 722.3   | 300.0          |
| Interest payments on long-term debt         | (91.7)   | (82.2)         | (324.4)   | (280.3)        |
| Repayments of long-term debt                | (3.0)  | (2.9)          | (714.6)   | (309.1)        |
| Interest received                           | 4.7  | 3.7            | 11.0  | 12.4           |
| Transfers to cash and cash equivalents      | -  | -              | (54.3)  | (25.1)         |
| Establishment of debt service reserve funds | -  | -              | 69.2  | 43.1           |
|   | <u>\$ 12.9</u>   | <u>\$ 21.0</u> | <u>\$ 56.7</u>  | <u>\$ 57.2</u> |

**407 INTERNATIONAL INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**Period ended September 30, 2020**  
**(in millions of Canadian dollars, except per share amounts)**

**6. PROPERTY, PLANT AND EQUIPMENT**

|  | Toll highway      | Toll equipment  | Back Office Systems | Transponders   | Operations centre | Office equipment | Motor vehicles | Leased Equipment | Assets under construction | Total             |
|--|-------------------|-----------------|---------------------|----------------|-------------------|------------------|----------------|------------------|---------------------------|-------------------|
| <b>Cost</b>                                |                   |                 |                     |                |                   |                  |                |                  |                           |                   |
| Balance at December 31, 2019               | \$ 2,670.9        | \$ 102.1        | \$ 163.0            | \$ 39.0        | \$ 95.6           | \$ 14.2          | \$ 6.7         | \$ 24.2          | \$ 92.3                   | \$ 3,208.0        |
| Additions                                  | 1.4               | -               | -                   | 4.0            | 0.6               | 1.2              | -              | 2.0              | 69.6                      | 78.8              |
| Retirements                                | -                 | -               | -                   | (2.5)          | -                 | -                | -              | (0.2)            | -                         | (2.7)             |
| Transfers                                  | 40.3              | 11.5            | 1.3                 | -              | 0.8               | -                | -              | -                | (53.9)                    | -                 |
| Balance at September 30, 2020              | <u>\$ 2,712.6</u> | <u>\$ 113.6</u> | <u>\$ 164.3</u>     | <u>\$ 40.5</u> | <u>\$ 97.0</u>    | <u>\$ 15.4</u>   | <u>\$ 6.7</u>  | <u>\$ 26.0</u>   | <u>\$ 108.0</u>           | <u>\$ 3,284.1</u> |
| <b>Accumulated depreciation</b>            |                   |                 |                     |                |                   |                  |                |                  |                           |                   |
| Balance at December 31, 2019               | \$ 469.6          | \$ 55.5         | \$ 113.3            | \$ 24.2        | \$ 21.8           | \$ 9.9           | \$ 6.3         | \$ 13.8          | \$ -                      | \$ 714.4          |
| Depreciation expense                       | 24.1              | 6.4             | 13.1                | 4.6            | 2.7               | 1.4              | 0.2            | 5.9              | -                         | 58.4              |
| Retirements                                | -                 | -               | -                   | (2.5)          | -                 | -                | -              | (0.2)            | -                         | (2.7)             |
| Balance at September 30, 2020              | <u>\$ 493.7</u>   | <u>\$ 61.9</u>  | <u>\$ 126.4</u>     | <u>\$ 26.3</u> | <u>\$ 24.5</u>    | <u>\$ 11.3</u>   | <u>\$ 6.5</u>  | <u>\$ 19.5</u>   | <u>\$ -</u>               | <u>\$ 770.1</u>   |
| <b>Carrying amount, December 31, 2019</b>  | <u>\$ 2,201.3</u> | <u>\$ 46.6</u>  | <u>\$ 49.7</u>      | <u>\$ 14.8</u> | <u>\$ 73.8</u>    | <u>\$ 4.3</u>    | <u>\$ 0.4</u>  | <u>\$ 10.4</u>   | <u>\$ 92.3</u>            | <u>\$ 2,493.6</u> |
| <b>Carrying amount, September 30, 2020</b> | <u>\$ 2,218.9</u> | <u>\$ 51.7</u>  | <u>\$ 37.9</u>      | <u>\$ 14.2</u> | <u>\$ 72.5</u>    | <u>\$ 4.1</u>    | <u>\$ 0.2</u>  | <u>\$ 6.5</u>    | <u>\$ 108.0</u>           | <u>\$ 2,514.0</u> |

During the three and nine month periods ended September 30, 2020, capitalized borrowing costs aggregating to \$0.7 and \$2.0 respectively (2019 - \$0.6 and \$0.9, respectively), were included as additions to assets under construction. The average interest capitalization rate relating to the borrowing cost was 2.39% for the three and nine month periods ended September 30, 2020 (2019 – 3.49%).

Assets under construction mainly include work in progress on major highway construction or improvement projects, back office systems development projects, tolling and roadside equipment and buildings.

**7. INTANGIBLE ASSETS**

|  | <b>Concession</b> |                 |                   |
|--|-------------------|-----------------|-------------------|
|  | <b>Rights</b>     | <b>Licences</b> | <b>Total</b>      |
| <b>Cost</b>                                |                   |                 |                   |
| Balance at December 31, 2019               | \$ 1,676.1        | \$ 9.2          | \$ 1,685.3        |
| Balance at September 30, 2020              | <u>\$ 1,676.1</u> | <u>\$ 9.2</u>   | <u>\$ 1,685.3</u> |
| <b>Accumulated amortization</b>            |                   |                 |                   |
| Balance at December 31, 2019               | \$ 166.4          | \$ 5.7          | \$ 172.1          |
| Amortization expense                       | 14.4              | 0.7             | 15.1              |
| Balance at September 30, 2020              | <u>\$ 180.8</u>   | <u>\$ 6.4</u>   | <u>\$ 187.2</u>   |
| <b>Carrying amount, December 31, 2019</b>  | <u>\$ 1,509.7</u> | <u>\$ 3.5</u>   | <u>\$ 1,513.2</u> |
| <b>Carrying amount, September 30, 2020</b> | <u>\$ 1,495.3</u> | <u>\$ 2.8</u>   | <u>\$ 1,498.1</u> |

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**8. TRADE RECEIVABLES AND OTHER**

|                                   | As at              |                   |
|-----------------------------------|--------------------|-------------------|
|                                   | September 30, 2020 | December 31, 2019 |
| Trade receivables                 | \$ 374.8           | \$ 418.5          |
| Allowance for doubtful accounts   | (192.1)            | (185.6)           |
|                                   | 182.7              | 232.9             |
| Prepayments and other receivables | 15.2               | 17.6              |
|                                   | \$ 197.9           | \$ 250.5          |

Trade receivables are net of certain amounts that were billed to customers but excluded from revenues in accordance with the revenue recognition policy for toll and fee revenues and includes contract receivable invoiced to the customer upon reaching contract milestone.

Prepayments and other receivables includes prepaids, other non-trade related receivables and an advance payment to supplier.

**Movement in Trade Receivables**

|  | Three-month period ended<br>September 30 |          | Nine-month period ended<br>September 30 |           |
|--|--|----------|---|-----------|
|  | 2020                                     | 2019     | 2020                                    | 2019      |
| Balance, beginning of period             | \$ 329.6                                 | \$ 428.5 | \$ 418.5                                | \$ 391.3  |
| Revenues                                 | 265.7                                    | 420.9    | 683.1                                   | 1,120.5   |
| Contract billings to customer            | -  | -        | 2.5                                     | -         |
| Bad debts written off, net of recoveries | (0.9)                                    | (4.9)    | (7.1)                                   | (6.9)     |
| Receipts from customers                  | (221.1)                                  | (411.2)  | (725.8)                                 | (1,073.2) |
| Other                                    | 1.5                                      | 1.5      | 3.6                                     | 3.1       |
| Balance, end of period                   | \$ 374.8                                 | \$ 434.8 | \$ 374.8                                | \$ 434.8  |

**Movement in Allowance for Doubtful Accounts**

Changes in the allowance for doubtful accounts are as follows:

|  | Three-month period ended<br>September 30 |          | Nine-month period ended<br>September 30 |          |
|--|--|----------|---|----------|
|  | 2020                                     | 2019     | 2020                                    | 2019     |
| Balance, beginning of period             | \$ 188.9                                 | \$ 176.6 | \$ 185.6                                | \$ 168.5 |
| Provision for doubtful accounts          | 4.2                                      | 8.1      | 14.0                                    | 19.7     |
| Bad debts written off, net of recoveries | (0.9)                                    | (4.9)    | (7.1)                                   | (6.9)    |
| Other adjustments                        | (0.1)                                    | (0.7)    | (0.4)                                   | (2.2)    |
| Balance, end of period                   | \$ 192.1                                 | \$ 179.1 | \$ 192.1                                | \$ 179.1 |

The provision for doubtful accounts has been included in expenses, and is net of any recoveries that were provided for in prior periods.

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**9. ISSUED CAPITAL**

|   | As at              |                   |
|---|--------------------|-------------------|
|   | September 30, 2020 | December 31, 2019 |
| Share capital   | \$ 775.0           | \$ 775.0          |
| Contributed surplus   | 29.6               | 29.6              |
|   | \$ 804.6           | \$ 804.6          |
| Share capital comprises:  |                    |                   |
| Authorized - Unlimited  |                    |                   |
| 775,000,003 common shares issued and outstanding (\$ nil par value) |                    |                   |
| (2019 - 775,000,003, \$ nil par value)                              |                    |                   |
|   | \$ 775.0           | \$ 775.0          |

Payments of dividends per share were \$0.323 and \$0.563 for the three and nine month periods ended September 30, 2020 (2019 - \$0.323 and \$0.968, respectively).

**10. RESERVE**

*Cash flow hedging reserve*

|                          | Three-month period ended<br>September 30 |         | Nine-month period ended<br>September 30 |         |
|--------------------------|--|---------|---|---------|
|                          | 2020                                     | 2019    | 2020                                    | 2019    |
|                          | Balance, beginning of period             | \$ 11.3 | \$ 12.0                                 | \$ 11.7 |
| Other comprehensive loss | (0.2)                                    | (0.2)   | (0.6)                                   | (0.6)   |
| Balance, end of period   | \$ 11.1                                  | \$ 11.8 | \$ 11.1                                 | \$ 11.8 |

The cash flow hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in cash flow hedges, net of unrecognized deferred taxes of \$0.1 (2019 - \$0.1) and will be reclassified to interest and other expenses over periods of up to 20 years of which approximately \$0.8 will be reclassified during the next 12 months.

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**11. LONG-TERM DEBT**

|   | As at              |                   |
|---|--------------------|-------------------|
|   | September 30, 2020 | December 31, 2019 |
| <b>Senior Bonds:</b>  |                    |                   |
| \$400.0, Series 99-A2, 6.47%, maturing July 27, 2029                                | \$ 393.6           | \$ 393.2          |
| \$300.0, Series 99-A3, 6.75%, maturing July 27, 2039                                | 235.3              | 241.2             |
| \$208.3, Series 99-A5, 5.328%, maturing December 1, 2021                            | -                  | 306.1             |
| \$208.3, Series 99-A6, 5.328%, maturing December 1, 2026                            | 306.6              | 305.4             |
| \$208.3, Series 99-A7, 5.328%, maturing December 1, 2031                            | 306.3              | 304.9             |
| \$325.0, Series 00-A2, 5.29%, maturing December 1, 2039                             | 358.7              | 363.0             |
| \$340.0, Series 04-A3, 5.96%, maturing December 3, 2035                             | 338.4              | 338.4             |
| \$400.0, Series 10-A3, 4.30%, maturing May 26, 2021                                 | -                  | 399.6             |
| \$350.0, Series 11-A1, 4.45%, maturing November 15, 2041                            | 347.5              | 347.4             |
| \$400.0, Series 12-A1, 4.19%, maturing April 25, 2042                               | 397.3              | 397.2             |
| \$400.0, Series 12-A2, 3.98%, maturing September 11, 2052                           | 395.5              | 395.4             |
| \$200.0, Series 13-A1, 4.68%, maturing October 7, 2053                              | 198.7              | 198.7             |
| \$250.0, Series 14-A1, 3.35%, maturing May 16, 2024                                 | 249.2              | 249.1             |
| \$150.0, Series 15-A1, 3.30%, maturing March 27, 2045                               | 148.6              | 148.5             |
| \$500.0, Series 15-A2, 3.83%, maturing May 11, 2046                                 | 496.1              | 496.0             |
| \$500.0, Series 16-A1, 3.60%, maturing May 21, 2047                                 | 496.1              | 496.0             |
| \$350.0, Series 16-A2, 2.43%, maturing May 4, 2027                                  | 348.6              | 348.4             |
| \$250.0, Series 17-A1, 3.43%, maturing June 1, 2033                                 | 248.3              | 248.3             |
| \$500.0, Series 17-A2, 3.65%, maturing September 8, 2044                            | 496.0              | 496.0             |
| \$500.0, Series 18-A1, 3.72%, maturing May 11, 2048                                 | 496.9              | 496.8             |
| \$300.0, Series 19-A1, 3.14%, maturing March 6, 2030                                | 298.1              | 298.0             |
| \$500.0, Series 19-A2, 3.67%, maturing March 6, 2049                                | 495.9              | 495.8             |
| \$700.0, Series 20-A1, 2.84%, maturing March 7, 2050                                | 694.3              | -                 |
| \$350.0, Series 20-A2, 1.80%, maturing May 22, 2025                                 | 348.1              | -                 |
| \$400.0, Series 20-A3, 2.59%, maturing May 22, 2032                                 | 397.3              | -                 |
| <b>Other Senior Bonds:</b>  |                    |                   |
| \$162.3, Series 04-A2, 3.276%, maturing July 27, 2039 (note 13 (a))                 | 181.6              | 183.8             |
| <b>Credit Facilities</b>  | -                  | 25.0              |
| <b>Junior Bonds:</b>  |                    |                   |
| \$165.0, Series 00-B1, 7.125%, maturing July 26, 2040                               | 164.4              | 164.4             |
| <b>Subordinated Bonds:</b>  |                    |                   |
| \$480.0, Series 06-D1, 5.75%, maturing February 14, 2036                            | 477.6              | 477.6             |
| \$300.0, Series 17-D1, 2.47%, maturing September 8, 2022                            | 299.5              | 299.1             |
|   | <u>\$ 9,614.5</u>  | <u>\$ 8,913.3</u> |
| <b>Financial liabilities carried at Fair Value Through Profit or Loss ("FVTPL")</b> |                    |                   |
| Other Senior Bonds: Series 04-A2  | \$ 181.6           | \$ 183.8          |
| <b>Financial liabilities carried at amortized cost</b>                              |                    |                   |
| Senior Bonds  | \$ 8,491.4         | \$ 7,763.4        |
| Credit Facilities   | -                  | 25.0              |
| Junior Bonds  | 164.4              | 164.4             |
| Subordinated Bonds  | 777.1              | 776.7             |
|   | <u>9,432.9</u>     | <u>8,729.5</u>    |
|   | <u>\$ 9,614.5</u>  | <u>\$ 8,913.3</u> |
| Current   | \$ 25.4            | \$ 49.3           |
| Non-current   | 9,589.1            | 8,864.0           |
|   | <u>\$ 9,614.5</u>  | <u>\$ 8,913.3</u> |

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**11. LONG-TERM DEBT (continued)**

**Interest and Other Expenses**

|  | Three-month period ended<br>September 30 |                 | Nine-month period ended<br>September 30 |                 |
|--|--|-----------------|---|-----------------|
|  | 2020                                     | 2019            | 2020                                    | 2019            |
| Interest expense on bonds and credit facility                      | \$ 101.8                                 | \$ 101.0        | \$ 344.3                                | \$ 309.8        |
| Non-cash inflation component of:                                   |  |                 |   |                 |
| Interest expense RRBs  | 9.6                                      | 8.6             | 0.6                                     | 25.0            |
| Interest expense (recovery), Senior Bond, Series 04-A2             | 2.6                                      | 1.1             | (5.3)                                   | 3.3             |
| Fair value adjustment, Senior Bond, Series 04-A2                   | 25.4                                     | (1.5)           | 3.1                                     | 12.0            |
| Capitalized interest   | (0.7)                                    | (0.6)           | (2.0)                                   | (0.9)           |
| Total Interest Expense on Long-term debt                           | <u>138.7</u>                             | <u>108.6</u>    | <u>340.7</u>                            | <u>349.2</u>    |
| Interest income on financial assets designated as FVTPL            | (3.3)                                    | (6.3)           | (13.4)                                  | (18.8)          |
| Other expense  | 0.1                                      | 0.3             | 0.6                                     | 0.9             |
| Other income:  |  |                 |   |                 |
| Reclassification of gains and losses on cash flow hedges (note 10) | (0.2)                                    | (0.2)           | (0.6)                                   | (0.6)           |
|  | <u>\$ 135.3</u>                          | <u>\$ 102.4</u> | <u>\$ 327.3</u>                         | <u>\$ 330.7</u> |

**Senior Bonds**

On March 6, 2020, the Company issued \$700.0 of 2.84% Senior Bonds, Series 20-A1.

On May 22, 2020, the Company issued \$350.0 of 1.80% Senior Bonds, Series 20-A2 and \$400.0 of 2.59% Senior Bonds, Series 20-A3.

On June 22, 2020, the Company redeemed all outstanding Senior Bonds, Series 10-A3 for a redemption price of \$413.9 plus accrued interest of \$1.3.

On June 24, 2020, the Company redeemed all outstanding Senior Bonds, Series 99-A5 for a redemption price of \$323.4 plus accrued interest of \$1.0.

**Real Return Bonds**

As at September 30, 2020, the inflation compensation component of all Senior Bonds Series 99-A6, Series 99-A7 and Series 00-A2 (collectively, the “RRBs”) was \$311.5 (2019 - \$412.0).

**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 (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 (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

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**11. LONG-TERM DEBT (continued)**

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, 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 September 30, 2020, the Company had drawn \$nil (2019 – \$25.0) under the Credit Facilities and has classified any drawn amount under current liabilities

**Current Portion of Long-Term Debt**

As at September 30, 2020, the current portion of long-term debt of \$25.4 (2019 - \$49.3) includes \$6.5 Senior Bonds, Series 99-A3 (2019 - \$6.1), \$10.9 Senior Bonds, Series 00-A2 (2019 - \$10.4), \$8.0 Senior Bonds, Series 04-A2 (2019 - \$7.8) and \$nil Credit Facilities (2019 - \$25.0).



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**12. LEASE OBLIGATIONS**

The Company entered into leases for the use of snow clearing equipment, computer equipment, office equipment and vehicles. Finance leases expire on various dates, at which time the Company has the right, but not the obligation, to purchase the equipment.

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

|   | Minimum lease payments |                   | Present value of<br>minimum lease payments |                          |
|---|------------------------|-------------------|--|--------------------------|
|   | September 30, 2020     | December 31, 2019 | September 30, 2020                         | December 31, 2019        |
| Remainder of 2020   | \$ 4.0                 | 6.8               | \$ 3.8                                     | 6.4                      |
| 2021  | 2.1                    | 3.2               | 2.0  | 3.1                      |
| 2022  | 0.6                    | 1.0               | 0.6  | 0.9                      |
| 2023  | 0.1                    | 0.3               | 0.1  | 0.3                      |
| 2024  | -                      | 0.1               | -  | 0.1                      |
|   | <u>6.8</u>             | <u>11.4</u>       | <u>6.5</u>                                 | <u>10.8</u>              |
| Less future finance charges at rates<br>varying between 0% to 8.91% | (0.3)                  | (0.6)             | -  | -                        |
| Present value of minimum lease payments                             | <u>\$ 6.5</u>          | <u>\$ 10.8</u>    | <u>\$ 6.5</u>                              | <u>\$ 10.8</u>           |
|   |                        |                   | <u>September 30, 2020</u>                  | <u>December 31, 2019</u> |
| Current portion of lease obligations                                |                        |                   | \$ 3.8                                     | \$ 6.4                   |
| Non-current portion of lease obligations                            |                        |                   | <u>2.7</u>                                 | <u>4.4</u>               |
|   |                        |                   | <u>\$ 6.5</u>                              | <u>\$ 10.8</u>           |

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**13. FINANCIAL INSTRUMENTS**

**a) Fair Value of Financial Instruments**

**Current financial assets and liabilities**

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

**Non-current restricted cash and investments**

The Company compares and uses publicly-available quotations provided by major Canadian financial institutions to determine the fair values. The carrying amounts approximate fair values.

**Long-term debt**

The fair value of the long-term debt (including the current portion) as at September 30, 2020 was \$11,627.40 (2019 - \$10,443.6) determined using publicly-available quotations provided by a major Canadian financial institution, except for Senior Bonds, Series 04-A2, which was determined by using a valuation technique. These instruments are Level 2.

**Senior Bonds, Series 04-A2**

Senior Bonds, Series 04-A2 is a derivative financial instrument and is reported at fair value. The fair value of Senior Bonds, Series 04-A2 as at September 30, 2020 was \$181.6 (2019 - \$183.8) which was determined by using a valuation technique which estimated future inflation of 1.2% (2019 - 1.4%) based on the BEIR and applied a nominal discount rate of 2.3% (2019 - 3.0%). During the three and nine month periods ended September 30, 2020, the fair value of Senior Bonds, Series 04-A2 increased by \$2.2 (2019 - increased by \$1.7) due to the change in the Company's corporate spread. As at September 30, 2020, a 10 basis points decrease in the nominal discount rate would increase the fair value of Senior Bonds, Series 04-A2 by approximately \$1.9 (2019 - \$2.0).

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**13. FINANCIAL INSTRUMENTS (continued)**

**Fair value hierarchy**

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

Level 1 of the fair value hierarchy includes unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 includes inputs for the asset or liability that are not based on observable market data.

|   | <b>Assets Measured at Fair Value</b> |                |                   |                                |                |                   |
|---|--------------------------------------|----------------|-------------------|--------------------------------|----------------|-------------------|
|   | <b>As at September 30, 2020</b>      |                |                   | <b>As at December 31, 2019</b> |                |                   |
|   | <b>Level 1</b>                       | <b>Level 2</b> | <b>Level 3</b>    | <b>Level 1</b>                 | <b>Level 2</b> | <b>Level 3</b>    |
| <b>Financial assets measured at FVTPL</b> |                                      |                |                   |                                |                |                   |
| Cash and cash equivalents                 | \$ 528.0                             | \$ -           | \$ -              | \$ 296.4                       | \$ -           | \$ -              |
| Restricted cash and investments           | 806.2                                | -              | -                 | 751.7                          | -              | -                 |
|   | <u>\$ 1,334.2</u>                    | <u>\$ -</u>    | <u>\$ -</u>       | <u>\$ 1,048.1</u>              | <u>\$ -</u>    | <u>\$ -</u>       |
| <b>Total fair value</b>                   |                                      |                | <u>\$ 1,334.2</u> |                                |                | <u>\$ 1,048.1</u> |

|  | <b>Liabilities Measured at Fair Value</b> |                 |                 |                                |                 |                 |
|--|---|-----------------|-----------------|--------------------------------|-----------------|-----------------|
|  | <b>As at September 30, 2020</b>           |                 |                 | <b>As at December 31, 2019</b> |                 |                 |
|  | <b>Level 1</b>                            | <b>Level 2</b>  | <b>Level 3</b>  | <b>Level 1</b>                 | <b>Level 2</b>  | <b>Level 3</b>  |
| <b>Financial liabilities measured at FVTPL</b> |   |                 |                 |                                |                 |                 |
| Senior Bonds, Series 04-A2                     | \$ -                                      | \$ 181.6        | \$ -            | \$ -                           | \$ 183.8        | \$ -            |
|  | <u>\$ -</u>                               | <u>\$ 181.6</u> | <u>\$ -</u>     | <u>\$ -</u>                    | <u>\$ 183.8</u> | <u>\$ -</u>     |
| <b>Total fair value</b>                        |   |                 | <u>\$ 181.6</u> |                                |                 | <u>\$ 183.8</u> |

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**13. FINANCIAL INSTRUMENTS (continued)**

**b) Capital Risk Management**

The Company defines its capital as follows:

1. Long-term debt, including the current portion; and
2. Cash and cash equivalents.

The Company's objectives when managing capital are to:

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

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

Under the terms of the Indenture and Supplemental Indentures, the Company may not incur additional indebtedness that would result in a downgrade to the credit ratings of certain of its existing indebtedness. The Company may only make interest payments relating to subordinated debt and dividend payments to shareholders upon the satisfaction of certain financial covenants. The Board reviews the level of dividends paid to the Company's shareholders. The Company was in compliance with all its financial covenants as at December 31, 2019 and September 30, 2020.

There were no changes in the Company's approach to capital management during the three and nine month periods ended September 30, 2020.

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**13. FINANCIAL INSTRUMENTS (continued)**

**c) 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 on-going basis.

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

Trade receivables and other are aged as follows:

|                        | <b>As at</b>              | <b>As at</b>             |
|------------------------|---------------------------|--------------------------|
|                        | <b>September 30, 2020</b> | <b>December 31, 2019</b> |
| Unbilled               | \$ 70.0                   | \$ 82.2                  |
| 0-60 days              | 68.5                      | 90.5                     |
| 61-90 days             | 10.1                      | 10.5                     |
| 91-120 days            | 4.5                       | 8.1                      |
| 121-150 days           | 2.2                       | 7.8                      |
| 151+ days              | 27.4                      | 33.8                     |
| Sub total <sup>1</sup> | <u>182.7</u>              | <u>232.9</u>             |
| Other <sup>2</sup>     | <u>15.2</u>               | <u>17.6</u>              |
|                        | <u>\$ 197.9</u>           | <u>\$ 250.5</u>          |

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

2. Other consists of prepaids, 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.

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**13. FINANCIAL INSTRUMENTS (continued)**

The provision for doubtful accounts is based principally on historical collection rates and Management's expectation of success rates for collection of overdue accounts by the Ontario Registrar of Motor Vehicles (the "Registrar") through refusing to renew or issue 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 receivable balances as Management continues to monitor the collection of outstanding 407 ETR charges through the Licence Plate Denial process with the Ontario Ministry of Transportation (the "MTO"), as well as collections through 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 when 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 percent in the weighted-average provision rate would have increased the provision for doubtful accounts by approximately \$2.7 and \$6.8 (2019 - \$4.3 and \$11.3) and decreased net income by approximately \$1.9 and \$5.0 (2019 - \$3.1 and \$8.3) for the three and nine month periods ended September 30, 2020 respectively.

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

**Interest Rate Risk**

As at September 30, 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 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 \$0.9 and \$3.1 (2019 - \$0.7 and \$2.2) and net income by approximately \$0.7 and \$2.3 (2019 - \$0.5 and \$1.6) for the three and nine month periods ended September 30, 2020, respectively.

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**13. FINANCIAL INSTRUMENTS (continued)**

**Inflation Risk**

The Company is exposed to inflation risk as interest expense and debt service payments relating to 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 \$8.7 (2019 - \$8.7), decreased net income by approximately \$6.4 (2019 - \$6.4) and increased debt service payments by approximately \$0.2 and \$0.3 (2019 - \$0.2 and \$0.6) for the three and nine month periods ended September 30, 2020, respectively. 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 \$5.4 (2019 - \$5.6) and decreased net income by approximately \$4.0 (2019 - \$4.1) for three and nine month periods ended September 30, 2020, respectively. A decrease of 10 basis points in the BEIR would have reduced interest expense by approximately \$5.3 (2019 - \$5.5) and increased net income by approximately \$3.9 (2019 - \$4.0) for the three and nine month periods ended September 30, 2020, respectively. This inflation risk is partially mitigated by the Company's right to increase toll rates.

**d) 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, short-term investments and restricted cash and investments are invested in highly-liquid interest-bearing investments.

The following are the commitments, contractual maturities and related interest obligations as at September 30, 2020:

|  | <u>Less than<br/>1 year</u> | <u>1 to 2<br/>years</u> | <u>2 to 3<br/>years</u> | <u>3 to 4<br/>years</u> | <u>4 to 5<br/>years</u> | <u>Beyond<br/>5 years</u> |
|--|-----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|---------------------------|
| Trade and other payables               | \$ 56.9                     | \$ -                    | \$ -                    | \$ -                    | \$ -                    | \$ -                      |
| Contract liabilities                   | 17.0                        | -                       | -                       | -                       | -                       | -                         |
| Lease obligations                      | 3.8                         | 2.0                     | 0.6                     | 0.1                     | -                       | -                         |
| Interest payments on lease obligations | 0.2                         | 0.1                     | -                       | -                       | -                       | -                         |
| Long-term debt                         | 17.5                        | 318.5                   | 19.6                    | 270.7                   | 372.0                   | 7,803.4                   |
| Derivative financial liability         | 8.0                         | 8.0                     | 8.0                     | 8.0                     | 8.0                     | 111.7                     |
| Interest payments on long-term debt    | 368.1                       | 366.9                   | 358.4                   | 356.8                   | 346.9                   | 4,700.1                   |
|  | <u>\$ 471.5</u>             | <u>\$ 695.5</u>         | <u>\$ 386.6</u>         | <u>\$ 635.6</u>         | <u>\$ 726.9</u>         | <u>\$ 12,615.2</u>        |

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**14. REVENUES**

|                               | Three-month period ended<br>September 30 |                 | Nine-month period ended<br>September 30 |                   |
|-------------------------------|--|-----------------|---|-------------------|
|                               | 2020                                     | 2019            | 2020                                    | 2019              |
| Revenues                      |  |                 |   |                   |
| Tolling                       | \$ 240.6                                 | \$ 395.8        | \$ 624.3                                | \$ 1,050.3        |
| Fee                           | 25.1                                     | 25.1            | 58.8                                    | 70.2              |
| Contract                      | -  | 5.5             | -                                       | 5.5               |
|                               | <u>\$ 265.7</u>                          | <u>\$ 426.4</u> | <u>\$ 683.1</u>                         | <u>\$ 1,126.0</u> |
| Timing of revenue recognition |  |                 |   |                   |
| At a point in time            |  |                 |   |                   |
| Tolling                       | \$ 240.6                                 | \$ 395.8        | \$ 624.3                                | \$ 1,050.3        |
| Fee                           | 13.1                                     | 13.4            | 25.8                                    | 35.8              |
|                               | <u>\$ 253.7</u>                          | <u>\$ 409.2</u> | <u>\$ 650.1</u>                         | <u>\$ 1,086.1</u> |
| Over time                     |  |                 |   |                   |
| Fee                           | 12.0                                     | 11.7            | 33.0                                    | 34.4              |
| Contract                      | -  | 5.5             | -                                       | 5.5               |
|                               | <u>\$ 12.0</u>                           | <u>\$ 17.2</u>  | <u>\$ 33.0</u>                          | <u>\$ 39.9</u>    |

**15. EXPENSES**

|                               | Three-month period ended<br>September 30 |                | Nine-month period ended<br>September 30 |                 |
|-------------------------------|--|----------------|---|-----------------|
|                               | 2020                                     | 2019           | 2020                                    | 2019            |
| Systems operations            | \$ 10.0                                  | \$ 9.7         | \$ 30.0                                 | \$ 26.5         |
| Customer operations           | 16.2                                     | 24.4           | 49.7                                    | 65.3            |
| Highway operations            | 5.2                                      | 6.7            | 19.5                                    | 24.4            |
| General and administration    | 7.7                                      | 7.2            | 25.2                                    | 21.3            |
| Contract                      | -  | 4.6            | -                                       | 4.6             |
| <b>Operating expenses</b>     | <b>39.1</b>                              | <b>52.6</b>    | <b>124.4</b>                            | <b>142.1</b>    |
| Depreciation and amortization | 24.1                                     | 26.4           | 73.5                                    | 78.4            |
|                               | <u>\$ 63.2</u>                           | <u>\$ 79.0</u> | <u>\$ 197.9</u>                         | <u>\$ 220.5</u> |

Systems operations expenses include staff salaries and other costs for developing, operating and maintaining the Company's tolling system, office computer network and integrated automation systems.

Customer operations expenses include costs 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, transponder distribution, billing, customer address system access fees, ombudsman services, collection of overdue accounts and the provision for doubtful accounts.

Highway operations expenses include costs of operating activities such as maintenance of the major elements of the highway systems including roadway surfaces, bridges, culverts, drainage and lighting systems, together with seasonal maintenance, highway patrol operations, road safety enforcement and police enforcement.



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**15. EXPENSES (continued)**

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

Depreciation and amortization expenses reflect the expense of property, plant and equipment and intangible assets over their respective useful lives. Substantially all of the depreciation and amortization expenses relate to highway operations and systems operations assets.

Total expenses include employee salary and benefits of \$10.6 and \$32.0 (2019 - \$11.2 and \$32.3), of which \$0.3 and \$1.0 (2019 - \$0.4 and \$1.2) relate to short-term benefits of key management personnel for the three and nine month periods ended September 30, 2020 respectively. Key management personnel of the Company include the President and Chief Executive Officer and the Chief Financial Officer. Short-term benefits of key management personnel include wages, annual incentives and other benefits. The Company does not provide for share-based payments or other long-term benefits, but does provide post-employment benefits and termination benefits.

**16. COMMITMENTS AND CONTINGENCIES**

**Claims and Contingencies**

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

**17. CASH AND CASH EQUIVALENTS**

|                                       | As at                     |                          |
|---------------------------------------|---------------------------|--------------------------|
|                                       | <u>September 30, 2020</u> | <u>December 31, 2019</u> |
| Cash and cash equivalents consist of: |                           |                          |
| Cash                                  | \$ 228.8                  | \$ 187.1                 |
| Bankers' Acceptances                  | 75.7                      | -                        |
| Government Treasury Bills             | 223.5                     | 42.9                     |
| Provincial Promissory Notes           | -                         | 66.4                     |
|                                       | <u>\$ 528.0</u>           | <u>\$ 296.4</u>          |

Pursuant to the Indenture, the Company maintains a minimum cash balance of \$10.0 to fund working capital requirements. This amount is included as Cash and cash equivalents.

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**18. SUPPLEMENTARY CASH FLOW INFORMATION**

Net increase/(decrease) in financial liabilities:

|                                    | Three-month period ended |                  | Nine-month period ended |                 |
|------------------------------------|--------------------------|------------------|-------------------------|-----------------|
|                                    | September 30             |                  | September 30            |                 |
|                                    | 2020                     | 2019             | 2020                    | 2019            |
| Long-term debt                     | \$ (564.6)               | \$ 6.1           | \$ 701.2                | \$ 527.5        |
| Lease obligations                  | (0.6)                    | (1.0)            | (4.3)                   | -               |
| Accrued interest on long-term debt | 8.7                      | (17.8)           | 12.3                    | 248.0           |
|                                    | <u>\$ (556.5)</u>        | <u>\$ (12.7)</u> | <u>\$ 709.2</u>         | <u>\$ 775.5</u> |

Cash and non-cash movements in financial liabilities:

Cash movements:

|  |                   |                  |                 |                 |
|--|-------------------|------------------|-----------------|-----------------|
| Proceeds from issuance of long-term debt | \$ -              | \$ -             | \$ 2,358.7      | \$ 859.2        |
| Repayment of long-term debt              | (603.0)           | (2.9)            | (1,649.6)       | (369.1)         |
| Interest paid                            | (93.0)            | (82.6)           | (328.6)         | (282.8)         |
| Debt issue costs paid                    | (0.3)             | (0.1)            | (9.3)           | (5.5)           |
| Repayment of lease obligations           | (0.9)             | (1.0)            | (7.0)           | (3.1)           |
|  | <u>\$ (697.2)</u> | <u>\$ (86.6)</u> | <u>\$ 364.2</u> | <u>\$ 198.7</u> |

Non-cash movements:

|  |                 |                 |                 |                 |
|--|-----------------|-----------------|-----------------|-----------------|
| Interest expense on long-term debt and credit facility   | \$ 101.8        | \$ 101.0        | \$ 344.3        | \$ 309.8        |
| Interest expense - RRBs                                  | 9.6             | 8.6             | 0.6             | 25.0            |
| Interest expense (recovery) - Senior Bonds, Series 04-A2 | 2.6             | 1.1             | (5.3)           | 3.3             |
| Fair value adjustment - Senior Bonds, Series 04-A2       | 25.4            | (1.5)           | 3.1             | 12.0            |
| Increase (decrease) in accrued financing charges         | 0.1             | 0.2             | (0.4)           | 0.3             |
| Leased equipment additions                               | 1.2             | 0.1             | 2.7             | 3.2             |
|  | <u>\$ 140.7</u> | <u>\$ 109.5</u> | <u>\$ 345.0</u> | <u>\$ 353.6</u> |

Total net change

|  |                   |                |                 |                 |
|--|-------------------|----------------|-----------------|-----------------|
|  | <u>\$ (556.5)</u> | <u>\$ 22.9</u> | <u>\$ 709.2</u> | <u>\$ 552.3</u> |
|--|-------------------|----------------|-----------------|-----------------|

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**19. RELATED PARTY TRANSACTIONS**

The following are the shareholders of the Company as at September 30, 2020:

- 11200232 Canada Inc., a wholly-owned subsidiary of Cintra Global S.E. (“Cintra”)
- 4352238 Canada Inc., a wholly-owned subsidiary of Cintra
- MICI Inc., a subsidiary of Canada Pension Plan Investment Board (“CPPIB”)
- 7577702 Canada Inc., a subsidiary of CPPIB
- Ramp Canada Roads LP, a subsidiary of CPPIB
- CPPIB Ramp Canada Roads Inc., a subsidiary of CPPIB
- SNC-Lavalin Highway Holdings Inc., a wholly-owned subsidiary of SNC-Lavalin Group Inc.

The Company entered into the following transactions with related parties:

| Related Party                           | Relationship               | Classification in the Financial Statements | Nature of transaction with the related party | Three-month period ended September 30 |          | Nine-month period ended September 30 |          |
|---|----------------------------|--|--|---------------------------------------|----------|--------------------------------------|----------|
|   |                            |  |  | 2020                                  | 2019     | 2020                                 | 2019     |
| SNC-Lavalin Inc.                        | Parent of shareholder      | Property, plant and equipment              | Payment for design costs                     | \$ -                                  | \$ 0.1   | \$ -                                 | \$ 0.1   |
| Cintra Servicios de Infraestructuras SA | Subsidiary of shareholder  | Operating expenses                         | Payment for administration costs             | \$ 0.2                                | \$ 0.2   | \$ 0.7                               | \$ 0.6   |
| Blackbird Infrastructure Group          | Subsidiary of some parents | Operating expenses                         | Reimbursement of administration costs        | \$ -                                  | \$ (0.2) | \$ (0.1)                             | \$ (0.3) |

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

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

| Related Party                           | Relationship               | Classification in the Financial Statements | As at              |                   |
|---|----------------------------|--|--------------------|-------------------|
|   |                            |  | September 30, 2020 | December 31, 2019 |
| Cintra Servicios de Infraestructuras SA | Subsidiary of shareholder  | Trade and other payables                   | \$ 1.0             | \$ 0.5            |
| Blackbird Infrastructure Group          | Subsidiary of some parents | Trade and other receivables                | \$ -               | \$ (0.2)          |

The following are the wholly-owned subsidiaries of the Company as at September 30, 2020:

- 407 ETR
- Cantoll
- 9665641 Inc.
- 11783378 Inc.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

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**20. GUARANTEES**

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

*a) Director/officer indemnification agreements*

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

*b) Other indemnification agreements*

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

**21. SEASONAL NATURE OF THE BUSINESS**

The Company's results for the three and nine month periods ended September 30, 2020 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in traffic volumes, notwithstanding the effects of the COVID-19 pandemic noted below. The Company has historically experienced a higher volume of travellers on the Highway during the third quarter as a result of leisure and recreational travellers, while the winter months in the first and fourth quarters generally result in lower trip volumes. Operating expenses remain relatively steady throughout the year. The Company's interest expense on the RRBs and Senior Bond, Series 04-A2 is calculated based on changes in the CPI; as such, interest expense in respect of these bonds will fluctuate due to the volatility and seasonal nature of the CPI.

**22. COVID-19 PANDEMIC UPDATE**

The COVID-19 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 which is having a significant negative impact on the Company's revenues and results of operations. Despite lower revenues, the Company continues to maintain sufficient liquidity to satisfy all of its financial obligations during 2020. Despite this liquidity, if the pandemic continues for a prolonged period of time and as a consequence the timing and pace of economic recovery are longer and slower than expected, the Company may not be able to satisfy certain financial covenants under its master trust indenture and credit agreements, which could restrict interest payments on subordinated debt and dividend payments to shareholders. The COVID-19 pandemic may also impact the future cost of capital as a result of disrupted credit markets or potential credit rating actions in relation to the Company's debt.

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**22. COVID-19 PANDEMIC UPDATE (continued)**

Management continues to monitor and 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.