407 International

407 INTERNATIONAL INC.

Management's Discussion and Analysis

September 30, 2018

Table of Contents

Management's Discussion and Analysis

The following is a discussion of the consolidated financial condition and results of operations of 407 International Inc. and its subsidiaries (the "Company") for the three and nine month periods ended September 30, 2018 (the "MD&A"). The MD&A should be read in conjunction with the Interim Condensed Consolidated Financial Statements of the Company and the notes thereto for the three and nine month periods ended September 30, 2018 (the "Financial Statements") and the Consolidated Financial Statements of the Company and the notes thereto for the years ended December 31, 2017 and 2016 (the "2017 Annual Financial Statements") as well as the management's discussion and analysis for the year ended December 31, 2017. The Financial Statements were prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting ("IAS 34")* and the 2017 Annual Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Company has adopted IFRS 9 on a retrospective basis without restating comparative periods. The Company adopted IFRS 15 using a modified retrospective transition approach, which involves not restating periods prior to the date of initial application. As a result of the manner of adoption, the comparative periods do not reflect adjustments related to the differences in accounting under the newly adopted accounting standards. All amounts in the Financial Statements, the 2017 Annual Financial Statements and the MD&A are shown in millions of Canadian dollars unless otherwise indicated. Additional information relating to the Company, including the Company's 2017 Annual Information Form dated February 15, 2018 (the "AIF"), can also be accessed on the System for Electronic Document Analysis and Retrieval ("SEDAR") (www.sedar.com).

Forward-Looking Statements

The MD&A includes statements about expected future events and financial and operating results that are forward-looking. Forward-looking statements may include words such as anticipate, believe, could, expect, goal, intend, may, outlook, plan, strive, target and will. These forward-looking statements, including those set out in the "Outlook" sections of the MD&A, reflect the internal projections, expectations, future growth, performance and business prospects and opportunities of the Company and are based on information currently available to the Company. Actual results and developments may differ materially from results and developments discussed in the forward-looking statements as they are subject to a number of risks and uncertainties discussed under the section entitled "Risks and Uncertainties" and are made based on certain assumptions including those relating to traffic and the operation and maintenance of Highway 407 ETR (as defined below). These forward-looking statements are also subject to the risks described in the AIF under the heading "Risk Factors". Readers are cautioned not to place undue reliance on the Company's forward-looking statements and assumptions as management of the Company and its subsidiaries ("Management") cannot provide assurance that actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. These forward-looking statements are made as of October 18, 2018, the date of the MD&A, and are subject to change as a result of new information, future events or other circumstances, as discussed above, in which case they will be updated by the Company as required by law.

Non-IFRS Financial Measures

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

The earnings coverage and the earnings coverage ratio are not recognized measures under IFRS and investors are cautioned that the earnings coverage and earnings coverage ratio should not be construed as alternatives to net income (loss) or cash from operating activities as an indicator of the Company's performance or cash flows. Earnings coverage, as defined by the Company, is income before income tax expenses and interest expense on long-term debt less interest expense on long-term debt. Earnings coverage ratio, as defined by the Company, is income before income tax expenses and interest expense on long-term debt, divided by interest expense on long-term debt. The earnings coverage and the earnings coverage ratio are provided pursuant to and in compliance with National Instrument 44-102 *Shelf Distributions* of the Canadian Securities Administrators.

Our Business

The Company, through its wholly-owned subsidiary, 407 ETR Concession Company Limited ("407 ETR"), operates, maintains and owns the right to toll the world's first all-electronic, open-access toll highway ("Highway 407 ETR") which is situated just north of Toronto and runs from Burlington to Pickering. The Company's mission is to serve the Greater Toronto Area (the "GTA") by providing customers a fast, safe, reliable travel alternative, maximizing both customer satisfaction and shareholder value. Highway 407 ETR consists of four, six, eight and ten-lane sections (expandable to eight and ten lanes) from Highway 403/ Queen Elizabeth Way ("QEW") in Burlington in the west to Brock Road in Pickering in the east for a distance of 108 kilometres.

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

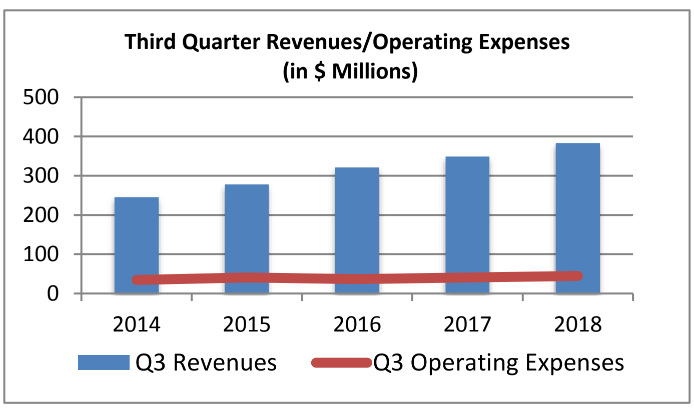
The Company's ability to create economic value depends largely on its ability to sustain revenue growth as well as to generate earnings and cash flows from operations growth by controlling the level of its operating expenditures while maintaining a safe highway and a high standard of customer service.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

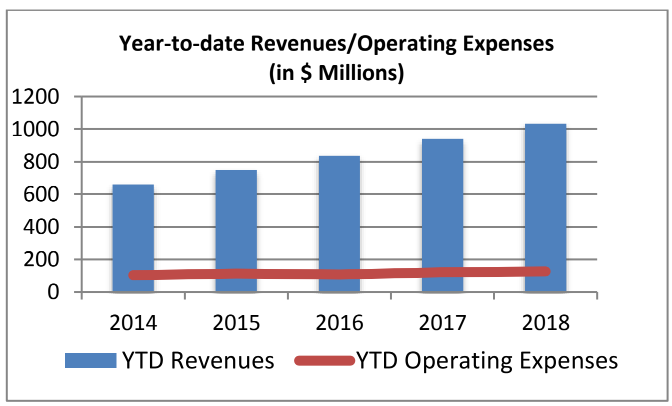
The Company's ability to remain profitable and improve cash flow from operating activities also depends largely upon other factors, such as its ability to widen Highway 407 ETR and the availability of funds on commercially reasonable terms to finance such expansions as well as its ability to finance operating and capital expenditures, interest to bondholders and income tax payments. Management is confident of the Company's current ability to access sufficient financial resources to finance such future amounts on commercially reasonable terms.

Third Quarter and Year-to-date Financial Highlights

(In $ Millions, except per share amounts)	Selected Financial Information			
	Q3 2018	**Q3 2017**	**YTD 2018**	**YTD 2017**
Revenues	382.7	348.7	1,033.7	940.4
Operating Expenses	44.6	40.9	125.7	120.9
EBITDA	338.1	307.8	908.0	819.5
Depreciation and Amortization	27.8	27.8	80.3	78.7
Interest and Other Expenses	96.8	85.7	306.7	257.3
Income Tax Expense	56.5	51.1	137.9	128.3
Net Income	157.0	143.2	383.1	355.2
Dividends per share	0.302	0.277	0.886	0.813
	As at September 30, 2018	**As at December 31, 2017**		
Total assets	5,373.6	5,628.0		
Total non-current liabilities	8,897.1	8,364.9		

Revenues and Operating Expenses





Third Quarter Performance

Total revenues for the third quarter of 2018 amounted to $382.7 million, an increase of $34.0 million or 9.8% compared to the same period in 2017, primarily due to higher tolling revenues attributed to a toll rate increase, coupled with higher vehicle kilometres travelled ("VKTs") and higher fee revenues due to higher late payment charges.

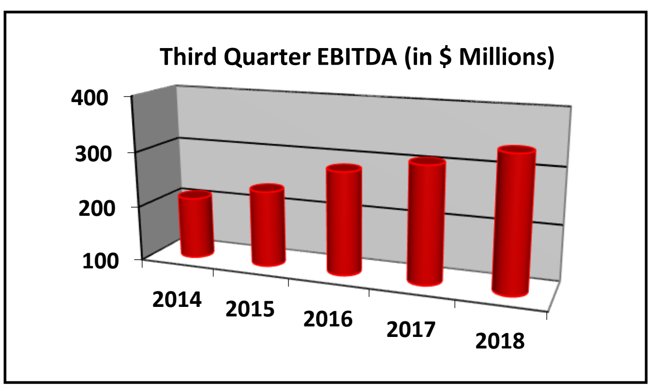
Total operating expenses for the third quarter of 2018 amounted to $44.6 million, an increase of $3.7 million or 9.0% when compared to the same period in 2017. The increase was mainly due to higher system operation expenses due to higher consulting costs associated with the new billing and customer resource management solution, coupled with higher highway operations costs due to timing of structure maintenance costs, offset by lower enforcement costs. The increase in operating expenses was offset by lower customer operation expenses due to lower provision for doubtful accounts.

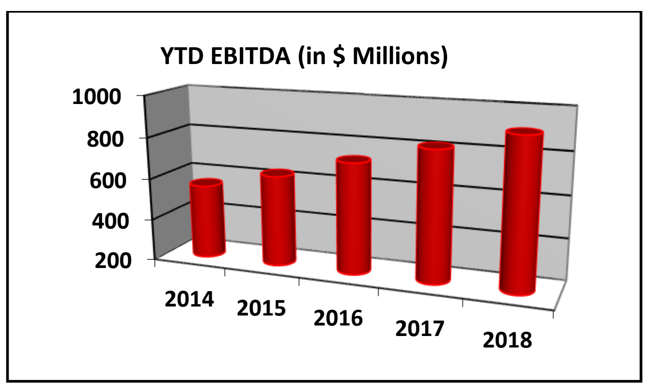
Year-to-Date Performance

Total revenues for the first nine months of 2018 amounted to $1,033.7 million, an increase of $93.3 million or 9.9% compared to the same period in 2017, primarily due to higher tolling revenues attributed to a toll rate increase, coupled with higher VKTs. Average revenue per trip (defined as total toll and fee revenues over total trips) increased by 9.5% when compared to the same period in 2017.

Total operating expenses for the first nine months of 2018 amounted to $125.7 million and were higher compared to $120.9 million for the same period in 2017. Higher system operation expenses mainly due to higher consulting costs associated with the new billing and customer resource management solution, coupled with higher support and licence costs related to upgraded hardware and software, higher customer operations expenses due to higher collection costs and bank charges and higher highway operations expenses due to higher winter maintenance costs were offset by lower general and administration expenses due to a one-time recovery of certain indirect taxes relating to prior years and lower contract expenses due to costs related to Phase 2a work in the prior year.

EBITDA





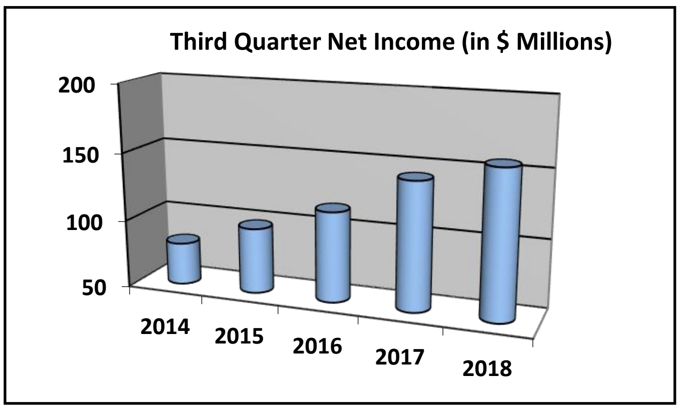
Third Quarter Performance

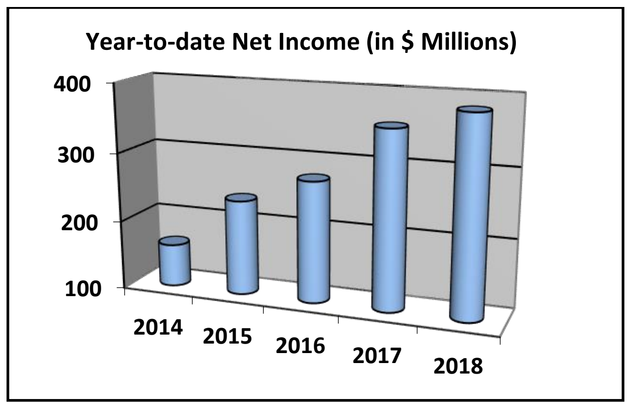
EBITDA increased by 9.8% or $30.3 million to $338.1 million in the third quarter of 2018 when compared to $307.8 million in the same period of 2017. The improvement in EBITDA was a result of growth in revenues offset by higher operating expenses. EBITDA as a percentage of revenues was 88.3% in the third quarter of 2018 and was comparable to the same period of 2017. See "Non-IFRS Financial Measures".

Year-to-Date Performance

EBITDA increased by 10.8% or $88.5 million to $908.0 million in the first nine months of 2018 when compared to $819.5 million for the same period of 2017. The improvement in EBITDA was a result of revenue growth offset by slightly higher operating expenses. Excluding contract revenues and expenses, EBITDA as a percentage of revenues was 87.8% for the nine-month period ended September 30, 2018 compared to 87.5% for the same period of 2017.

Net Income





Third Quarter Performance

Net income was $157.0 million in the third quarter of 2018, an increase of $13.8 million or 9.6% when compared to the same period in 2017, primarily due to higher EBITDA, offset by higher interest and other expenses and higher income tax expense.

Year-to-Date Performance

Net income was $383.1 million in the first nine months of 2018, an increase of $27.9 million or 7.9% when compared to the same period in 2017, primarily due to the same reasons as described above.

Dividends

Dividends paid to shareholders in the third quarter of 2018 amounted to $233.8 million compared to $215.0 million in the same period of 2017.

Statement of Financial Position Items

Total assets were $5,373.6 million at September 30, 2018 compared with $5,628.0 million at December 31, 2017. The decrease was primarily due to lower cash and cash equivalents due to the payment of dividends to shareholders and purchases of property, plant and equipment, offset by an increase in trade receivables and other balances due to higher revenues and higher restricted cash and investments primarily due to the establishment of a debt service reserve fund for Senior Bonds, Series 18-A1 and the timing of contributions towards debt service reserves.

The non-current portion of long-term debt at September 30, 2018 amounted to $8,375.5 million compared with $7,855.1 million at December 31, 2017. The increase in non-current liabilities of $520.4 million was mainly due to the issuance of $500.0 million of Senior Bonds, Series 18-A1 on May 9, 2018 to repay the outstanding balance of the senior bank credit facilities, an increase in the non-cash inflation compensation component of Senior Bonds, Series 99-A5, Series 99-A6, Series 99-A7 (collectively the "RRBs") and Senior Bonds, Series 04-A2 due to an increase in the Consumer Price Index ("CPI") and an unfavourable non-cash fair value adjustment of Senior Bonds, Series 04-A2 offset by the partial repayment of Senior Bonds, Series 99-A3, Senior Bonds, Series 00-A2 and a reduction in the non-cash carrying amounts of the RRBs resulting from the adoption of IFRS 9 effective January 1, 2018.

The share capital and contributed surplus remained unchanged at September 30, 2018 at $775.0 million (775,000,003 number of common shares issued and outstanding) and $29.6 million, respectively, as compared to December 31, 2017.

Traffic Results

	Q3 2018	Q3 2017	YTD 2018	YTD 2017
Traffic/Trips (in millions) [1]	33.519	33.495	94.525	93.612
Average Workday Number of Trips (in thousands)	435.560	435.712	414.713	410.255
VKTs (in millions) [2]	763.646	755.750	2,055.693	2,019.700
Average Trip Length (kilometres) ("ATL") [3]	22.78	22.56	21.75	21.58
Unbillable Trips (percent) [4]	2.56	2.34	2.46	2.28
Average Revenue per Trip ($) [5]	11.34	10.33	10.86	9.92
Transponder Penetration Rate (percent) [6]	79.5	79.8	82.1	82.0
Transponders in Circulation as at September 30 [7]			1,503,577	1,409,817

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

Third Quarter Performance

Total trips for the third quarter of 2018 were slightly higher when compared to the same period of 2017. VKTs increased by 1.0% to 763.6 million and ATL increased by 1.0% due to longer trips in the third quarter of 2018 when compared with the same period in 2017. The increase in VKTs and ATL was mainly due to overall economic growth and higher construction activity on alternative routes. Average workday trips were comparable to the same period in 2017. Unbillable trips increased by 9.4% when comparing the third quarter of 2018 to the same period in 2017 mainly due to an increase in travel related to unbillable jurisdictions. Average revenue per trip was $11.34 in the third quarter of 2018 compared to $10.33 in the third quarter of 2017, representing an increase of 9.8%.

Year-to-Date Performance

Total trips in the first nine months of 2018 were 1.0% higher than the same period in 2017. VKTs increased by 1.8% to 2,055.7 million and ATL increased by 0.8% in the first nine months of 2018 when compared to the same period in 2017 mainly due to longer trips by light vehicles resulting from overall economic growth and construction activities on alternate highways and roads. Average workday trips were higher by 1.1% when compared to the same period in 2017. Unbillable trips increased by 7.9% when comparing the first nine months of 2018 to the same period in 2017 mainly due to higher unreadable transactions resulting from unfavourable weather coupled with an increase in travel related to unbillable jurisdictions. The average revenue per trip was $10.86 in the first nine months of 2018 compared to $9.92 in the same period of 2017, representing an increase of 9.5%.

Overview of Current Operations

Construction

The Company continues to improve Highway 407 ETR through construction projects designed to increase capacity and improve traffic flow and customer convenience, including investments in widening bridge structures and adding new lanes to Highway 407 ETR. The Company also regularly undertakes various rehabilitation initiatives designed to improve and replace existing elements of the infrastructure, such as resurfacing the asphalt pavement, replacing concrete pavement, replacing and relining culverts under and along Highway 407 ETR and rehabilitating various bridge structures in order to continue to provide customers with fast, safe and reliable travel.

The construction of the widening of the northbound and southbound Highway 427 bridge structures over Highway 407 ETR's infrastructure, for which the Company acted as agent and construction manager on behalf of the Province of Ontario (the "Province"), has been completed.

In the third quarter of 2018, the Company completed the construction of the widening of Highway 407 ETR between York-Durham Line and west of Brock Road with the additional lanes commissioned and opened to traffic on October 4, 2018. The Company acts as an agent and construction manager for the Sideline 26 interchange work on behalf of the Province and the construction work is on schedule. Construction work continued between Markham Road and York-Durham Line and remains ahead of schedule, with additional lanes expected to be completed and opened to traffic in the second half of 2019.

During the third quarter of 2018, the Company continued with the detailed design of the inside widening of Highway 407 ETR between Derry Road and Highway 410 and between Highway 404 and Markham Road.

Information Technology

The Company continues to maintain and enhance its back-office systems. Formal processes are in place to identify, evaluate and implement potential system enhancements to ensure continued alignment with business strategies. The Company continues to focus on enhancing the core capabilities of capturing and processing vehicle information with continued investments in roadside equipment, automated licence plate recognition, complementary metal-oxide semi-conductor (CMOS) camera technology, and the operation of a front-capture camera enforcement system. The Company continues to enhance the security, functionality, scalability and usability of its self-service (website and interactive voice response) systems. The Company has substantially completed the business process optimization work to support the new billing and customer resource management solution. The Company also continued with the planning and preparation phase of the project implementation. The actual development is scheduled to begin in early 2019.

Customer Service

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

Many 407 ETR customers continue to enjoy the 407 ETR Rewards Program. The program provides free kilometres on Highway 407 ETR and gas savings to qualified 407 ETR customers. Since inception, the program has offered more than $175.6 million in benefits and savings to over 100,000 frequent light-vehicle transponder users.

407 ETR in the Community

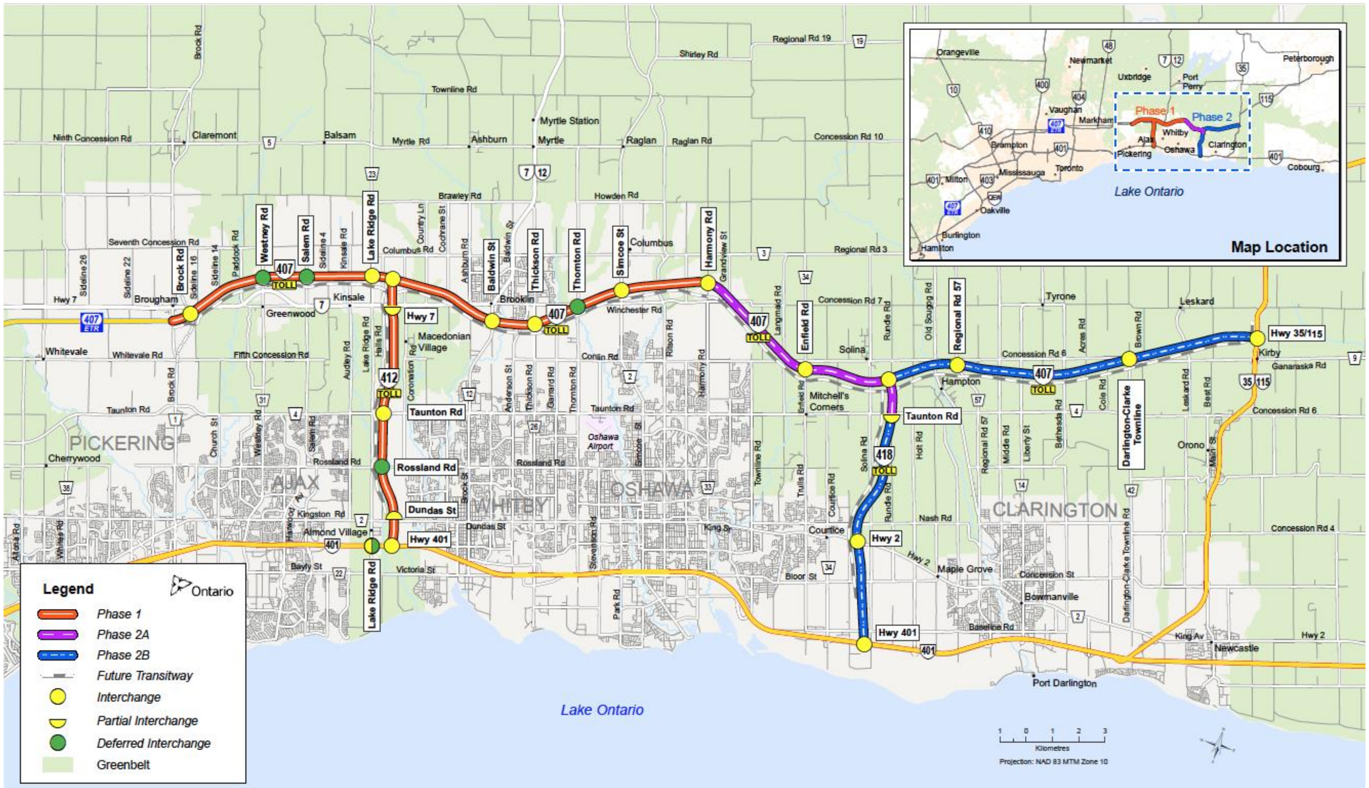
407 ETR and its employees continue to serve the communities surrounding the Highway 407 ETR corridor and support its corporate social responsibility goals in the GTA. 407 ETR continued its participation in the annual ‘Heatwave’ volleyball tournament in support of the Hospital for Sick Children and was a proud supporter of the Rogers Tennis Cup.

In addition, 407 ETR is focused on supporting the communities it serves through donations and sponsorships to community organizations. Recently, the “Back-to-school Backpack” initiative was successfully launched, wherein employees filled backpacks with essential school supplies for students.

As part of 407 for our Communities, a corporate-wide, year-round volunteering program, the Company held its second annual "One Big Day" event on July 11, 2018 which saw a record turn-out of 106 employees volunteering at 7 different organizations across the GTA.

Highway 407

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



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

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

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

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

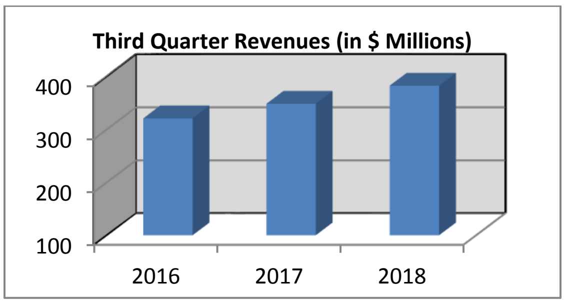
Cantoll continues to implement and maintain the roadside tolling technology and provide tolling, billing and back-office services (the "Tolling Services Contract") for Highway 407. The operational aspect of the Tolling Services Contract, which commenced in December 2015, has an initial term of 10 years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

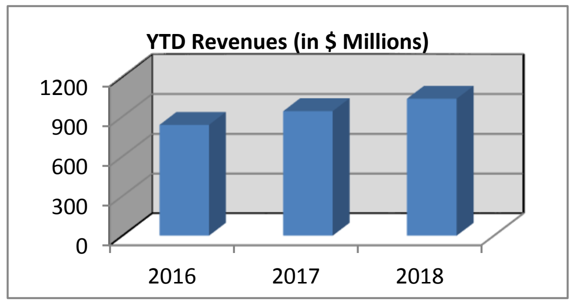
Highway 407 has increased the traffic levels on the eastern section of Highway 407 ETR.

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

Third Quarter and Year-to-date 2018 Results of Operations

Revenues





Revenues (In $ Millions)	Q3 2018	Q3 2017	YTD 2018	YTD 2017
Tolls	358.8	326.6	966.6	874.9
Fees	23.9	21.7	67.1	60.2
Contract	-	0.4	-	5.3
Total Revenues	382.7	348.7	1,033.7	940.4

The Company's revenues are generated from toll charges for trips on Highway 407 ETR including camera charges for non-transponder trips ("Tolls"), monthly fees ("Fees") and contract revenues. Fees include transponder lease fees, account fees relating to the maintenance and billing of non-transponder customer accounts, late payment charges, enforcement fees for past due amounts sent to the Ontario Registrar of Motor Vehicles (the "Registrar") to refuse to renew or issue vehicle permits until outstanding amounts are paid or settled ("Licence Plate Denial") and service fees related to tolling, billing and back-office services. Account fees are driven by the number of non-transponder customers that travel on Highway 407 ETR and are subject to seasonal fluctuation. Enforcement fees and late payment charges are applied to customers with overdue accounts. Contract revenues include the implementation of the roadside tolling technology and back-office systems work performed under the Tolling Services Contract.

Toll Revenues

Third Quarter Performance

Toll revenues amounted to $358.8 million in the third quarter of 2018, an increase of $32.2 million or 9.9% compared to the same period in 2017. The increase in toll revenues is primarily attributable to a toll rate increase effective February 1, 2018, coupled with an increase in VKTs.

Year-to-Date Performance

Toll revenues amounted to $966.6 million in the first nine months of 2018, an increase of $91.7 million or 10.5% compared to $874.9 million for the same period in 2017. The increase in toll revenues was for reasons mentioned above.

Fee Revenues

Third Quarter Performance

Fee revenues amounted to $23.9 million in the third quarter of 2018, an increase of $2.2 million or 10.1% when compared to $21.7 million for the same period in 2017. The increase was mainly due to higher late payment charges, higher transponder lease fee revenues due to an increase in the number of transponders in circulation and an increase in service fee revenue due to a higher fixed fee resulting from the opening of Phase 2a in early 2018.

Year-to-Date Performance

Fee revenues amounted to $67.1 million in the first nine months of 2018, an increase of $6.9 million or 11.5% when compared to $60.2 million for the same period in 2017. The increase was mainly for reasons mentioned above.

Contract Revenues

Third Quarter Performance

Contract revenue in the third quarter of 2017 was $0.4 million, mainly relating to the work performed for Phase 2a, which was completed in December 2017. Contract revenue for the third quarter of 2018 was $nil as the construction of tolling equipment for Phase 2b will commence during the fourth quarter of 2018.

Year-to-Date Performance

Contract revenues amounted to $nil in the first nine months of 2018 compared to $5.3 million in the first nine months of 2017, which mainly related to the work performed for Phase 2a, which was completed in December 2017.

Outlook

Management anticipates higher revenues in 2018 compared to 2017 primarily due to the new toll rate structure that took effect on February 1, 2018 and higher traffic volumes, coupled with higher service fees.

Toll Rates

Toll rates were revised effective February 1, 2018 and are detailed in the following table:

TOLL RATE PER KM	2018 [1] (in $CAD)					
	Light Vehicle (LV)		Heavy Single Unit Vehicle (HSU)		Heavy Multiple Unit Vehicle (HMU)	
	EASTBOUND	WESTBOUND	EASTBOUND	WESTBOUND	EASTBOUND	WESTBOUND
Zone 1 [2] (AM Peak Periods) [3]	0.3933	0.3708	0.7866	0.7416	1.1799	1.1124
Zone 2 [2] (AM Peak Periods) [3]	0.3957	0.3849	0.7914	0.7698	1.1871	1.1547
Zone 3 [2] (AM Peak Periods) [3]	0.3921	0.3921	0.7842	0.7842	1.1763	1.1763
Zone 4 [2] (AM Peak Periods) [3]	0.3638	0.3921	0.7276	0.7842	1.0914	1.1763
Zone 1 [2] (PM Peak Periods) [4]	0.3811	0.4255	0.7622	0.8510	1.1433	1.2765
Zone 2 [2] (PM Peak Periods) [4]	0.4105	0.4255	0.8210	0.8510	1.2315	1.2765
Zone 3 [2] (PM Peak Periods) [4]	0.4217	0.4217	0.8434	0.8434	1.2651	1.2651
Zone 4 [2] (PM Peak Periods) [4]	0.4068	0.3775	0.8136	0.7550	1.2204	1.1325
Zone 1 [2] (AM Peak Hours) [5]	0.4709	0.4218	0.9418	0.8436	1.4127	1.2654
Zone 2 [2] (AM Peak Hours) [5]	0.4666	0.4378	0.9332	0.8756	1.3998	1.3134
Zone 3 [2] (AM Peak Hours) [5]	0.4624	0.4460	0.9248	0.8920	1.3872	1.3380
Zone 4 [2] (AM Peak Hours) [5]	0.4139	0.4624	0.8278	0.9248	1.2417	1.3872
Zone 1 [2] (PM Peak Hours) [6]	0.4330	0.5100	0.8660	1.0200	1.2990	1.5300
Zone 2 [2] (PM Peak Hours) [6]	0.4921	0.4834	0.9842	0.9668	1.4763	1.4502
Zone 3 [2] (PM Peak Hours) [6]	0.5055	0.4791	1.0110	0.9582	1.5165	1.4373
Zone 4 [2] (PM Peak Hours) [6]	0.4876	0.4289	0.9752	0.8578	1.4628	1.2867
Midday - Weekdays [7]	0.3381		0.6762		1.0143	
Midday - Weekends & Holidays [8]	0.3083		0.6166		0.9249	
Off Peak Period [9]	0.2338		0.4676		0.7014	
Camera charge per trip	4.15		50.00		50.00	
Trip toll charge per trip	1.00		2.00		3.00	
Flat Toll Charge (up to) (Peak Period and Peak Hours) [3 to 6]	5.50		19.85		36.95	
Flat Toll Charge (up to) (All other times of the day) [7 to 9]	3.75		12.80		23.85	

Note 1: Toll rates are effective from February 1, 2018.

Note 2: Effective February 1, 2018, Zone 1 means the area of the Highway between QEW to Highway 401. Zone 2 means the area of the highway between Highway 401 to Highway 427. Zone 3 means the area of the highway between Highway 427 to Highway 404. Zone 4 means the area of the Highway between Highway 404 to Brock Road.

Note 3: AM Peak Period means weekdays between 6am-7am, 9am-10am.

Note 4: PM Peak Period means weekdays between 2:30pm-3.30pm, 6pm-7pm.

Note 5: AM Peak Hours means weekdays between 7am-9am.

Note 6: PM Peak Hours means weekdays between 3.30pm-6pm.

Note 7: Midday - Weekdays means between 10am-2:30pm.

Note 8: Midday - Weekends/Holidays means between 11am-7pm.

Note 9: Off-Peak Period means weekdays between 7pm-6am, weekends and holidays between 7pm-11am.

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

Effective February 1, 2018, the Company implemented a new toll structure, including the segmentation of the central section of Highway 407 ETR into two zones, to address customer travel patterns and to manage overall traffic flow along Highway 407 ETR, while optimizing its revenues. It is possible that traffic volumes in certain zones of Highway 407 ETR may be lower than the prescribed thresholds under the Concession Agreement, which could lead to a congestion payment to the Province. The Company monitors the traffic thresholds along Highway 407 ETR in an effort to mitigate such payments. Toll revenue is influenced by the mix of customers on Highway 407 ETR, which includes video and transponder customers, the type of vehicle, time, direction and zone of travel, distance travelled per trip, trip toll charge and toll rates.

On February 1, 2018, toll rates for light vehicles, heavy single unit vehicles ("HSU") and heavy multiple unit vehicles ("HMU") for eastbound travel increased by a weighted average of 9.9% during Peak hours; by 9.3% during Peak Periods; for westbound travel increased by a weighted average of 9.7% during Peak Hours; by 10.1% during Peak Periods; by 9.5% during Midday; 9.0% during Weekday and Midday-Weekend, respectively; and by 4% during Off-Peak Periods. Camera charge for light vehicles increased by 1.2%, with no change to trip toll charge when compared to the 2017 pricing structure.

<u>Calculated Tolls</u>

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

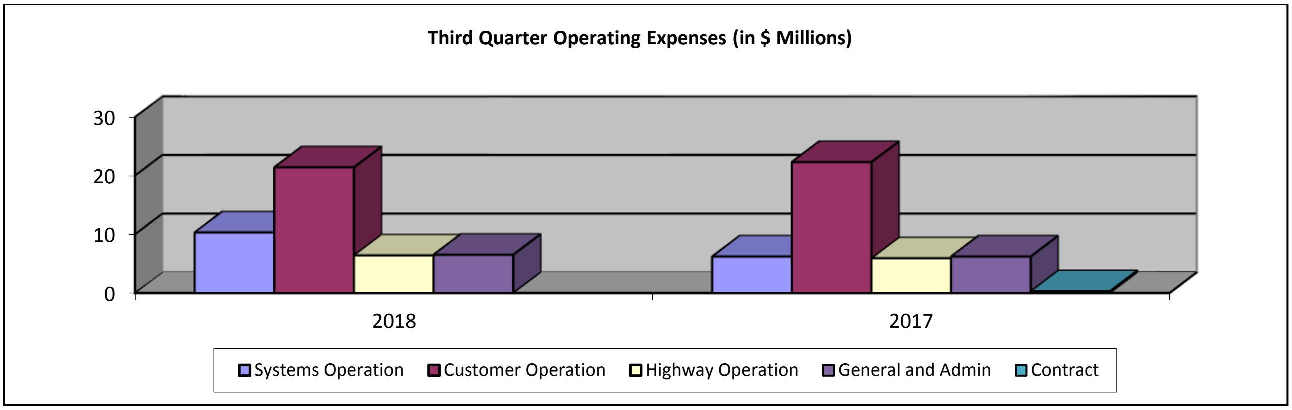
- For any vehicle (light or heavy), with a transponder for which there is a sufficient transponder trip history, a transponder vehicle median trip (referred to as a calculated trip) is charged using the median distance of the trips taken with the transponder in the preceding 72 days.
- For all light vehicles with a transponder for which there is insufficient transponder trip history, or if more than 25% of trips over the past 72 days did not accurately record either the entry or exit point, a transponder minimum trip toll is charged using the entry or exit nearest the recorded part of travel (in the same direction).
- For all light vehicles without a transponder, a flat toll charge plus the camera charge is charged.
- For all heavy vehicles without a transponder, a camera charge of $50.00 plus a heavy vehicle minimum trip toll using the entry or exit nearest the recorded part of travel (in the same direction) is charged.
- For all heavy vehicles with a transponder for which there is insufficient transponder trip history, or if more than 25% of trips over the past 72 days did not accurately record either the entry or exit point, a heavy single or heavy multiple unit vehicle flat toll is charged.

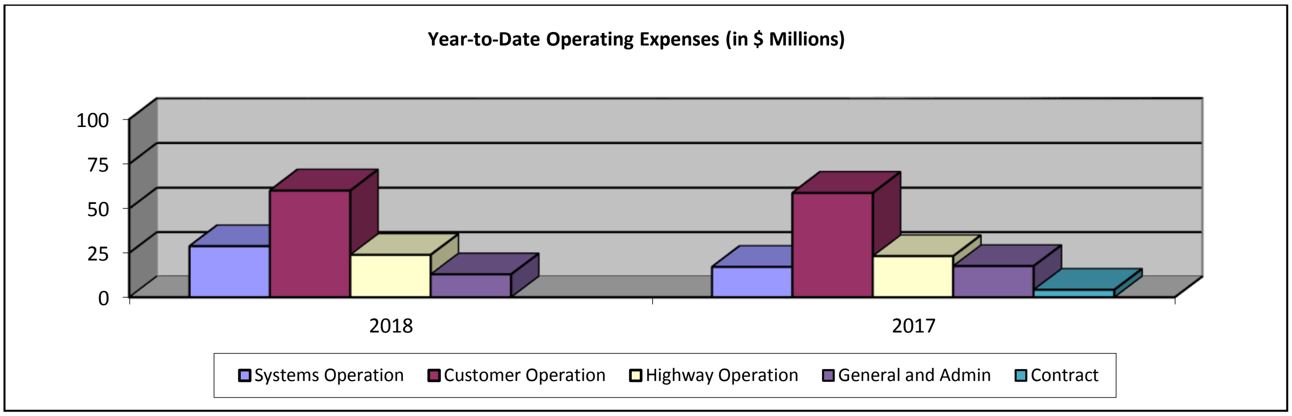
The following table illustrates the flat toll charge for light and heavy vehicles:

	2018 (1)	2017 (1)	2018 and 2017 (1)	
	Light Vehicle (2)		HSU	HMU
Flat toll charge (up to) (Peak Period/Hours) (3)	5.50	4.50	19.85	36.95
Flat toll charge (up to) (All Other Periods) (4)	3.75	3.20	12.80	23.85

(1) Flat toll charge effective since February 1, 2018 and February 1, 2017.
(2) Applicable to light vehicles without a transponder.
(3) In 2018: AM Peak Period means weekdays between 6am-7am, 9am-10am; PM Peak Period means weekdays between 2:30pm-3.30pm, 6pm-7pm.
AM Peak Hours means weekdays between 7am - 9am; PM Peak Hours weekdays between 3.30pm - 6pm.
In 2017: AM Peak Period means weekdays
(4) In 2018 and 2017: All Other Periods mean midday-weekdays between 10am-2:30pm; midday-weekends/holidays between 11am-7pm.
Off-Peak Period means weekdays between 7pm-6am, weekends and holidays between 7pm-11am.

Operating Expenses





Operating Expenses (in $Millions)

	Q3 2018	% of revenues	Q3 2017	% of revenues	YTD 2018	% of revenues	YTD 2017	% of revenues
Systems Operations	10.3	2.7%	6.2	1.8%	28.8	2.8%	17.1	1.8%
Customer Operations	21.4	5.6%	22.3	6.4%	60.1	5.8%	58.8	6.3%
Highway Operations	6.4	1.7%	5.9	1.7%	23.9	2.3%	23.2	2.5%
General and Administration	6.5	1.7%	6.2	1.8%	12.9	1.2%	17.6	1.9%
Contract	-	0.0%	0.3	0.1%	-	0.0%	4.2	0.4%
Total	44.6	11.7%	40.9	11.7%	125.7	12.2%	120.9	12.9%

Systems Operations

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

Third Quarter Performance

Systems operations expenses amounted to $10.3 million in the third quarter of 2018, an increase of $4.1 million when compared to $6.2 million for the same period in 2017, mainly due to higher consulting costs related to the implementation of the billing and customer resource management solution, data analytics tools and higher support and license costs related to upgraded hardware and software.

Year-to-Date Performance

Systems operations expenses amounted to $28.8 million in the first nine months of 2018, an increase of $11.7 million when compared to $17.1 million for the same period in 2017, mainly due to the reasons described above.

Outlook

Systems operations expenses for 2018 are expected to be higher than 2017 expenses mainly due to higher consulting costs relating to the new billing and customer resource management solution, higher support and tolling services costs.

Customer Operations

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

Third Quarter Performance

Customer operations expenses amounted to $21.4 million in the third quarter of 2018, a decrease of $0.9 million when compared to $22.3 million for the same period in 2017, mainly due to a lower provision for doubtful accounts, offset by higher collection costs, bank charges and billing costs.

The Company's customer service approach is focused on enhancing customer satisfaction as the needs and expectations of customers continue to develop. This customer-focused approach is reflected in the service results of the call centre. During the third quarter of 2018, the Company's call centre received 165 thousand telephone calls compared to 157 thousand calls received in the third quarter of 2017. Despite an increase in call volumes, the average wait time required for a customer to speak with a customer service representative decreased to 26 seconds in the third quarter of 2018 compared to the average wait time of 36 seconds in the same period of 2017. The target level of service for customers calling into the 407 ETR call centre is 80% of all calls being answered within 30 seconds and the level of service in the third quarter of 2018 was slightly lower at 78.8%.

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

Year-to-Date Performance

Customer operations expenses amounted to $60.1 million in the first nine months of 2018, an increase of $1.3 million when compared to $58.8 million for the same period in 2017. The increase was mainly due to higher collection costs, higher bank charges due to higher payments and higher billing and transponder management costs, offset by lower provision for doubtful accounts.

Outlook

Customer operations costs for 2018 are expected to be higher than 2017 due to higher bank charges, collections costs and billing costs.

Highway Operations

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

Third Quarter Performance

Highway operations expenses amounted to $6.4 million in the third quarter of 2018 and were higher by $0.5 million when compared to $5.9 million for the same period in 2017 mainly due to the timing of structure maintenance costs, offset by lower policing and enforcement costs.

Highway maintenance cost per lane kilometre in the third quarter of 2018 amounted to $5,310 and was higher compared to $4,910 in the third quarter of 2017 mainly due to the reasons mentioned above.

Year-to-Date Performance

Highway operations expenses amounted to $23.9 million in the first nine months of 2018 and were higher by $0.7 million when compared to the $23.2 million for the same period in 2017 mainly due to higher winter maintenance costs resulting from unfavourble weather, offset by lower policing costs and enforcement costs.

In addition to paying the operational costs related to policing under the Concession and Ground Lease Agreement, the Company has provided the Ontario Provincial Police with a new Detachment building from which to police Highway 407 ETR, respond to incidents and enforce the Highway Traffic Act and other legislation. The new Detachment is much closer to the highway itself, providing a modern and well equipped facility from which to efficiently and effectively serve the communities the highway crosses.

Outlook

Management anticipates highway operations expenses in 2018 to be higher than 2017 costs mainly due to higher winter maintenance costs, higher staffing costs and higher structure maintenance costs.

General and Administration

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

Third Quarter Performance

General and administration expenses amounted to $6.5 million in the third quarter of 2018, an increase of $0.3 million when compared to $6.2 million for the same period of 2017, mainly due to higher consulting costs for business process optimization related to the implementation of the billing and customer resource management solution and operations facility costs.

Year-to-Date Performance

General and administration expenses amounted to $12.9 million in the first nine months of 2018, a decrease of $4.7 million when compared to $17.6 million in the first nine months of 2017, mainly due to a one-time recovery of certain indirect taxes relating to prior years, offset by higher staffing costs, consulting costs and operations facility costs.

Outlook

General and administration expenses for 2018 are expected to be lower than 2017 due to a one-time favourable adjustment as mentioned above, offset by higher staffing, consulting and operations facility costs.

Contract

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

Third Quarter Performance

Contract expenses were $nil compared to $0.3 million in the third quarter of 2017 as construction of Phase 2a was underway in 2017. The work on Phase 2b will commence during fourth quarter of 2018.

Year-to-Date Performance

Contract expenses were $nil compared to $4.2 million in the first nine months of 2017 due to the same reasons as described above.

Outlook

Contract expenses in 2018 are expected to be higher than in 2017 as the costs related to Phase 2b are expected to be higher than Phase 2a.

Depreciation and Amortization

Third Quarter Performance

Depreciation and amortization expenses amounted to $27.8 million in the third quarter of 2018, and were in line with the $27.8 million for the same period in 2017.

Year-to-Date Performance

Depreciation and amortization expenses amounted to $80.3 million in the first nine months of 2018, an increase of $1.6 million when compared to $78.7 million for the same period in 2017. The increase was primarily a result of the completion of certain systems and tolling development projects and certain highway replacement projects.

Outlook

Management expects overall depreciation and amortization expenses in 2018 to be higher than 2017 due to new additions.

Interest and Other Expenses

	Three-month period ended September 30		Nine-month period ended September 30	
	2018	2017	2018	2017
Interest expense	$ 97.1	$ 92.8	$ 285.2	$ 269.6
Non-cash inflation component of:				
Interest expense RRBs	8.7	(0.5)	30.1	10.7
Interest expense, Senior Bond, Series 04-A2	1.4	(2.1)	5.9	(1.4)
Fair value adjustment, Senior Bond, Series 04-A2	(5.0)	(0.6)	1.1	(10.9)
Capitalized interest	(0.5)	(0.3)	(1.3)	(0.7)
Total Interest Expense on Long-term debt	101.7	89.3	321.0	267.3
Interest income on financial assets designated as FVTPL	(4.9)	(3.5)	(14.4)	(10.0)
Other expense	0.2	-	0.7	0.5
Other income:				
Reclassification of gains and losses on cash flow hedges	(0.2)	(0.1)	(0.6)	(0.5)
	$ 96.8	$ 85.7	$ 306.7	$ 257.3

Third Quarter Performance

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

Interest and other expenses amounted to $96.8 million in the third quarter of 2018 compared to $85.7 million in the same period in 2017. Interest expense on long-term debt increased to $101.7 million in the third quarter of 2018 compared to $89.3 million in the third quarter of 2017, primarily due to the unfavourable non-cash inflation compensation component of the RRBs of $9.2 million and the unfavourable non-cash accretion on Senior Bonds, Series 04-A2 of $3.5 million primarily due to a higher increase in inflation compared to the previous year. The non-cash fair value adjustment on Senior Bonds, Series 04-A2 was favourable by $4.4 million. During the third quarter of 2018, the non-cash fair value adjustment recovery on Senior Bonds, Series 04-A2 was $5.0 million due to an increase in the nominal discount rate offset by an increase in the Break-Even Inflation Rate (the "BEIR"). Interest expense on long-term debt was higher by $4.3 million due to the issuance of $500.0 million of Senior Bonds, Series 17-A2 on September 8, 2017, and the issuance of $500.0 million of Senior Bonds, Series 18-A1 on May 9, 2018. These increases were offset by the prior year overlapping of interest expense resulting from the refinancing of Subordinated Bonds, Series 10-D1 with Subordinated Bonds, Series 17-D1 at a lower interest rate, coupled with lower interest expense on the senior bank credit facilities due to the repayment of the outstanding balance of these facilities. Interest income was favourable by $1.4 million primarily due to higher interest yields on investments.

Year-to-Date Performance

Interest and other expenses amounted to $306.7 million during the first nine months of 2018 compared to $257.3 million for the same period in 2017. Interest expense on long-term debt increased to $321.0 million compared to $267.3 million for the same period in 2017, primarily due to the unfavourable non-cash inflation compensation component of the RRBs of $19.4 million and the unfavourable non-cash accretion expense on Senior Bonds, Series 04-A2 of $7.3 million due to a higher increase in the CPI level. The non-cash fair value adjustment on Senior Bonds, Series 04-A2 was unfavourable by $12.0 million. During the first nine months of 2018, the non-cash fair value adjustment expense on Senior Bonds, Series 04-A2 was $1.1 million due to an increase in the BEIR, offset by an increase in the nominal discount rate. Interest expense on long-term debt was unfavourable by $15.6 million resulting from the full year impact of Senior Bonds, Series 17-A1 issued on March 24, 2017, the full year impact of Senior Bonds, Series 17-A2 issued on September 8, 2017 and issuance of Senior Bonds, Series 18-A1 on May 9, 2018. The higher net interest expense on long-term debt of $15.6 million was offset by the prior year overlapping of interest resulting from the refinancing of Subordinated Bonds, Series 10-D1 with Subordinated Bonds, Series 17-D1 at a lower interest rate and lower interest expense on the senior bank credit facilities due to the repayment of the outstanding balance on these facilities. Interest income from cash balances and investments was higher by $4.4 million primarily due to higher interest yields on investments.

Outlook

With the exception of the non-cash inflation compensation component of interest expense relating to the RRBs and Senior Bonds, Series 04-A2 and the non-cash fair value adjustment on Senior Bonds, Series 04-A2, the Company expects interest and other expenses for 2018 to be higher than 2017, primarily due to the full-year impact of bonds issued in 2017 and 2018.

Income Taxes

Income Tax Expense	Q3 2018	Q3 2017	YTD 2018	YTD 2017
Current income tax expense	53.9	44.7	129.8	114.3
Deferred income tax expense	2.6	6.4	8.1	14.0
Total income tax expense	56.5	51.1	137.9	128.3

The combined current and deferred annual effective tax rate was 26.5% in 2018, consistent with the annual effective tax rate of 26.5% in 2017.

Third Quarter Performance

Current income tax expense amounted to $53.9 million in the third quarter of 2018 compared to $44.7 million in the third quarter of 2017 primarily due to higher earnings before taxes. Correspondingly, deferred income tax expense reduced to $2.6 million in the third quarter of 2018 compared to $6.4 million for the same period in 2017.

Year-to-Date Performance

Current income tax expense amounted to $129.8 million for the first nine months of 2018 compared to $114.3 million in the same period in 2017 primarily due to higher earnings before taxes. Correspondingly, deferred income tax expense reduced to $8.1 million for the first nine months of 2018 compared to $14.0 million in the same period in 2017.

Outlook

With the exception of the non-cash inflation component of interest expense relating to the RRBs and Senior Bonds, Series 04-A2 and the non-cash fair value adjustment on Senior Bonds, Series 04-A2, the Company expects income tax expenses for 2018 to be higher than 2017 primarily due to a higher income before tax.

Liquidity and Capital Resources

Cash Flow

Cash Flows for the three and nine month periods ended September 30
(In $ Millions)

	Q3 2018	Q3 2017	YTD 2018	YTD 2017
Cash from operating activities	221.1	221.1	415.9	500.2
Cash used in investing activities	(80.4)	(399.1)	(165.8)	(449.5)
Cash (used in)/from financing activities	(237.4)	208.6	(622.9)	101.8
(Decrease)/Increase in cash	(96.7)	30.6	(372.8)	152.5
Cash in the beginning of the period (1)	487.0	679.5	763.1	557.6
Cash end of period (1)	390.3	710.1	390.3	710.1

(1) includes cash equivalents

Cash and cash equivalents at September 30, 2018 was $390.3 million, a decrease of $372.8 million from December 31, 2017. The cash and cash equivalents amount includes a $10.0 million reserve required by the Master Trust Indenture dated as of July 20, 1999 and effective as of May 5, 1999 between the Company, 407 ETR and The Trust Company of Bank of Montreal (now BNY Trust Company of Canada) (the "Indenture").

Third Quarter Performance

The cash decrease of $96.7 million during the third quarter of 2018 was mainly due to dividends paid to shareholders of $233.8 million, payments for additions to property, plant and equipment of $47.4 million, a net increase in transfers to restricted cash and investments of $31.4 million, the partial repayment of long-term debt of $2.7 million, an increase in non-trade receivables of $1.3 million and payments towards finance lease obligations of $0.7 million. These cash outflows were offset by cash generated from operating activities of $221.1 million.

Cash generated from operating activities was $221.1 million for both the third quarter of 2018 and 2017. The cash generated from operating activities was a result of higher cash receipts of $31.6 million due to higher revenues and higher interest income received from investment and cash balances of $1.4 million. These favourable cash inflows were offset by higher cash payments for income taxes of $19.8 million due to the timing of payments, as well as higher earnings before taxes, higher interest payments of $10.1 million mainly due to additional debt issued in 2017 and higher cash payments for operating expenses of $3.1 million.

Cash used in investing activities was $80.4 million for the third quarter of 2018 compared with cash used in investing activities of $399.1 million for the third quarter of 2017. Included in investing activities are changes in the restricted cash and investments required to be maintained by the Indenture. The increase in restricted cash and investments of $31.4 million was due to contributions to the debt service fund of $98.7 million and interest received from restricted cash and investments of $3.3 million. These increases to restricted cash were offset by the partial repayment of Senior Bonds, Series 99-A3 of $2.7 million and coupon payments of $67.9 million. The net increase in restricted cash and investments was $365.3 million during the third quarter of 2017. The net increase in restricted cash and investments for the third quarter of 2017 was due to the establishment of a refunding bond fund to refinance Subordinated Bonds, Series 10-D1 of $300.0 million, contributions to the debt service fund of $93.2 million, establishment of a debt service reserve fund for Senior Bonds, Series 17-A2 of $27.6 million and interest income received of $1.8 million. These increases to restricted cash and investments were offset by interest payments of $54.9 million and partial repayment of Senior Bonds, Series 99-A3 of $2.5 million. Advance payments to suppliers amounted to $0.3 million in the third quarter of 2018 compared with $1.3 million in the third quarter of 2017. Included in investing activities are investments in the widening of certain segments and replacement of certain components of the Highway 407 ETR, enhancements and replacements of toll equipment, operations centre expansion, continuing development and enhancement of the information systems, and purchasing of new transponders. Additions to property, plant and equipment were $47.4 million in the third quarter of 2018 compared to $33.5 million in the third quarter of 2017, an increase of $13.9 million primarily due to payments for the widening of highway infrastructure. Non-trade receivables and other increased by $1.3 million in the third quarter of 2018 compared to a decrease of $1.0 million in the third quarter of 2017 primarily due to timing of payments from third party vendors.

Cash used in financing activities was $237.4 million in the third quarter of 2018 compared with cash generated from financing activities of $208.6 million in the third quarter of 2017. Proceeds from long-term debt was $nil in the third quarter of 2018 compared to proceeds from long-term debt in the third quarter of 2017 of $861.2 million representing proceeds from the issuance of Senior Bonds, Series 17-A2 of $499.2 million, proceeds from the issuance of Subordinated Bonds, Series 17-D1 of $300.0 million and draws under the Senior Bank Credit Facilities of $62.0 million. Dividend payments to shareholders were $233.8 million in the third quarter of 2018 compared to payments of $215.0 million in the third quarter of 2017. Partial repayment of long-term debt of Senior Bonds, Series 99-A3 amounted to $2.7 million compared to the repayment of long-term debt of $432.5 million in the third quarter of 2017, representing partial repayment of the Senior Bank Credit Facilities of $430.0 million and partial repayment of Senior Bonds, Series 99-A3 of $2.5 million in the third quarter of 2017. Debt issue costs amounted to $0.2 million in the third quarter of 2018, representing payment of remaining debt issue costs for Senior Bonds, Series 18-A1 compared to $4.1 million in the third quarter of 2017. Payments for obligations under finance leases amounted to $0.7 million in the third quarter of 2018 compared with $1.0 million in the third quarter of 2017.

Year-to-Date Performance

The cash decrease of $372.8 million during the first nine months of 2018 was mainly due to dividends paid to shareholders of $686.3 million, repayment of long-term debt and Senior Bank Credit Facilities of $430.5 million, payment for additions to property, plant and equipment of $100.8 million, increase in restricted cash and investments of $61.9 million, payments of debt issue costs of $3.5 million, payments of obligations under finance leases of $2.6 million, advance payments to suppliers of $2.0 million and an increase in non-trade receivables of $1.1 million. These outflows were offset by the proceeds from the issuance of long-term debt of $500.0 million and cash generated from operating activities of $415.9 million.

Cash generated from operating activities was $415.9 million for the first nine months of 2018 compared with $500.2 million for the same period in 2017. The decrease in cash generated from operating activities of $84.3 million was mainly due to higher payments for income taxes of $156.4 million mainly due to the timing of payments of income taxes relating to the prior year coupled with higher earnings before taxes, higher interest expense payments of $18.6 million primarily due to the additional long-term debt issued in 2017 and higher payments for operating expenses of $2.3 million. These increases to cash outflows from operations were offset by higher cash receipts of $87.0 million resulting primarily from higher toll revenues and higher interest income received of $6.0 million due to higher interest yields being earned on cash and investments.

Cash used in investing activities was $165.8 million for the first nine months of 2018 compared with cash used of $449.5 million for the same period in 2017. The net increase in restricted cash and investments was $61.9 million during the first nine months of 2018 compared to $381.6 million during the same period in 2017. The increase in restricted cash and investments of $61.9 million was due to contributions to the debt service fund of $287.5 million, the establishment of a debt service reserve fund for Senior Bonds, Series 18-A1 of $27.8 million and interest received from restricted cash and investments of $9.3 million. These increases to restricted cash were offset by the coupon payments of $249.2 million, the partial repayment of Senior Bonds, Series 99-A3 of $5.3 million, the partial repayment of Senior Bonds, Series 00-A2 of $3.2 million and transfers of $5.0 million to the general fund. The increase in restricted cash and investments of $381.6 million in the first nine months of 2017 was due to the establishment of a refunding bond fund of $300.0 million to refinance Subordinated Bonds, Series 10-D1, contributions to the debt service fund of $270.3 million, the establishment of a debt service reserve fund for Senior Bonds, Series 17-A2 of $27.6 million, the establishment of a debt service reserve fund for Senior Bonds, Series 17-A1 of $13.4 million and interest received from restricted cash and investments of $5.2 million. These net increases to restricted cash were offset by coupon payments of $225.6 million, the partial repayment of Senior Bonds, Series 99-A3 of $4.9 million, the partial repayment of Senior Bonds, Series 00-A2 of $3.1 million and transfers of $1.3 million to the general fund. Advance payments to suppliers amounted to $2.0 million for the first nine months of 2018. Additions to property, plant and equipment were $100.8 million for the first nine months of 2018 compared with $67.4 million for the same period in 2017, an increase of $33.4 million, primarily due to payments for widening of highway infrastructure. Non-trade receivables and other increased by $1.1 million in the first nine months of 2018 compared with a decrease of $1.8 million for the same period in 2017.

Cash used in financing activities was $622.9 million in the first nine months of 2018 compared with cash generated of $101.8 million for the same period in 2017. Proceeds from the issuance of long-term debt in the first nine months of 2018 amounted to $500.0 million representing the issuance of Senior Bonds, Series 18-A1 on May 9, 2018 compared to proceeds from the issuance of long-term debt in the same period in 2017 of $1,414.0 million, representing the issuance of $249.8 million of Senior Bonds, Series 17-A1 on March 24, 2017, the issuance of $499.2 million of Senior Bonds, Series 17-A2 on September 8, 2017, the issuance of $300.0 million of Subordinated Bonds, Series 17-D1 on September 8, 2017 and advances under the Senior Bank Credit Facilities of $365.0 million. Dividend payments to shareholders amounted to $686.3 million in the first nine months of 2018 compared to dividend payments of $630.0 million in the first nine months of 2017. Repayments of long-term debt were $430.5 million during the first nine months of 2018 representing repayments of advances under the Senior Bank Credit Facilities of $422.0 million, the partial repayment of Senior Bonds, Series 99-A3 of $5.3 million and the partial repayment of Senior Bonds, Series 00-A2 of $3.2 million compared to repayments of long-term debt of $673.0 million during the first nine months of 2017 representing repayments of advances under the Senior Bank Credit Facilities of $665.0 million, the partial repayment of Senior Bonds, Series 99-A3 of $4.9 million and the partial repayment of Senior Bonds, Series 00-A2 of $3.1 million. Debt issue costs for the first nine months of 2018 were $3.5 million compared with debt issue costs of $6.0 million for the same period in 2017. Payments for obligations under finance leases amounted to $2.6 million for the first nine months of 2018 compared to $3.2 million for the same period in 2017.

The supplemental indenture for RRBs Series 99-A5, 99-A6 and 99-A7 requires the Company to fund a series excess inflation reserve should the principal outstanding multiplied by the difference between the applicable CPI at the time of measurement divided by the applicable CPI at the time of issue exceed a pre-established threshold level. As at September 30, 2018 and December 31, 2017, CPI had not reached the levels to require funding of the excess inflation reserve and Management does not anticipate CPI to reach these levels. Sufficient cash from operations will be generated in the event that funding of the reserve becomes necessary.

Certain Events of Default under the Indenture would allow bondholders to declare the bonds to be immediately payable. These Events of Default are described in the Company's AIF available at www.sedar.com. As at September 30, 2018 and December 31, 2017, the Company is in compliance with the terms of the Indenture.

Outlook

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

Quarterly Financial Information

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

	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Revenues	382.7	362.5	288.5	327.3	348.7	331.0	260.7	297.3
Operating expenses	44.6	43.6	37.5	43.0	40.9	39.8	40.2	42.2
Depreciation and amortization	27.8	26.8	25.7	27.1	27.8	26.5	24.4	25.2
Interest and other expenses	96.8	116.4	93.5	101.1	85.7	94.4	77.2	97.0
Income tax expenses	56.5	46.5	34.9	41.2	51.1	45.7	31.5	34.9
Net income	157.0	129.2	96.9	114.9	143.2	124.6	87.4	98.0
Net income per share (basic and diluted)	0.203	0.167	0.125	0.148	0.185	0.161	0.113	0.126

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

Toll and fee revenues are subject to seasonal fluctuations that may materially impact quarter-to-quarter financial results; therefore one quarter's revenues are not necessarily indicative of another quarter's revenues. Seasonal and other trends affecting the Company's revenues include factors such as economic activity, recreational travel, weather conditions, pricing structure, fuel prices and traffic volumes on neighbouring infrastructure. In particular, this seasonality generally results in relatively lower revenues during the first quarter, relatively higher levels of toll and fee revenues in the second and fourth quarters and the highest revenue in the third quarter. Contract revenues may fluctuate depending on the amount of contract work awarded, completed and accepted by the customer. Interest expense on RRBs and Senior Bonds, Series 04-A2 is calculated based on changes in CPI; as such, interest expense in respect of RRBs and Senior Bonds, Series 04-A2 will fluctuate due to the volatility of CPI.

Net income of $87.4 million in the first quarter of 2017 was $10.6 million lower than the fourth quarter of 2016, mainly due to seasonally lower revenues, offset by lower interest and other expenses due to lower fair value adjustments on Senior Bonds, Series 04-A2, lower income tax expense due to lower earnings before tax and lower operating expenses. Net income of $124.6 million in the second quarter of 2017, was $37.2 million higher than the first quarter of 2017, mainly due to seasonally higher revenues and lower operating expenses, offset by higher interest and other expenses due to higher inflation compensation of RRBs, lower interest recovery on Senior Bonds Series 04-A2 and higher interest expense on Senior Bonds Series 17-A1, higher income tax expense due to higher earnings before tax and higher depreciation expense. Net income of $143.2 million in the third quarter of 2017 was $18.6 million higher than the second quarter of 2017, mainly due to seasonally higher revenues and lower interest and other expenses due to a decrease in inflation resulting in a recovery of inflation compensation of RRBs and Senior Bonds Series 04-A2, offset by higher interest expense on Senior Bonds Series 17-A2 and Subordinated Bonds Series 17-D1, which were issued on September 8, 2017, and higher fair value adjustment on Senior Bonds Series 04-A2 due to unfavourable market conditions. These increases were offset by higher income tax expense due to higher earnings before tax, higher operating expenses and higher depreciation expense. Net income of $114.9 million in the fourth quarter of 2017 was $28.3 million lower than the third quarter of 2017, mainly due to seasonally lower revenues, lower income tax expense and lower depreciation expense, offset by higher interest and other expenses due to the full year impact of interest expense on the issuance of Senior Bonds, Series 16-A1 on May 19, 2016, coupled with interest expense on the issuances of Senior Bonds, Series 17-A1 on March 24, 2017 and Senior Bonds, Series 17-A2 on September 8, 2017 and higher operating expenses. Net income of $96.9 million in the first quarter of 2018 was $18.0 million lower than the fourth quarter of 2017, mainly due to seasonally lower revenues, offset by lower interest and other expenses due to a decrease in the fair value of Senior Bonds, Series 04-A2, coupled with lower interest expense on refinancing of Subordinated Bonds, Series 10-D1 with Subordinated Bonds, Series 17-D1 at a lower interest rate, lower income tax expense due to lower earnings before tax and lower operating expenses due to a one-time recovery of indirect taxes relating to prior years. Net income of $129.2 million in the second quarter of 2018 was $32.3 million higher than the first quarter of 2018, mainly due to seasonally higher revenues offset by higher interest and other expenses due to an increase in the non-cash inflation compensation component of the RRBs and non-cash accretion of Senior Bonds, Series 04-A2 due to an increase in the CPI and unfavourable non-cash fair value adjustment of Senior Bonds, Series 04-A2, offset by partial repayment of Senior Bonds, Series 99-A3, Senior Bonds, Series 00-A2 and reduction in the non-cash carrying amounts of the RRBs resulting from the adoption of IFRS 9 effective January 1, 2018, higher income tax expense due to higher earnings before tax and higher operating and depreciation expenses.

The Company recorded net income of $157.0 million in the third quarter of 2018, $27.8 million higher than the second quarter of 2018, mainly due to seasonally higher revenues and lower interest and other expenses due to a favourable non-cash fair value adjustment of Senior Bonds, Series 04-A2, a decrease in the non-cash inflation compensation component of the RRBs and non-cash accretion of Senior Bonds, Series 04-A2, offset by higher interest expense on Senior Bonds, Series 18-A1. This was offset by higher income tax expense due to higher earnings before tax, higher depreciation expense and higher operating expenses.

Earnings Coverage

Earnings Coverage (in $ Millions)	**Twelve month period ended Septemer 30**	
	2018	**2017**
Income before income tax expenses and interest expense on long-term debt	1,104.4	984.3
Interest expense on long-term debt	427.3	367.9
Earnings coverage	**677.1**	**616.4**

The Company experienced earnings coverage ratios of 2.58 times and 2.68 times for the twelve month periods ended September 30, 2018 and 2017, respectively. The Company expects income before income tax expenses and interest expense on long-term debt to continue to be sufficient to cover interest expense on long-term debt. The earnings coverage ratio is different from the Company's debt service coverage ratio as such is defined in the Indenture. See "Non-IFRS Financial Measures".

Financial Instruments and Other Instruments

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

Cash and cash equivalents

Cash and cash equivalents of $390.3 million as of September 30, 2018 consist of cash, guaranteed investment certificates, government treasury bills and provincial promissory notes with maturities of three months or less. Cash and cash equivalents are used for working capital and other general corporate purposes.

Restricted cash and investments

Restricted cash and investments are required to be maintained in reserve accounts under the Indenture and various supplemental indentures for the benefit of the bondholders and a segregated funds account under an agreement between Cantoll and the Province to implement and maintain the roadside tolling technology and back-office systems relating to the Tolling Services Contract. Restricted cash and investments consist of cash, bankers' acceptances, bank deposit notes, floating rate notes, government treasury bills, provincial promissory notes and federal notes with, from time to time, both short-term and long-term maturities.

Long-term debt

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

Senior bank credit facilities

The Company has credit agreements with respect to three revolving credit facilities with Canadian chartered banks. The aggregate principal amount of the three revolving credit facilities is currently up to $300.0 million and is available to be used to refinance existing debt, fund future operating and capital expenditures, interest payments and for general corporate purposes. The obligations under the credit facilities rank pari passu with the senior debt of the Company. The Company issued to the Canadian chartered banks senior pledged bonds with an aggregate principal amount of $1,200.0 million, resulting in the indebtedness arising from the credit facilities being secured under the Indenture.

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

The Company may draw on these credit facilities until the maturity date. The maturity date is December 1, 2020. The Company may also repay a portion or all of the obligations owing under the credit facilities at any time during the term. As at September 30, 2018, the Company had $nil drawn (2017 - $422.0 million) under the credit facilities. On May 14, 2018, the Company repaid the outstanding balance and, on May 28, 2018, the Company reduced the aggregate amount available to be drawn under its Senior Bank Credit Facilities from $465.0 million to $300.0 million.

Derivative financial instrument

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

Accounting and Control Matters

Accounting Policies

The Financial Statements are prepared in accordance with IAS 34. The Company has identified the accounting policies and estimates that are critical to the understanding of the Company's operations and financial results which have been disclosed in the Annual Financial Statements, except for the following new accounting pronouncements which were adopted on January 1, 2018.

IFRS 9 *Financial Instruments ("IFRS 9")*:

This standard replaced the current IAS 39 Financial Instruments Recognition and Measurement. This standard sets out revised guidance for classifying and measuring financial assets and liabilities, introduced a new expected credit loss model for calculating impairment of financial assets and includes a reformed approach to hedge accounting. The standard also requires that when a financial liability at amortized cost is modified or exchanged, and such modification or exchange does not result in derecognition, that the adjustment to the amortized cost of the financial liability is recognized in profit or loss. The Company has adopted IFRS 9 on a retrospective basis without restating comparative periods.

Classification and measurement of assets and liabilities

All financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The table below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at the date of initial application.

	Original measurement category under IAS 39	New measurement category under IFRS 9
Cash and cash equivalents	Financial assets at fair value through profit and loss ("FVTPL")	Financial assets at FVTPL
Restricted cash and investments	Financial assets at FVTPL	Financial assets at FVTPL
Trade receivables and other	Loans and receivables at amortized cost	Financial assets at amortized cost
Trade and other payables	Other financial liabilities at amortized cost	Financial liabilities at amortized cost
Long-term debt	Other financial liabilities at amortized cost	Financial liabilities at amortized cost
Senior bonds Series 04-A2	Derivative financial liability at FVTPL	Financial liabilities at FVTPL

There were no financial assets or financial liabilities which the Company previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Company has elected to reclassify upon the adoption of IFRS 9.

In 1999, the Company issued RRBs, Series 99-A4, Series 99-A5, Series 99-A6, and Series 99-A7. In 2002, the Company amended the contractual terms of these bonds resulting in a revision of the cash flow payments. Under IFRS 9, the amendments to the RRBs would have resulted in a gain on remeasurement of the carrying amount of the bonds for Series 99-A5, Series 99-A6 and Series 99-A7 as of the date of modification. There is no impact on Series 99-A4 as these bonds matured during the fiscal year ended December 31, 2016. The gain of $5.3 million ($3.9 million after tax) is due to the revaluation of the carrying amount of the bonds by discounting the revised cash flows using the original effective interest rate and continuing to apply the effective interest method. The Company recorded the adjustment as a decrease in the carrying amount of the bonds and a credit to opening retained deficit as at January 1, 2018, on a retrospective basis without restatement.

IFRS 15 *Revenue from Contracts with Customers ("IFRS 15"):* This standard replaced IAS 11 Construction Contracts, IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. IFRS 15 introduces a single comprehensive model for recognizing revenues from contracts with customers. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for transferring those goods and services, applying the following five steps:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract; and
- recognize revenue when (or as) the entity satisfies the performance obligation.

The standard also provides guidance relating to the treatment of contract acquisition and fulfillment costs.

IFRS 15 principally affects the timing of revenue recognition for transactions by each element in an arrangement (distinct goods or services in a bundled price or deliveries of multiple services that occur at different points in time and/or over different periods of time).

Revenues recognized at a point in time:
The Company recognizes toll revenues, from both transponder and video customers' use of the Highway 407 ETR on the date trips are taken.

Various fees and charges are also included in revenues. Account and other fees are recognized when incurred by the customer, and late payment charges are recognized once the account is delinquent and the late payment charges are applied to the account.
Revenues recognized over a period of time:

Transponder lease fees are recognized over the term of the lease and service fees are recognized as the services are performed for the customer.

Contract revenues are recognized using the input method for measuring its progress towards completion of the performance obligations within the contract, based on the ratio of actual cumulative costs at the end of the reporting period over the total anticipated cost to perform the contract.

The 407 ETR Rewards Program, designed to reward eligible frequent customers with free weekend kilometres creates a separate performance obligation as participating customers have a right to accumulate free weekend kilometres based on their driving pattern during the qualifying period. A liability is established at the time of eligibility by deferring a portion of the toll revenues based on the stand-alone price of the free kilometres offered, adjusted for the likelihood of redemption and reversed when kilometres are redeemed or expire.

The application of this new standard had no impact on the reported results, specifically with regard to the timing of recognition and classification of revenues from tolling, fees and contract activities. There was no impact on the cash flows from operating activities as a result of adopting this standard.

As a result of adopting of this standard, the Financial Statements include disaggregation of revenues by activity, the nature of services provided, and the timing of revenue recognition, including disclosures relating to certain contract assets and liabilities. The Company adopted IFRS 15 using a modified retrospective transition method, which involves not restating periods prior to the date of initial application.

Critical Accounting Estimates

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

Future Changes in Accounting Policies

IFRS 16 *Leases ("IFRS 16"):* This standard replaces IAS 17 *Leases* ("IAS 17"). This standard introduces a single lease accounting model for lessees which will result in an on-balance sheet recognition of most leases. Depreciation expense on the right-of-use asset and interest expense on the lease liability will replace operating lease expenses that were recognized under IAS 17. The Company is currently reviewing its lease portfolio and evaluating the transition options available. The latest date of mandatory implementation of IFRS 16 is January 1, 2019. The Company is currently evaluating the impact on the financial statements.

IFRIC 23 *Uncertainty over income tax treatments ("IFRIC 23"):* This interpretation clarifies how to apply the recognition and measurement requirements of IAS 12 *Income Taxes* for taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates to determine current or deferred tax asset or liability when there is uncertainty over income tax treatments. The latest date of mandatory implementation of IFRIC 23 is January 1, 2019. The Company does not expect any significant impact to the Financial Statements as a result of adopting this standard.

Risks and Uncertainties

Litigation

Class Action Regarding Bankruptcy and Consumer Proposals

In April 2012, 407 ETR was served with a statement of claim for a proposed class action commenced in the Ontario Superior Court of Justice. The proposed class of plaintiffs included all 407 ETR customers that had been placed or kept in Licence Plate Denial, pursuant to the *Highway 407 Act* (Ontario), for Highway 407 ETR tolls and related fees incurred prior to their bankruptcies or consumer proposals. Prior to the commencement of the proposed class action, this practice under the *Highway 407 Act* (Ontario) had been upheld in a decision by the Ontario Superior Court of Justice in the case of Matthew Moore v. 407 ETR, which was subsequently reversed by the Ontario Court of Appeal. While the Supreme Court of Canada granted 407 ETR leave to appeal the reversal decision by the Ontario Court of Appeal, it was ultimately upheld by the Supreme Court of Canada in December 2015, leading to the settlement described below.

A settlement was reached with class counsel at a mediation concluded in August 2016, and approved at a settlement hearing before the Ontario Superior Court on November 15, 2016. The settlement provided for a voluntary settlement payment by 407

ETR of $8.0 million on an all-inclusive basis and was subject to an opt-out process which concluded in March 2017. The settlement amounts were distributed to eligible class members, net of proposed class counsel fees of $2.9 million (inclusive of disbursements and taxes) and class administration fees of $0.6 million. The settlement also included refinements to 407 ETR's business practices for bankruptcies and consumer proposals. The amount available per eligible class member has been determined by eligibility and compensation criteria applied by class counsel, with accountability to the court. The distribution of settlement funds has been undertaken by class counsel. A final report is expected to be filed by class counsel with the court in 2018.

Toll Revenues

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

Capital Structure

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

Operations and Maintenance

The Company's operating and maintenance expenses for the future operation of Highway 407 ETR are impacted by uncertainties related to costs of services, materials and equipment, changes in regulatory requirements, useful lives of productive assets, critical accounting estimates, weather conditions, and other matters that are not certain. To address these risks, Management prepares a detailed operating budget in the third quarter of each year. This budget is approved by the Board. Management monitors the level of operating expenditures each month in comparison to the budget. Department heads are accountable for cost overruns, and Management compensation is based, in part, on adherence to the approved spending limits. In addition, the Company follows a periodic maintenance and rehabilitation program for Highway 407 ETR and its tolling system to avoid unexpected significant repairs.

Information Technology

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

Debt Rating

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

Climate Change Risk

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

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

Risks Arising from Financial Instruments

Credit Risk

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

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

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

Trade receivables and other are aged as follows:

($ Millions)	As at September 30, 2018	As at December 31, 2017
Unbilled	$ 98.6	$ 74.0
0-60 days	90.3	80.0
61-90 days	10.2	8.6
91-120 days	7.8	6.8
121-150 days	7.1	7.1
151+ days	16.3	25.6
Sub total [1]	230.3	202.1
Other [2]	19.6	19.2
	$ 249.9	$ 221.3

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

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

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

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

An increase of 1% in the weighted-average provision rate would have increased the provision for doubtful accounts by approximately $3.8 million and $10.3 million (2017 - $3.5 million and $9.4 million) and decreased equity by approximately $2.8 million and $7.6 million (2017 - $2.6 million and $6.9 million) for the three and nine month periods ended September 30, 2018.

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, 2018, all long-term debt is fixed rate debt (except for the inflation-linked bonds as described below); therefore, changes in interest rates do not impact interest payments on its current bonds but may impact the fair value of such long-term debt.

The Company also manages this risk by investing its cash and cash equivalents and restricted cash and investments in debt instruments with credit ratings equal to or higher than those required by the Indenture. A decrease of 25 basis points in interest rates would have decreased interest income by approximately $0.7 million and $1.5 million (2017 - $0.8 million and $2.3 million) and equity by approximately $0.5 million and $1.1 million (2017 - $0.6 million and $1.7 million) for the three and nine month periods ended September 30, 2018, respectively.

Inflation risk

The Company is exposed to inflation risk as interest expense and debt service payments relating to the RRBs and Senior Bonds Series 04-A2 are linked to the CPI. An increase of 50 basis points in the CPI would have increased interest expense by approximately $8.6 million (2017 - $8.6 million), decreased equity by approximately $6.3 million (2017 - $6.3 million) and increased debt service payments by approximately $0.2 million and $0.6 million (2017 - $0.1 million and $0.6 million) for the three and nine month periods ended September 30, 2018, 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 noteholders. An increase of 10 basis points in the BEIR would have increased interest expense by approximately $5.7 million (2017 - $5.9 million) and decreased equity by approximately $4.2 million (2017 - $4.3 million) for the three and nine month periods ended September 30, 2018, respectively. A decrease of 10 basis points in the BEIR would have reduced interest expense by approximately $5.6 million (2017 - $5.8 million) and increased equity by approximately $4.1 million (2017 - $4.3 million) for the three and nine month periods ended September 30, 2018, respectively. This inflation risk is partially mitigated by the Company's right to increase toll rates.

Liquidity Risk

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

The following are the Company's commitments, contractual maturities and related interest obligations as at September 30, 2018:

	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	$ 47.2	$ -	$ -	$ -	$ -	$ -
Income tax payable	15.1	-	-	-	-	-
Contract liabilities	17.9	-	-	-	-	-
Obligation under finance leases	3.0	2.6	2.1	1.1	0.4	-
Interest payments on finance leases	0.5	0.3	0.1	-	-	-
Long-term debt	15.4	316.3	417.2	319.6	19.3	6,376.0
Derivative financial liability	7.3	7.3	7.3	7.3	7.3	116.1
Interest payments on long-term debt	353.6	352.7	336.4	310.1	293.5	4,295.7
	$ 460.0	$ 679.2	$ 763.1	$ 638.1	$ 320.5	$ 10,787.8

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

Additional Information

Related Party Transactions

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	
				2018	2017	2018	2017
SNC-Lavalin Inc.	Parent of shareholder	Property, plant and equipment	Payment for design costs	$ 0.2	$ -	$ 0.5	$ 0.2
SNC-Lavalin Inc.	Parent of shareholder	Operating expenses	Payment for administration costs	$ -	$ -	$ -	$ 0.1
Cintra	Parent of shareholder	Operating expenses	Payment for administration costs	$ 0.2	$ 0.2	$ 0.6	$ 0.6
Blackbird Infrastructure Group	Subsidiary of some parents	Operating expenses	Reimbursement of administration costs	$ (0.1)	$ (0.2)	$ (0.3)	$ (0.4)

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

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

Related Party	Relationship	Classification in the Financial Statements	As at September 30, 2018	As at December 31, 2017
Cintra	Parent of shareholder	Trade and other payables	$ 0.4	$ 0.4
Cintra	Parent of shareholder	Trade and other receivables	$ -	$ (0.1)
Blackbird Infrastructure Group	Subsidiary of some parents	Trade and other receivables	$ (0.2)	$ (0.2)

Overall Outlook

The outlook for 2018 is positive with revenue growth primarily due to higher toll rates, higher traffic volumes and additional revenues from the operations of Highway 407 and the Tolling Services Contract. Management's goals and objectives are focused on driving business growth while containing expenses, maintaining a high level of customer satisfaction, and achieving efficiencies throughout the organization, as well as strengthening Highway 407 ETR's presence in the GTA. As a result, 2018 income before income tax expenses and interest expense is expected to be higher than in 2017.