



407 International Inc.
Management Discussion and Analysis
September 30, 2023



TABLE OF CONTENTS

FORWARD-LOOKING INFORMATION	2
NON-IFRS FINANCIAL MEASURES	2
COMPANY BACKGROUND	3
OUR BUSINESS	3
SELECT KEY FINANCIAL AND TRAFFIC RESULTS	5
TRAFFIC RESULTS	6
RESULTS OF OPERATIONS.....	6
LIQUIDITY AND CAPITAL RESOURCES	13
OVERVIEW OF CURRENT OPERATIONS	16
RISKS AND UNCERTAINTIES	21
ACCOUNTING MATTERS.....	24
RELATED PARTY TRANSACTIONS.....	24
OVERALL OUTLOOK	25

The following is management's discussion and analysis dated October 26, 2023 (MD&A) of the consolidated financial condition and results of operations of 407 International Inc. and its subsidiaries (Company) for the three and nine months ended September 30, 2023. The MD&A should be read in conjunction with the interim condensed consolidated financial statements of the Company and the related notes (Financial Statements) for the same periods and the consolidated financial statements of the Company and the related notes for the years ended December 31, 2022 and 2021 as well as the management's discussion and analysis for the year ended December 31, 2022. Unless otherwise indicated, all financial information presented in this MD&A is in millions of Canadian dollars and is prepared in accordance with International Financial Reporting Standards (IFRS). Additional information about the Company, including the Financial Statements and the Company's 2022 annual information form (AIF), dated February 16, 2023, can be accessed on the System for Electronic Document Analysis and Retrieval+ (SEDAR+) ([sedarplus.ca](https://www.sedarplus.ca)) or the Company's website at [407etr.com](https://www.407etr.com). Information contained in or otherwise accessible through the website referenced in the MD&A does not form part of this MD&A and is not incorporated by reference into the MD&A.

FORWARD-LOOKING INFORMATION

This MD&A includes statements about expected future events and financial and operating results that are forward-looking. Forward-looking statements may include words such as anticipate, believe, could, expect, goal, intend, may, outlook, plan, strive, target and will. These forward-looking statements, including those set out in the Outlook sections of the MD&A, reflect the internal projections, expectations, future growth, performance and business prospects and opportunities of the Company and are based on information currently available to the Company. Actual results and developments may differ materially from results and developments discussed in the forward-looking statements as they are subject to a number of risks and uncertainties discussed under the section entitled Risks and Uncertainties and are made based on certain assumptions including those relating to traffic and the operation and maintenance of Highway 407 ETR (as defined below). These forward-looking statements are also subject to the risks described in the AIF under the heading Risk Factors. Readers are cautioned not to place undue reliance on the Company's forward-looking statements and assumptions as management of the Company (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 October 26, 2023, the date of this 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

This MD&A contains certain non-IFRS financial measures and ratios, including earnings before interest and other expenses, taxes, depreciation and amortization (EBITDA) and EBITDA as a percentage of revenues (EBITDA Margin). Readers are cautioned that EBITDA and EBITDA Margin should not be construed as an alternative to net income or net income as a percentage of revenues as an indicator of the Company's performance. Management uses EBITDA and EBITDA Margin to assist in identifying underlying operating trends and it allows for a comparison of the Company's operating performance on a consistent basis. Readers may also use EBITDA and EBITDA Margin, among other financial measures, to assist in the valuation of the Company. A reconciliation of EBITDA to net income can be found under Results of Operations – EBITDA.

COMPANY BACKGROUND

407 International Inc. was incorporated on March 17, 1999 under the *Business Corporations Act* (Ontario) (OBCA) for the purpose of submitting a bid to the government of the Province of Ontario (Province) to acquire all of the issued and outstanding shares of 407 ETR Concession Company Limited (407 ETR). On May 5, 1999, the Company completed the acquisition of all of the issued and outstanding shares of 407 ETR. Currently, the principal business of the Company is the ownership of 407 ETR and, through 407 ETR, the operation, maintenance, management and expansion of Highway 407 ETR (see Our Business section below). On October 10, 2003, the Company was continued under the *Canada Business Corporations Act* (CBCA).

On December 6, 2001, 2007466 Ontario Inc. was incorporated under the OBCA. On October 10, 2003, 2007466 Ontario Inc. was continued under the CBCA under the name Canadian Tolling Company International Inc. (Cantoll). Cantoll owns and is responsible for the development of the integrated automation systems, the implementation and management of road-side tolling technologies and back-office systems and transponder management. 14374304 Canada Inc. (14374304 Inc.) was incorporated under the CBCA on September 20, 2022 to assist in the implementation of the Company's tax planning strategies.

The Company has no direct or indirect subsidiaries other than 407 ETR, Cantoll, and 14374304 Inc. The registered and principal executive office of the Company, and the head office of 407 ETR, are located at 6300 Steeles Avenue West, Woodbridge, Ontario, L4H 1J1.

The current shareholders of the Company are Cintra 4352238 Investments Inc., a wholly-owned subsidiary of Cintra Global S.E. (Cintra); MICI Inc., 7577702 Canada Inc., Ramp Canada Roads LP and CPPIB Ramp Canada Roads Inc., subsidiaries of Canada Pension Plan Investment Board (CPPIB), also known as CPP Investments, and AtkinsRéalis Highway Holdings Inc. (formerly SNC-Lavalin Highway Holdings Inc.), a wholly-owned subsidiary of AtkinsRéalis Canada Inc. (formerly SNC-Lavalin Inc.).

OUR BUSINESS

The Company, through its wholly-owned subsidiary 407 ETR, operates, maintains and owns the right to toll the world's first all-electronic, open-access toll highway, which is situated just north of Toronto and runs from Burlington to Pickering (Highway 407 ETR). The Company's mission is to serve the Greater Toronto and Hamilton Area (GTA) by providing customers with a fast, safe, reliable customer experience on and off the highway. Highway 407 ETR consists of 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's ability to create economic value depends largely on its ability to sustain revenue growth and 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 on the future demand for this alternate transportation route in the GTA and the levels of toll rates. 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, and additional traffic from Highway 407 (as defined below in Fee Revenue). Future demand could also be affected by economic conditions such as shocks to the macroeconomic environment (changes

in fuel prices, inflation, employment, general spending patterns and trends relating to work-from-home and remote work).

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 finance operating and capital expenditures, interest to bondholders and income tax payments.



SELECT KEY FINANCIAL AND TRAFFIC RESULTS

	For the periods ended September 30							
	Three months				Nine months			
	2023	2022	Change		2023	2022	Change	
			\$	%			\$	%
Financial Results								
Revenues	419.4	392.0	27.4	7.0%	1,119.6	964.7	154.9	16.1%
Operating Expenses (excluding depreciation & amortization)	49.0	46.4	2.6	5.6%	151.0	130.3	20.7	15.9%
Depreciation and amortization	24.3	25.6	(1.3)	(5.1%)	73.0	73.6	(0.6)	(0.8%)
Interest and other expenses	97.6	129.1	(31.5)	(24.4%)	301.4	342.9	(41.5)	(12.1%)
Income before tax	248.5	190.9	57.6	30.2%	594.2	417.9	176.3	42.2%
Current income tax expense	58.9	42.2	16.7	39.6%	150.9	100.1	50.8	50.7%
Deferred income tax expense	7.1	8.6	(1.5)	(17.4%)	5.3	10.4	(5.1)	(49.0%)
Net Income	182.5	140.1	42.4	30.3%	438.0	307.4	130.6	42.5%
EBITDA¹	370.4	345.6	24.8	7.2%	968.6	834.4	134.2	16.1%
EBITDA Margin¹	88.3%	88.2%	0.0	0.2%	86.5%	86.5%	0.0	0.0%
Traffic Results								
			#	%			#	%
Traffic/Trips (in millions)²	30.65	28.33	2.32	8.2%	82.51	71.80	10.71	14.9%
Vehicle Kilometres Travelled ("VKTs") (in millions)³	742.68	678.95	63.73	9.4%	1,893.04	1,622.30	270.74	16.7%
Average Workday Trips (in thousands)	382.35	351.79	30.56	8.7%	347.81	302.60	45.21	14.9%
Average Trip Length ("ATL") (kilometres)⁴	24.23	23.97	0.26	1.1%	22.94	22.60	0.34	1.5%
Unbillable Trips (percent) ⁵	2.21%	2.24%	(0.0)	(1.3%)	2.32%	2.50%	(0.0)	(7.2%)
Average Revenue per Trip (\$) ⁶	13.56	13.69	(0.13)	(0.9%)	13.26	13.29	(0.03)	(0.2%)
Transponder Penetration Rate (percent) ⁷	75.92%	76.05%	(0.0)	(0.2%)	78.10%	78.50%	(0.0)	(0.5%)
Number of Transponders in Circulation at September 30 ⁸	1,730,684	1,661,518	69,166	4.2%	1,730,684	1,661,518	69,166	4.2%

1. EBITDA and EBITDA Margin are non-IFRS measures.

2. Trips are measured during the reporting period based on the number of vehicle transactions recorded on Highway 407 ETR.

3. VKTs refer to the sum of distances travelled on Highway 407 ETR during the reporting period.

4. ATL is calculated as the total VKTs divided by the total number of trips in the reporting period.

5. 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).

6. Average Revenue per Trip is calculated as total revenue less revenue from Highway 407 (as defined below in Fee Revenue) over total number of trips in the reporting period.

7. Transponder Penetration Rate is the ratio of transponder trips to total trips in the reporting period.

TRAFFIC RESULTS

Vehicle kilometers travelled during the three months ended September 30, 2023 were higher compared to the same period in 2022 and higher than the second quarter of 2023 due to an increase in mobility and rush-hour commuting as workplaces experienced a higher percentage of on-site employees combined with an increase in rehabilitation construction activities on Highway 401.

Vehicle kilometers travelled during the nine months ended September 30, 2023 were higher compared to the same period in 2022 primarily due to the lifting of pandemic-related restrictions that were in place during the first three months of 2022, which led to increased mobility and commuting to workplaces in 2023. Traffic growth was also supported by an increase in rehabilitation construction activities on Highway 401, and favourable weather conditions.

RESULTS OF OPERATIONS

REVENUES

	For the periods ended September 30							
	Three months				Nine months			
	2023	2022	Change		2023	2022	Change	
			\$	%			\$	%
Toll Revenue	394.6	363.6	31.0	8.5%	1,026.3	888.7	137.6	15.5%
Fee Revenue	24.8	28.4	(3.6)	(12.7%)	79.5	76.0	3.5	4.6%
Contract Revenue	-	-	-	0.0%	13.8	-	13.8	100.0%
Total Revenues	419.4	392.0	27.4	7.0%	1,119.6	964.7	154.9	16.1%

TOLL REVENUE

Toll revenue in the three and nine months ended September 30, 2023 was higher due to higher trips (8.2% and 14.9%) and higher VKTs (9.4% and 16.7%) compared to the same periods in 2022 respectively.

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. Toll rates have remained unchanged since February 2020.

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

Under Schedule 22 of the Concession and Ground Lease Agreement (Schedule 22), 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.

The Company and the Province are in agreement that the COVID-19 pandemic is considered a Force Majeure event under the provisions of the Concession and Ground Lease Agreement, and therefore that the Company is not subject to Schedule 22 payments until the end of the Force Majeure event. The Company and the Province are also in agreement that the Force Majeure event terminates when the traffic volumes on Highway

407 ETR reach pre-pandemic levels (measured as the average of 2017 to 2019), or when there is an increase in toll rates or user charges. Upon the termination of the Force Majeure event, the Company will be subject to Schedule 22 payments, if applicable, commencing the subsequent year.

FEE REVENUE

Fee revenue in the three months ended September 30, 2023 was lower compared to the same period in 2022 primarily due to lower interest on delinquent accounts. Fee revenue was higher in the nine months ended September 30, 2023 compared to the same period in 2022 due to higher account fees resulting from more video trips and higher service fees due to higher traffic volumes resulting from the removal of tolls on Highways 412 and 418.

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 (Registrar) to refuse to renew or issue vehicle permits until outstanding amounts are paid or settled. 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.

Also included in fees are service fees related to tolling, billing and back-office services billed to the Province for Highway 407. Highway 407 begins at the eastern terminus of Highway 407 ETR at Brock Road in Pickering and extends to Highways 35/115 and 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). Tolls on Highways 412 and 418 were removed April 5, 2022. The Province maintains public ownership, sets tolls and receives toll revenues in respect of its use. The Company continues to maintain the roadside tolling technology and provide tolling, billing and back-office services (the Tolling Agreement) for Highway 407. The operational aspect of the Tolling Agreement, 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.

CONTRACT REVENUE

Contract revenues earned in the nine months ended September 30, 2023 related to the reconfiguration of the road-side tolling technology in connection with the removal of tolls for Highways 412 and 418. The contract was completed on June 1, 2023.

REVENUE OUTLOOK

Management anticipates higher traffic volumes in 2023 with higher revenue than 2022.

OPERATING EXPENSES

	For the periods ended September 30							
	Three months				Nine months			
	2023	2022	Change		2023	2022	Change	
			\$	%			\$	%
System Operations	13.6	10.9	2.7	24.8%	42.4	31.7	10.7	33.8%
Customer Operations	21.9	20.6	1.3	6.3%	57.9	53.9	4.0	7.4%
Highway Operations	5.2	5.3	(0.1)	(1.9%)	20.9	19.9	1.0	5.0%
General and Administration	8.3	9.6	(1.3)	(13.5%)	24.8	24.8	0.0	0.0%
Contract Costs	-	-	-	0.0%	5.0	-	5.0	100.0%
Total Operating Expenses	49.0	46.4	2.6	5.6%	151.0	130.3	20.7	15.9%

System operations includes staff salaries and other costs for developing, operating and maintaining the Company's tolling system, office computer network and integrated automation systems. System operations costs were higher in the three and nine months ended September 30, 2023 compared to the same periods in 2022 as a result of higher consulting and licencing costs mainly related to the Company's enterprise resource planning (ERP) and customer relationship management (CRM) project.

Customer operations includes costs incurred to operate the Company's call centre and customer relations group. These costs include account management salaries, transponder distribution, billing, customer address system access fees, ombudsman services and the collection of overdue accounts. Also included in customer operations is provision for lifetime expected credit loss (Lifetime ECL). Customer operations costs were higher in the three and nine months ended September 30, 2023 compared to the same periods in 2022 as a result of a higher provision for Lifetime ECL due to higher revenues.

Highway operations costs relate to operating activities such as the maintenance of 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 were lower in the three months ended September 30, 2023 compared to the same period in 2022 mainly due to timing of certain roadside maintenance costs and higher recoverable property damages. Highway operations expenses were higher in the nine months ended September 30, 2023 compared to the same period in 2022 mainly due to higher structure maintenance costs.

General and administration expenses include public relations, finance, administration, facilities, human resources, business process, legal, audit and executive costs. General and administration expenses were lower in the three months ended September 30, 2023 compared to the same period in 2022 mainly due to timing of donations and sponsorships. General and administration expenses were comparable in the first nine months of 2023 to the same period in 2022.

Contract expenses related to the reconfiguration of the road-side tolling technology in connection with the removal of tolls on Highways 412 and 418.

OPERATING EXPENSES OUTLOOK

Management anticipates higher traffic volumes and higher revenues in 2023 resulting in higher customer operations expenses. Management also anticipates higher system operations and general and administration costs as a result of price increases.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization were lower in the three and nine months ended September 30, 2023 compared to the same periods in 2022 mainly due to certain back office systems and office equipment being fully depreciated in 2023.

DEPRECIATION AND AMORTIZATION OUTLOOK

Management anticipates depreciation and amortization in 2023 to be comparable to 2022 as a result of higher highway depreciation from an increase in traffic volumes being offset by fully depreciable assets.

INTEREST AND OTHER EXPENSES

	For the periods ended September 30							
	Three months				Nine months			
	2023	2022	Change		2023	2022	Change	
		\$	%	\$	%	\$	%	
Interest expense on Bonds and Credit Facilities	114.7	105.7	(9.0)	(8.5%)	331.7	310.0	(21.7)	(7.0%)
Non-cash inflation component of:								
Interest expense (recovery) RRBs	10.2	21.8	11.6	53.2%	25.4	60.6	35.2	58.1%
Interest expense (recovery), Senior Bonds Series 04-A2	1.9	7.5	5.6	74.7%	3.6	21.0	17.4	82.9%
Fair value adjustment recovery, Senior Bonds, Series 04-A2	(11.6)	2.0	13.6	(680.0%)	(17.5)	(35.5)	(18.0)	(50.7%)
Capitalized Interest	(0.5)	(0.3)	0.2	66.7%	(1.4)	(0.9)	0.5	(55.6%)
Total Interest Expense on Long-Term Debt	114.7	136.7	22.0	(16.1%)	341.8	355.2	13.4	(3.8%)
Interest income on financial assets designated as FVTPL	(17.2)	(7.6)	9.6	126.3%	(41.9)	(11.5)	30.4	264.3%
Other interest expense (recovery)	0.3	0.2	(0.1)	(50.0%)	2.1	(0.2)	(2.3)	(1150.0%)
Reclassification of gain and losses on cash flow hedges	(0.2)	(0.2)	-	-	(0.6)	(0.6)	-	-
Total Interest and Other Expenses	97.6	129.1	(31.5)	(24.4%)	301.4	342.9	(41.5)	(12.1%)

INTEREST EXPENSE ON BONDS AND CREDIT FACILITIES

The interest expense on the Company's senior bonds was higher in the three and nine months ended September 30, 2023 compared to the same period in 2022 primarily due to interest expense on the issuance of \$500 million of Senior Bonds, Series 23-A1 on July 31, 2023 and a higher cash interest expense on Real Return Bonds, Series 99-A6 and Series 99-A7 (together, with Real Return Bonds, Series 00-A2, the RRBs) and Senior Bonds, Series 04-A2 due to a higher consumer price index (CPI) opening base. The interest expense on the Company's subordinated bonds was higher in the three and nine months ended September 30, 2023 compared to the same period in 2022 due to the additional interest expense of the issuance of \$350.0 million of Subordinated Bonds, Series 22-D1 and \$325.0 million of Subordinated Bonds, Series 22-D2, used in part

to refinance \$300.0 million of Subordinated Bonds, Series 17-D1 on September 8, 2022 and at higher interest rates.

NON-CASH INFLATION COMPONENT OF INTEREST EXPENSE

In the three and nine months ended September 30, 2023, the non-cash inflation component of the RRBs was favourable and the non-cash accretion on Senior Bonds, Series 04-A2 was favourable compared to the same period in 2022, in each case, mainly due to a lower increase in the CPI level.

FAIR VALUE ADJUSTMENT, SENIOR BONDS, SERIES 04-A2

The non-cash fair value adjustment to Senior Bonds, Series 04-A2 was favourable for the three months ended September 30, 2023 compared to the same period in 2022 and unfavourable for the nine months ended September 30, 2023 compared to the same period in 2022. The non-cash fair value adjustment recovery in the three and nine months ended September 30, 2023 was primarily due to an decrease in the break-even inflation rate (BEIR) coupled with an increase in the nominal discount rate (NDR).

INTEREST INCOME ON FINANCIAL ASSETS

Interest income from cash balances and investments was higher in the three and nine months ended September 30, 2023 compared to the same period in 2022, due to higher interest yields on investments and cash balances and a higher average cash balance partly due to proceeds from the \$500.0 million, Senior Bonds, Series 23-A1.

INTEREST AND OTHER EXPENSES OUTLOOK

With the exception of interest income, 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 2023 to be higher than 2022 due to the full year impact of additional leverage issued in 2022 and the additional leverage issued in 2023. The Company expects 2023 interest income to be higher than 2022 due to the higher interest rate environment.

INCOME TAXES

The combined annual current and deferred effective tax rate was 26.3% in 2023, which was slightly lower than the prior year effective tax rate of 26.4% due to prior period adjustments recorded in the current year. Current income tax expense was higher in the three and nine months ended September 30, 2023 compared to the same period in 2022 primarily due to higher earnings before taxes.

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 higher income tax expense due to higher earnings before taxes anticipated in 2023.

NET INCOME

During the three and nine months ended September 30, 2023, the Company recorded net income of \$182.5 million and \$438.0 representing an increase of \$42.4 million and \$130.6 million or 30% and 43% compared

to \$140.1 million and \$307.4 million for the same periods in 2022 respectively mainly due to higher revenues resulting from higher traffic volumes, lower interest and other expenses, offset by higher income taxes and higher operating expenses.

EBITDA

	For the periods ended September 30							
	Three months				Nine months			
	2023	2022	Change		2023	2022	Change	
			\$	%			\$	%
Net Income	182.5	140.1	42.4	30.3%	438.0	307.4	130.6	42.5%
Add: Current income tax expense	58.9	42.2	16.7	39.6%	150.9	100.1	50.8	50.7%
Add: Deferred income tax expense	7.1	8.6	(1.5)	(17.4%)	5.3	10.4	(5.1)	(49.0%)
Add: Interest and other expenses	97.6	129.1	(31.5)	(24.4%)	301.4	342.9	(41.5)	(12.1%)
Add: Depreciation and Amortization	24.3	25.6	(1.3)	(5.1%)	73.0	73.6	(0.6)	(0.8%)
EBITDA	370.4	345.6	24.8	7.2%	968.6	834.4	134.2	16.1%
EBITDA Margin	88.3%	88.2%			86.5%	86.5%		

EBITDA⁽¹⁾ increased in the three and nine months ended September 30, 2023 as a result of higher traffic volumes and revenues. EBITDA margin⁽¹⁾ increased by 0.1% from 88.2% to 88.3% in the three months ended September 30, 2023 compared with the same period in 2022 and remained consistent at 86.5% for the nine months ended September 30, 2023 compared with the same period in 2022.

⁽¹⁾EBITDA and EBITDA Margin are non-IFRS measures.

SUMMARY OF QUARTERLY RESULTS

Net Income and Net Income per Share	2023			2022				2021
	(In \$ Millions, except per share amounts)							
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	419.4	405.3	294.9	362.5	392.0	336.1	236.6	308.7
Operating Expenses	49.0	49.4	52.6	58.1	46.4	41.8	42.1	49.0
Depreciation and amortization	24.3	24.2	24.5	26.4	25.6	23.8	24.2	28.0
Interest and other expenses	97.6	122.2	81.6	104.1	129.1	121.3	92.5	124.7
Income tax expenses	66.0	54.1	36.1	46.0	50.8	39.1	20.6	29.6
Net income	182.5	155.4	100.1	127.9	140.1	110.1	57.2	77.4
Net income per share (basic and diluted)	0.235	0.201	0.129	0.165	0.181	0.142	0.074	0.100

Toll and fee revenues are subject to seasonal fluctuations that may materially impact quarter-to-quarter financial results. As a result, 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, trends related to work-from-

home and remote work and traffic volumes on neighbouring infrastructure. In particular, this seasonality generally results in relatively lower revenues during the first and fourth quarter, and relatively higher levels of toll and fee revenues in the remaining quarters. Due to these factors and the impact of the COVID-19 pandemic on traffic volumes, the historical quarterly results should not be relied upon to predict future trends. In respect of the third and fourth quarters of 2022, the impact of the COVID-19 pandemic and continuing effects on traffic volume have been less severe with each successive quarter, reflecting a steady recovery compared to the same periods in the preceding years. 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.

STATEMENT OF FINANCIAL POSITION ITEMS

	September 30, 2023	December 31, 2022	Change \$
Total Current Assets	1,515.3	883.0	632.3
Total Non-Current Assets	4,590.3	4,565.1	25.2
Total Current Liabilities	477.7	215.7	262.0
Total Non-Current Liabilities	10,897.5	10,639.4	258.1
Total Shareholders' Deficit	(5,269.6)	(5,407.0)	137.4

Total current assets are comprised of cash and cash equivalents, restricted cash and investments, trade receivables and other and income tax receivable. The increase in current assets as at September 30, 2023 compared to December 31, 2022 was primarily due to higher cash and cash equivalents partly due to proceeds from the July 2023 bond issuance and trade receivables due to higher revenues.

Total non-current assets are comprised of restricted cash and investments, other receivables, deferred tax assets, intangible assets and property, plant and equipment. The increase as at September 30, 2023 compared to December 31, 2022 was primarily due to the establishment of a debt service reserve fund for Senior Bonds, Series 23-A1, partially offset by lower property, plant and equipment and intangibles as a result of amortization.

Total current liabilities are comprised of trade and other payables, contract liabilities, lease obligations, accrued interest on long-term debt and the current portion of long-term debt. The increase at September 30, 2023 compared to December 31, 2022 was mainly due to the reclassification of the \$249.8 million Senior Bonds, Series 14-A1, scheduled to mature in May 2024, from non-current liabilities to current liabilities.

Total non-current liabilities are comprised of lease obligations, deferred tax liabilities and long-term debt. The increase in long-term debt at September 30, 2023 compared to December 31, 2022 was due to issuance of \$500.0 million of Senior Bonds, Series 23-A1 on July 31, 2023, an increase in the non-cash inflation compensation component on the RRBs due to an increase in CPI and increase in deferred tax liabilities. These increases were partially offset by the re-classification of Senior Bonds, Series 14-A1 to current portion of long-term debt of \$249.9 million as the series are due to mature within one year, a recovery of non-cash fair value adjustment expenses on Senior Bonds, Series 04-A2 and the reclassification of next repayments of Senior Bonds, Series 99-A3 and Senior Bonds, Series 00-A2 from non-current liabilities to current liabilities.

The Company's share capital and contributed surplus remained unchanged at September 30, 2023 at \$775.0 million (775,000,003 common shares issued and outstanding) and \$29.6 million, respectively, compared to December 31, 2022. Dividends paid in the three and nine months ended September 30, 2023 amounted to \$150.0 million and \$300.0, million respectively. Dividends paid to shareholders in the three and nine months ended September 30, 2022 amounted to \$200.0 million.

LIQUIDITY AND CAPITAL RESOURCES

	For the periods ended September 30					
	Three months			Nine months		
	2023	2022	Change \$	2023	2022	Change \$
Cash flows from operating activities						
Receipts from customers	\$ 396.0	\$ 353.5	\$ 42.5	\$ 1,028.8	\$ 868.6	\$ 160.2
Payments to suppliers and employees	(42.4)	(37.7)	(4.7)	(153.0)	(123.9)	(29.1)
Cash generated from operations	353.6	315.8	37.8	875.8	744.7	131.1
Interest received	19.5	9.3	10.2	40.0	12.2	27.8
Interest paid	(105.1)	(93.6)	(11.5)	(319.7)	(296.9)	(22.8)
Income tax refund/(paid)	(50.1)	(40.2)	(9.9)	(138.1)	(78.4)	(59.7)
	217.9	191.3	26.6	458.0	381.6	76.4
Cash flows from investing activities						
Additions to property, plant and equipment	(23.5)	(26.0)	\$ 2.5	(43.3)	(52.8)	\$ 9.5
Advance payment	(0.1)	(0.2)	0.1	(1.0)	(2.6)	1.6
Restricted cash and investments	(50.2)	(17.3)	(32.9)	(64.0)	(22.1)	(41.9)
Non-trade receivables and other	2.3	-	2.3	5.8	2.4	3.4
	(71.5)	(43.5)	(28.0)	(102.5)	(75.1)	(27.4)
Cash flows from financing activities						
Proceeds from credit facility	549.4	674.8	\$ (125.4)	549.4	751.8	\$ (202.4)
Debt issue costs	(3.4)	(3.1)	(0.3)	(3.5)	(3.1)	(0.4)
Repayment of long-term debt and credit facility	(53.8)	(303.5)	249.7	(61.6)	(387.9)	326.3
Repayment of lease obligations	(0.4)	(0.5)	0.1	(4.4)	(6.2)	1.8
Dividends paid to shareholders	(150.0)	(200.0)	50.0	(300.0)	(200.0)	(100.0)
	341.8	167.7	174.1	179.9	154.6	25.3
Increase in cash and cash equivalents	488.2	315.5	172.7	535.4	461.1	74.3
Cash and cash equivalents, beginning of period	416.7	452.6	(35.9)	369.5	307.0	62.5
Cash and cash equivalents, end of period	904.9	768.1	136.8	904.9	768.1	136.8

Cash and cash equivalents consist of cash, government treasury bills and provincial promissory notes with maturities of three months or less and are used for working capital and other general corporate purposes. Cash and cash equivalents as at September 30, 2023 were \$904.9 million, representing an increase of \$488.2 million from June 30, 2023 and representing an increase of \$535.4 million from December 31, 2022.

CASH FLOWS GENERATED FROM OPERATING ACTIVITIES

Cash flows generated from operating activities increased in the three and nine months ended September 30, 2023 compared to the same period in 2022, mainly due to higher cash receipts resulting from higher operating revenues and timing of cash receipts from customers and higher interest income received from investments and cash balances due to higher interest yield and higher average cash balances. These cash

inflows were partially offset by higher corporate income tax payments primarily due to higher earnings before taxes. Interest payments on the Company's bonds were higher primarily due to higher interest payments on additional subordinated debt issued in the prior year coupled with higher interest payments on RRBs and Senior Bonds, Series 04-A2 due to an increase in the CPI base. Cash payments for operating expenses were higher due to higher operating expenses and changes in working capital.

CASH FLOWS USED IN INVESTING ACTIVITIES

Cash flows used in investing activities increased during the three and nine months periods ended September 30, 2023 compared to the same periods in 2022. Restricted cash and investments increased mainly due to the establishment of a debt service reserve fund for Senior Bonds, Series 23-A1 and higher interest income received from debt service reserve balances and investments due to higher interest yields coupled with higher contributions to the Company's debt service fund resulting from the issuance of Senior Bonds, Series 23-A1. These increases were partially offset by higher interest payments on bonds coupled with higher partial repayment of long-term serial bonds. Additions to property, plant and equipment and intangibles during the three and nine months ended September 30, 2023 were lower compared to the same periods in 2022, due to a delay in certain highway, tolling and office refurbishment projects. Decreases in non-trade receivables were higher compared to the prior year mainly due to changes in third party account balances.

CASH FLOWS USED IN FINANCING ACTIVITIES

Cash flows generated in financing activities were higher in the three and nine months ended September 30, 2023 compared to the same period in 2022. Repayment of long-term debt was lower in both periods mainly due to the repayment of \$300.0 million of Subordinated Bonds, Series 17-D1 in the prior periods. Payment of dividends to shareholders in the third quarter of 2023 were lower compared to the same period in 2022, and higher for the nine month period of 2023 compared to the prior year. Proceeds from long-term debt issuance and drawdown on the Syndicated Credit Facility were lower in the three and nine months ended September 30, 2023 as compared to the prior periods. In 2023, the Company issued \$500.0 million of Senior Bonds, Series 23-A1 and drew \$50 million from its Syndicated Credit Facility. In 2022, the Company issued \$350.0 million of Subordinated Bonds, Series 22-D1 and \$325.0 million of Subordinated Bonds, Series 22-D2, and drew \$77 million from the Syndicated Credit Facility. Payments of obligations under finance leases were lower in the three and nine months ended September 30, 2023 compared to the same period in 2022.

LIQUIDITY OUTLOOK

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 and when determined by the board of directors of the Company (Board). The Company expects to gradually increase debt, while maintaining existing credit ratings on all debt obligations and being in compliance with the terms of the Master Trust Indenture dated as of July 20, 1999 and effective as of May 5, 1999 between the Company, 407 ETR and The Trust Company of Bank of Montreal (now BNY Trust Company of Canada) (Indenture). The additional debt, when incurred, will be used to fund operating and capital expenditures, to pay interest to debtholders, and to pay income tax while maintaining sufficient debt service coverage ratios.

OTHER LIQUIDITY INFORMATION

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 sedarplus.ca.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company has a credit agreement establishing a syndicated credit facility with four Canadian chartered banks (Syndicated Credit Facility). The Syndicated Credit Facility is a sustainability linked loan with three key performance indicators (KPIs) (i.e. green house gas, Board diversity and employee health and safety) and related targets to be measured against on an annual basis. Annual favourable or unfavourable pricing adjustments to the drawn and undrawn portion of the Syndicated Credit Facility will be made depending on whether or not the targets for each KPI have been met. The amount available to be drawn under the Syndicated Credit Facility is \$800.0 million.

As at September 30, 2023 and December 31, 2022, the Company had not drawn any amounts under the Syndicated Credit Facility.

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, corporate income tax payments and other general corporate purposes.

DERIVATIVE FINANCIAL INSTRUMENT

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.

EARNINGS COVERAGE

Earnings coverage is calculated as income before income tax expenses and interest expense on long-term debt less interest expense on long-term debt. Earnings coverage ratio is income before income tax expenses and interest expense on long-term debt, divided by interest expense on long-term debt. Earnings coverage and earnings coverage ratio are provided pursuant to and in compliance with National Instrument 44-102 *Shelf Distributions* of the Canadian Securities Administrators.

	Twelve months ended September 30			
	2023	2022	Change	
			\$	%
Income before income tax expenses and interest expense on long-term debt	1,226.8	1,005.2	221.6	22.0%
Interest expense on long-term debt	458.7	480.3	21.6	4.5%
Earnings Coverage	768.1	524.9	243.2	46.3%

The Company's earnings coverage ratios were 2.67 times and 2.09 times for the twelve months ended September 30, 2023 and 2022, respectively. The Company's earnings coverage ratio is different from the Company's debt service coverage ratio under the Indenture.

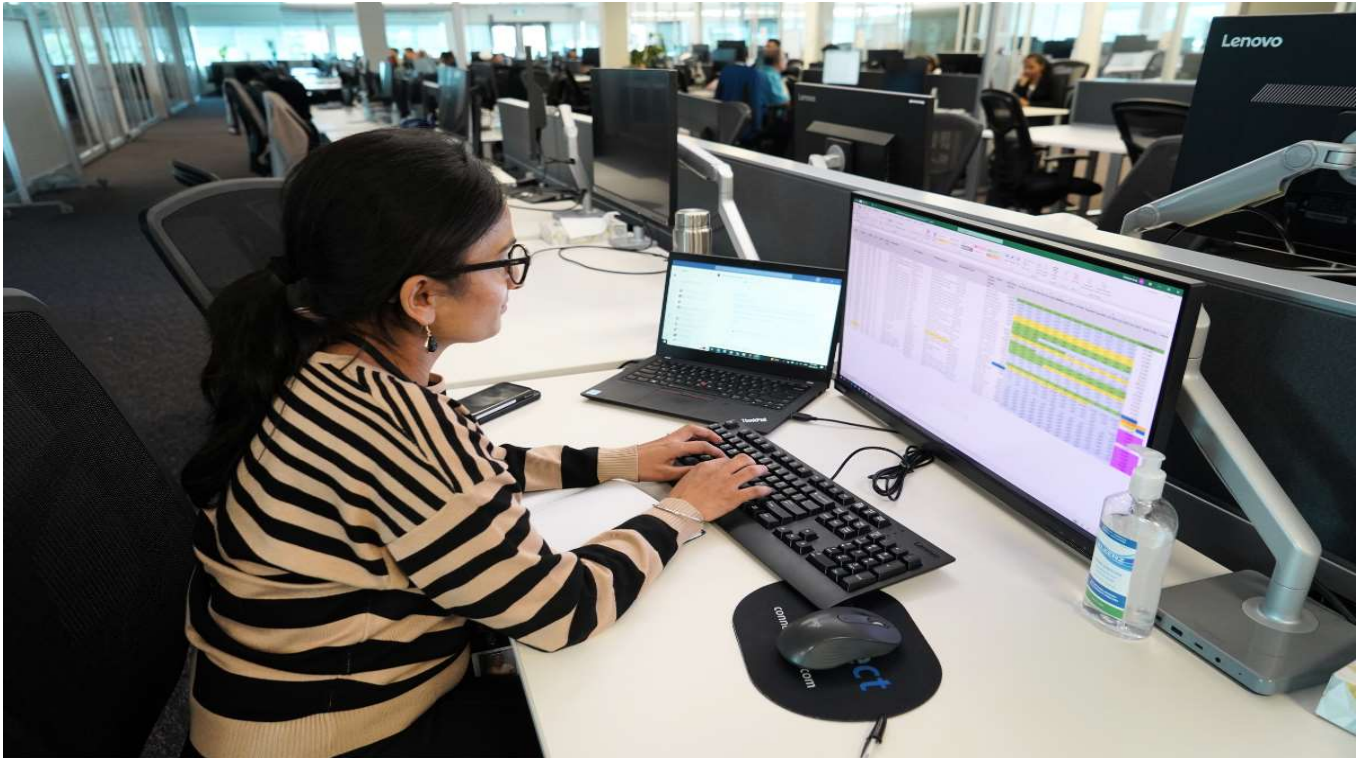
OVERVIEW OF CURRENT OPERATIONS

CONSTRUCTION



The Company makes improvements to Highway 407 ETR as needed through construction projects designed to increase capacity and improve traffic flow and customer convenience, including investments in widening bridge structures and adding new lanes, as required. The Company also regularly undertakes various rehabilitation initiatives designed to improve and replace existing elements of Highway 407 ETR 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.

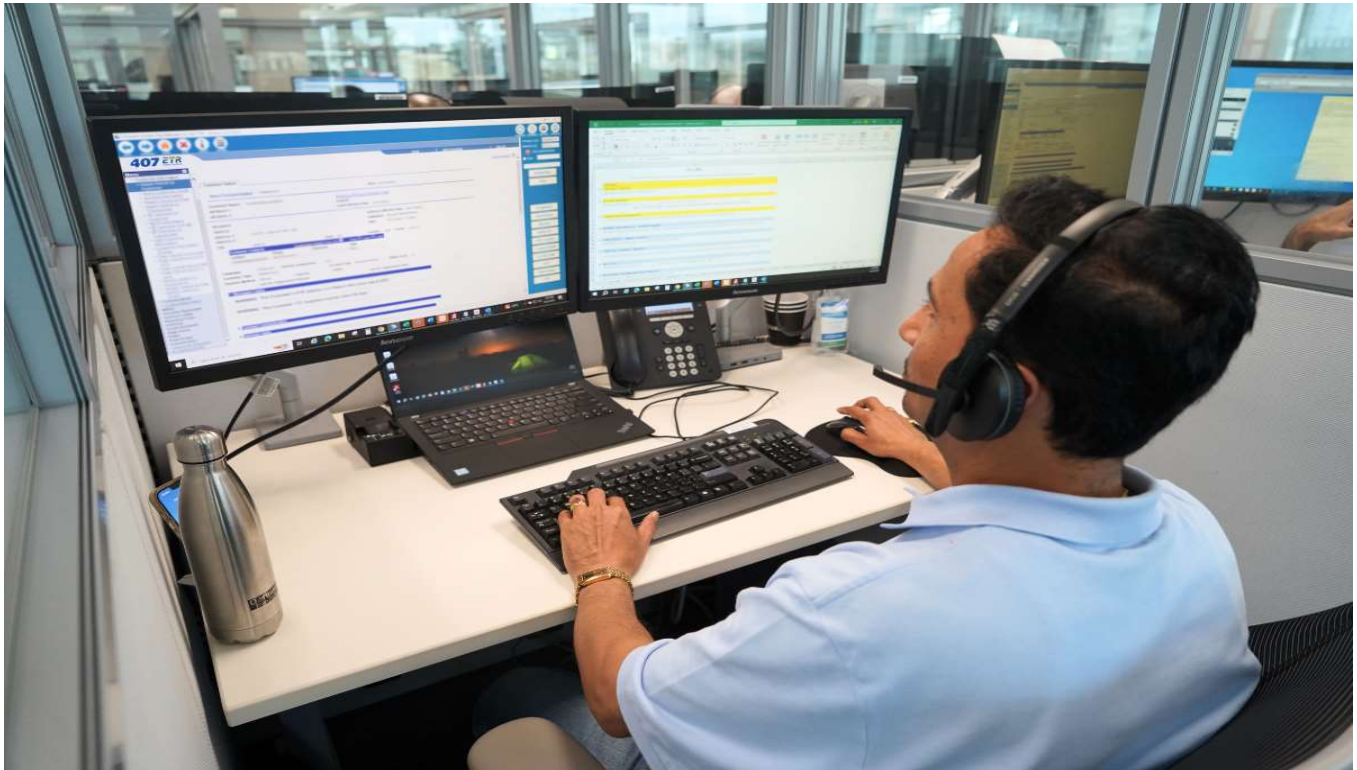
The reconfiguration of the road-side tolling technology in connection with the removal of tolls for Highways 412 and 418 was completed on June 1, 2023.



The Company is dedicated to enhancing the core capabilities of capturing and processing vehicle information with investments in various back-office systems and customer-facing platforms.

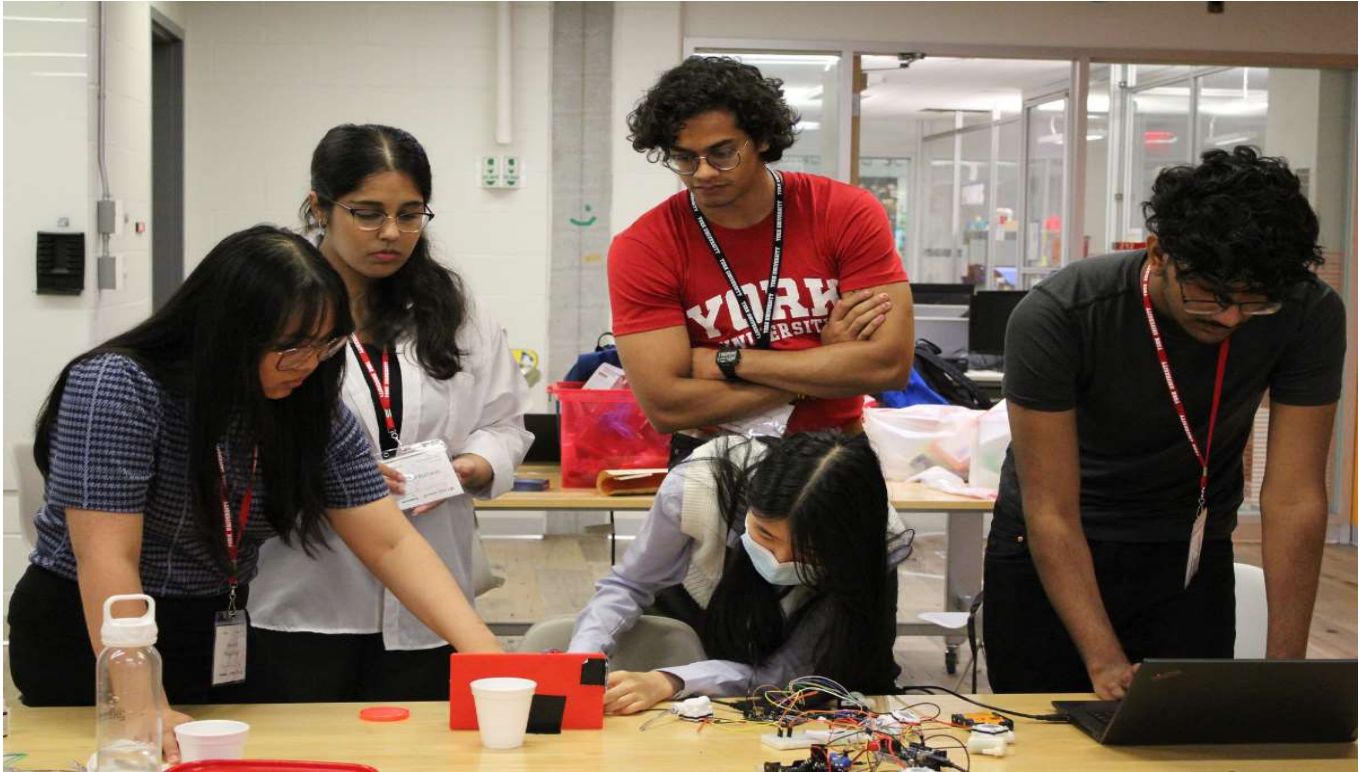
Work continued in the three months ended September 30, 2023 on a significant project to deliver a new ERP and CRM solution. This initiative will ultimately involve the majority of 407 ETR back-office processes and systems. A phased approach has been undertaken to manage implementation risks and 407 ETR has developed a release strategy that will balance the demands of introducing functionality while assuring quality and stability of business operations. The Company has gone live with a select group of customers at the end of 2022 and will be transitioning the majority of remaining customers in early 2024.

CUSTOMER SERVICE



	Three months ended September 30			
	2023	2022	Change	
			#	%
Inbound Calls (personal and business support)	120,388	140,909	(20,521)	(14.6%)
Live and Artificial Intelligence (AI) chat	84,249	16,837	67,412	400.4%
Email	11,565	16,202	(4,637)	(28.6%)
Interactive Voice Response (IVR)	11,376	33,190	(21,814)	(65.7%)
Total	227,578	207,138	20,440	9.9%

The Company's customer service representatives (CSRs) answer calls while the digital support specialists facilitate live conversations with customers and the general public online through the Company's chat function. The average wait time required for a customer to speak with a CSR was 3 seconds lower during the three months ended September 30, 2023 compared to the same period in 2022. The Company provides convenient self-service options for payments and updates through its website, IVR automated telephone attendant and text or email. Over 70% of the Company's customers are currently set up with paperless billing, which helps to facilitate better account management and lower costs.



407 ETR is focused on making life better for its customers and surrounding communities. The Company engages with a variety of stakeholders and community organizations through its memberships in industry associations and its support of not-for-profit and charitable organizations.

During the three months ended September 30, 2023, the Company announced a \$400,000 commitment to York University's Lassonde School of Engineering k2i (kindergarten to industry) academy. The Company's funding is being directed towards dismantling systemic barriers for underrepresented groups in STEM (science, technology engineering and math) and preparing the next generation for careers in these fields. The donation will be divided equally between two programs with the first program geared towards helping high school students discover innovative experiences in engineering and digital technologies that will prepare them for post-secondary programs and meaningful STEM careers. The second program is dedicated to help k2i expand its offerings to students underrepresented in STEM, including women, black and indigenous youth and those from low-income communities.



The Company's approach to environmental, social and governance reporting (ESG) practices is driven by its mission, vision and values and is directly linked to its core strategic objectives.

The Company believes that transparency and accountability to its investors and stakeholders regarding ESG commitments is critically important. The Company has adopted leading ESG reporting frameworks, specifically the Sustainability Accounting Standards Board Standards (SASB) and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) for its annual ESG reporting. On June 23, 2023 the Company released its 2022 ESG Report, *The Better Road*, which can be found on the Company's website at [407etr.com/esgreporting](https://www.407etr.com/esgreporting).

The Company has targeted a 25% reduction in Scope 1 and Scope 2 green house gas (GHG) emissions by 2030 relative to the 2018 benchmark year. In 2022, the Company reduced its GHG emissions by approximately 14% relative to the 2018 benchmark year.

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 extreme 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.

RISKS AND UNCERTAINTIES

The risks and uncertainties and risk management practices of the Company including risks related to toll revenues, operations and maintenance, information technology, debt rating and climate change have not changed during 2023 and are described in the Company's management's discussion and analysis for the year ended December 31, 2022 and the AIF available at sedarplus.ca.

CREDIT RISK

Financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, trade receivables and other, 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 Lifetime ECL 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 allowance for Lifetime ECL is 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:

	September 30, 2023	December 31, 2022
Unbilled	100.7	72.8
0 to 60 days	98.9	85.8
60 to 90 days	13.3	13.0
90 to 120 days	10.6	9.4
121 to 150 days	8.8	9.1
151 + days	95.5	55.4
Sub-total ¹	327.8	245.5
Other ²	15.1	19.4
Total	342.9	264.9

1. Amounts are net of allowance for Lifetime ECL and certain amounts that are billed to customers, but excluded from revenues in accordance with the revenue recognition policy for toll and fee revenue.

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 Lifetime ECL 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 Lifetime ECL 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.

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 allowance for Lifetime ECL.

Management continuously monitors the collection of overdue accounts in determining the allowance for Lifetime ECL. 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 Lifetime ECL by approximately \$4.2 million and \$11.2 million for the three and nine months ended September 30, 2023 respectively (2022 - \$3.9 million and \$9.6 million) and decreased net income by approximately \$3.1 million and \$8.3 million for the three and nine months ended September 30, 2023 respectively (2022 - \$2.9 million and \$7.1 million).

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 by controlling the level of operating and capital expenditures. Cash and cash equivalents and restricted cash and investments are invested in highly-liquid interest-bearing investments.

The following are the Company's commitments, contractual maturities and related interest obligations as at September 30, 2023:

	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	\$ 68.5	\$ -	\$ -	\$ -	\$ -	\$ -
Contract liabilities	12.9	-	-	-	-	-
Lease obligations	1.1	0.7	0.3	0.3	0.1	0.1
Interest payments on lease obligations	0.1	-	-	0.1	-	-
Long-term debt	272.7	374.0	25.5	731.7	378.4	8,682.2
Derivative financial liability	13.2	13.2	13.2	13.2	13.2	144.7
Interest payments on long-term debt	438.8	429.1	421.4	410.4	382.4	4,820.2
	\$807.3	\$817.0	\$460.4	\$1,155.7	\$774.1	\$13,647.2

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.

The Company does not have any scheduled bond maturities until May 2024, when the \$250.0 million Senior Bonds, Series 14-A1, are scheduled to mature. The Company is confident in its ability to refinance this maturity with similar bond instruments.

INTEREST RATE RISK

As at September 30, 2023, 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 million and \$2.4 million (2022 - \$0.8 million and \$2.2 million) and net income by approximately \$0.7 million and \$1.8 million (2022 - \$0.6 million and \$1.6 million) for the three and nine months ended September 30, 2023, respectively.

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 CPI. An increase of 50 basis points in the CPI would have increased interest expense by approximately \$7.5 million (2022 - \$6.9 million), decreased net income by approximately \$5.5 million (2022 - \$5.1 million) and increased debt service payments by approximately \$0.2 million and \$0.7 million (2022 - \$0.3 million and \$0.9 million) for the three and nine months ended September 30, 2023, 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 \$3.4 million (2022 - \$4.0 million) and decreased net income by approximately \$2.5 million (2022 - \$2.9 million) for the three and nine months ended September 30, 2023. A decrease of 10 basis points in the BEIR would have reduced interest expense by approximately \$3.4 million (2022 - \$3.9 million) and

increased net income by approximately \$2.5 million (2022 - \$2.9 million) for the three and nine months ended September 30, 2023.

ACCOUNTING MATTERS

ACCOUNTING POLICIES

The Financial Statements are prepared in accordance with IFRS. 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.

FUTURE CHANGES IN ACCOUNTING POLICIES

The following amendment is effective for annual reporting periods beginning on or after January 1, 2024. The Company has assessed the impacts of the amendment and concluded no material impact on the Financial Statements.

IAS 1 PRESENTATION OF FINANCIAL STATEMENTS – NON-CURRENT LIABILITIES WITH COVENANTS (IAS 1):

IAS 1 requires a company to classify debt as non-current only if the company can avoid settling the debt in the 12 months after the reporting date. However, a company's ability to do so is often subject to complying with covenants.

The amendments to IAS 1 specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, the amendments require a company to disclose information about these covenants in the notes to the financial statements.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Financial Statements in conformity with IFRS 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.

RELATED PARTY TRANSACTIONS

Transactions with related parties are measured at their exchange amounts, which is the consideration agreed to by the parties. For the three and nine months ended September 30, 2023 and 2022, the Company paid \$0.2 million and \$0.7 million (2022 - \$0.1 million and \$0.4 million) for administration costs included in operating expenses to the subsidiary of its shareholder, Cintra. Amounts owed to Cintra included in current liabilities as at September 30, 2023 are \$0.5 million (December 31, 2022 - \$0.3 million).

OVERALL OUTLOOK

The outlook for 2023 is positive with revenue growth driven by higher traffic volumes. The Company is focused on driving traffic growth while managing expenses, maintaining a high level of customer satisfaction and achieving efficiencies throughout the organization. As a result, 2023 earnings before income tax expense and interest expense are expected to be higher than 2022.