



407 International Inc.
Management's Discussion and Analysis
September 30, 2024



TABLE OF CONTENTS

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

The following is management's discussion and analysis dated October 24, 2024 (**MD&A**) of the consolidated financial condition and results of operations of 407 International Inc. and its subsidiaries (**Company**) for the three and nine month periods ended September 30, 2024, otherwise referred to as the third quarter of 2024. The MD&A should be read in conjunction with the interim condensed consolidated financial statements of the Company and the related notes for the same periods (**Financial Statements**) and the consolidated financial statements of the Company and the related notes for the years ended December 31, 2023 and 2022 as well as the management's discussion and analysis for the year ended December 31, 2023. Unless otherwise indicated, all financial information presented in the MD&A is in millions of Canadian dollars and is prepared in accordance with International Financial Reporting Standards (**IFRS**). Additional information about the Company, including the Financial Statements and the Company's 2023 annual information form (**AIF**), dated February 22, 2024, can be accessed on the System for Electronic Data Analysis and Retrieval + (**SEDAR+**) (sedarplus.ca) or the Company's website at 407etr.com. Information contained in or otherwise accessible through the websites referenced in the MD&A does not form part of the MD&A and is not incorporated by reference into the MD&A.

FORWARD-LOOKING INFORMATION

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 (see **Our Business**). These forward-looking statements are also subject to the risks described in the AIF under the heading Risk Factors. Readers are cautioned not to place undue reliance on the Company's forward-looking statements and assumptions as management of the Company (**Management**) cannot provide assurance that actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. These forward-looking statements are made as of October 24, 2024, 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

The MD&A contains certain non-IFRS financial measures and ratios, including earnings before interest and other expenses, taxes, depreciation and amortization (**EBITDA**) and EBITDA as a percentage of revenues (**EBITDA Margin**). EBITDA and EBITDA Margin are not standardized financial measures under IFRS, and readers are cautioned that EBITDA and EBITDA Margin should not be construed as an alternative to net income or net income as a percentage of revenues as an indicator of the Company's performance. The Company's method of calculating EBITDA and EBITDA Margin may differ from other companies' methods and may not be comparable to measures used by other companies. Management uses EBITDA and EBITDA Margin to assist in identifying underlying operating trends and they allow for a comparison of the Company's operating performance on a consistent basis. Readers may also use EBITDA and EBITDA Margin, among other financial

measures, to assist in the valuation of the Company. A reconciliation of EBITDA to net income can be found under **Results of Operations – EBITDA**.

COMPANY BACKGROUND

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

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

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

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

OUR BUSINESS

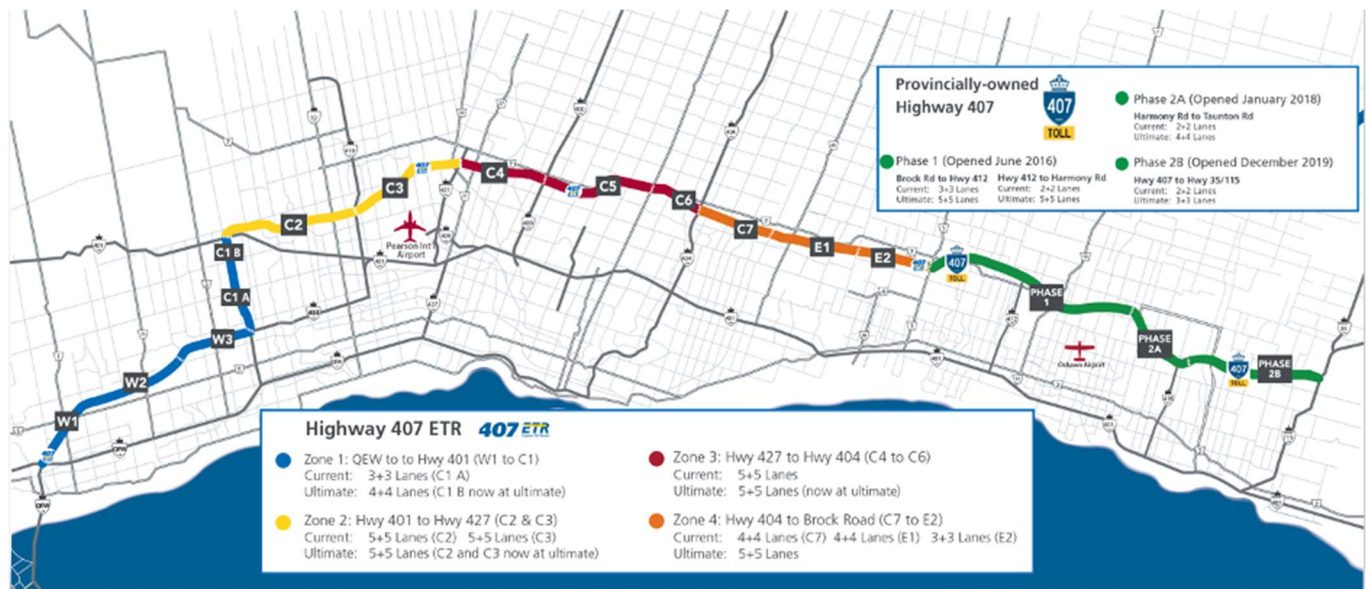
The Company, through its wholly-owned subsidiary 407 ETR, operates, maintains and owns the right to toll the world's first all-electronic, open-access toll highway, which is situated just north of Toronto and runs from Burlington to Pickering and consists of six, eight and ten-lane sections (expandable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

The Company's ability to create economic value depends largely on its ability to sustain revenue growth and 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 on the future demand for this alternate transportation route in the GTA and the levels of toll rates. Factors that could affect future demand include residential and commercial construction

along the Highway 407 ETR corridor, the relative congestion of traditional alternative routes, such as Highway 401 and the QEW, and additional traffic from Highway 407 (see **Results of Operations - Fee Revenue**). Future demand could also be affected by economic conditions such as shocks to the macroeconomic environment (changes in fuel prices, inflation, employment, general spending patterns and trends relating to work-from-home and remote work).

The Company’s ability to remain profitable and improve cash flow from operating activities also depends largely upon other factors, such as its ability to finance operating and capital expenditures, interest to bondholders and income tax payments.



SELECT KEY FINANCIAL AND TRAFFIC RESULTS

| | For the periods ended September 30 | | | | | | | |
|--|------------------------------------|-----------|---------|---------|-------------|-----------|---------|---------|
| | Three months | | | | Nine months | | | |
| | 2024 | 2023 | Change | | 2024 | 2023 | Change | |
| | | \$ | % | \$ | % | | | |
| Financial Results | | | | | | | | |
| Revenues | 487.1 | 419.4 | 67.7 | 16.1% | 1267.2 | 1,119.6 | 147.6 | 13.2% |
| Operating Expenses (excluding depreciation & amortization) | 56.1 | 49.0 | 7.1 | 14.5% | 159.4 | 151.0 | 8.4 | 5.6% |
| Depreciation and amortization | 26.6 | 24.3 | 2.3 | 9.5% | 78.7 | 73.0 | 5.7 | 7.8% |
| Interest and other expenses | 115.1 | 97.6 | 17.5 | 17.9% | 321.5 | 301.4 | 20.1 | 6.7% |
| Income before tax | 289.3 | 248.5 | 40.8 | 16.4% | 707.6 | 594.2 | 113.4 | 19.1% |
| Current income tax expense | 76.7 | 58.9 | 17.8 | 30.2% | 187.1 | 150.9 | 36.2 | 24.0% |
| Deferred income tax expense | 0.3 | 7.1 | (6.8) | (95.8%) | 0.7 | 5.3 | (4.6) | (86.8%) |
| Net Income | 212.3 | 182.5 | 29.8 | 16.3% | 519.8 | 438.0 | 81.8 | 18.7% |
| EBITDA¹ | 431.0 | 370.4 | 60.6 | 16.4% | 1,107.8 | 968.6 | 139.2 | 14.4% |
| EBITDA Margin¹ | 88.5% | 88.3% | - | 0.2% | 87.4% | 86.5% | - | 0.9% |
| Traffic Results | | | | | | | | |
| | | | # | % | | | # | % |
| Traffic/Trips (in millions)² | 31.2 | 30.7 | 0.6 | 1.9% | 85.2 | 82.5 | 2.7 | 3.3% |
| Average Revenue per Trip (\$) ³ | 15.48 | 13.56 | 1.9 | 14.2% | 14.74 | 13.26 | 1.5 | 11.2% |
| Vehicle Kilometres Travelled ("VKTs") (in millions)⁴ | 765.0 | 742.7 | 22.3 | 3.0% | 1,980.3 | 1,893.0 | 87.2 | 4.6% |
| Average Workday Trips (in thousands) | 387.4 | 382.3 | 5.1 | 1.3% | 358.5 | 347.8 | 10.7 | 3.1% |
| Number of Workdays | 63.0 | 62.0 | 1.0 | 1.6% | 189.0 | 188.0 | 1.0 | 0.5% |
| Average Trip Length ("ATL") (kilometres) | 24.5 | 24.2 | 0.3 | 1.2% | 23.2 | 22.9 | 0.3 | 1.3% |
| Unbillable Trips (percent) ⁶ | 2.3% | 2.2% | - | 0.0% | 2.2% | 2.3% | - | (0.1%) |
| Transponder Penetration Rate (percent) ⁷ | 76.1% | 75.9% | - | 0.2% | 78.2% | 78.1% | - | 0.1% |
| Number of Transponders in Circulation at September 30 ⁸ | 1,878,781 | 1,730,684 | 148,097 | 8.6% | 1,878,781 | 1,730,684 | 148,097 | 8.6% |

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

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

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

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

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

6. 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).

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

8. Transponders in Circulation are measured at the end of the reporting period based on the number of transponders registered to customers.

TRAFFIC RESULTS

Vehicle kilometres travelled (**VKTs**) during the three months ended September 30, 2024, were higher compared to the same period in 2023 due to an increase in mobility and rush-hour commuting as workplaces experienced a higher percentage of on-site employees combined with an increase in rehabilitation construction activities on Highway 401. This was partly offset with more extreme rainfall events compared to the same period in 2023.

Vehicle kilometres travelled during the nine months ended September 30, 2024 were higher than the same period in 2023 due to the same reasons as mentioned above.

RESULTS OF OPERATIONS

REVENUES

| | For the periods ended September 30 | | | | | | | |
|-----------------------|------------------------------------|--------------|-------------|--------------|----------------|----------------|--------------|--------------|
| | Three months | | | | Nine months | | | |
| | 2024 | 2023 | Change | | 2024 | 2023 | Change | |
| | | | \$ | % | | | \$ | % |
| Toll Revenue | 461.9 | 394.6 | 67.3 | 17.1% | 1,197.5 | 1,026.3 | 171.2 | 16.7% |
| Fee Revenue | 25.2 | 24.8 | 0.4 | 1.6% | 69.7 | 79.5 | (9.8) | (12.3%) |
| Contract Revenue | - | - | - | 0.0% | - | 13.8 | (13.8) | (100.0%) |
| Total Revenues | 487.1 | 419.4 | 67.7 | 16.1% | 1,267.2 | 1,119.6 | 147.6 | 13.2% |

TOLL REVENUE

Toll revenue includes: (a) toll rate charges which are determined by the type of vehicle, time of day, direction and zone travelled; (b) camera charge which applies if the vehicle travels without a transponder, and (c) trip toll charge for all trips. A new toll rate schedule came into effect on February 1, 2024. Camera charge, trip toll charge, all fees and other charges remained the same.

Toll revenue in the three and nine months ended September 30, 2024, was higher compared to the same periods in 2023, due to higher traffic volumes, longer trips and higher toll rates effective February 1, 2024.

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

Under Schedule 22 of the Concession and Ground Lease Agreement (**CGLA**), certain Highway 407 ETR traffic levels are measured against annual minimum traffic thresholds, which are prescribed by Schedule 22 and escalate annually up to a specified lane capacity. If the annual traffic level measurements are below the corresponding traffic thresholds, amounts calculated under Schedule 22 are payable to the Province in the following year (**Schedule 22 Payment**).

The Company and the Province are in agreement that the COVID-19 pandemic is considered a Force Majeure event under the provisions of the CGLA, and therefore the Company is not subject to Schedule 22 Payments until the end of the Force Majeure event. The toll rate increase by 407 ETR effective February 1, 2024, terminates the Force Majeure event, such that any Schedule 22 Payment applies for the year 2025, and would be payable to the Province in 2026. No Schedule 22 Payment applies for the year 2024.

FEE REVENUE

Fees include transponder lease fees, account fees relating to the maintenance and billing of non-transponder customer accounts, late payment charges, and enforcement fees for past due amounts sent to the Ontario Registrar of Motor Vehicles (**Registrar**) to refuse to renew or issue vehicle permits until outstanding amounts are paid or settled (**Licence Plate Denial**). Account fees are driven by the number of non-transponder customers that travel on Highway 407 ETR and are subject to seasonal fluctuation. Enforcement fees and late payment charges are applied to customers with overdue accounts.

Also included in fees are service fees related to tolling, billing and back-office services billed to the Province for Highway 407. Highway 407 begins at the eastern terminus of Highway 407 ETR at Brock Road in Pickering and extends to Highways 35/115 (**Highway 407**). The Province maintains public ownership, sets tolls and receives toll revenues for Highway 407. The Company continues to maintain the roadside tolling technology and provide tolling, billing and back-office services (**Tolling Services Agreement**) for Highway 407. The operational aspect of the Tolling Services Agreement, which commenced in December 2015, has an initial term of 10 years and is renewable by 10-year increments for up to 30 years in total.

Fee revenue was higher in the three months ended September 30, 2024 compared to the same period in 2023 due to higher late payment charges resulting from higher delinquent accounts receivable and due to higher traffic volume on Highway 407 resulting in higher service fees, partially offset by lower enforcement fees due to fewer customers being placed into Licence Plate Denial.

Fee revenue was lower in the nine months ended September 30, 2024 compared to the same period in 2023 due to lower late payment charges resulting from a higher reserve provision rate and lower enforcement fees due to fewer customers being placed into Licence Plate Denial.

CONTRACT REVENUE

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

REVENUE OUTLOOK

Management anticipates higher revenue in 2024 than 2023 due to higher traffic volumes and higher toll rates.

OPERATING EXPENSES

| | For the periods ended September 30 | | | | | | | |
|---------------------------------|------------------------------------|-------------|------------|--------------|--------------|--------------|------------|-------------|
| | Three months | | | | Nine months | | | |
| | 2024 | 2023 | Change | | 2024 | 2023 | Change | |
| | | \$ | % | | | \$ | % | |
| System Operations | 16.1 | 13.6 | 2.5 | 18.4% | 45.7 | 42.4 | 3.3 | 7.8% |
| Customer Operations | 24.3 | 21.9 | 2.4 | 11.0% | 64.5 | 57.9 | 6.6 | 11.4% |
| Highway Operations | 6.7 | 5.2 | 1.5 | 28.8% | 22.5 | 20.9 | 1.6 | 7.7% |
| General and Administration | 9.0 | 8.3 | 0.7 | 8.4% | 26.7 | 24.8 | 1.9 | 7.7% |
| Contract Costs | - | - | - | 0.0% | - | 5.0 | (5.0) | (100.0%) |
| Total Operating Expenses | 56.1 | 49.0 | 7.1 | 14.5% | 159.4 | 151.0 | 8.4 | 5.6% |

System operations costs include staff salaries and other costs for developing, operating and maintaining the Company's tolling system, office computer network and integrated automation systems. System operations costs were higher in the three and nine months ended September 30, 2024 compared to the same periods in 2023 as a result of higher consulting costs related to development of digital programs and the work to complete the Company's enterprise resource planning (**ERP**) and customer relationship management (**CRM**) project that went live for all customers by the end of the third quarter of 2024.

Customer operations include costs incurred to operate the Company's call centre and customer relations group. These costs include account management salaries, transponder distribution, billing, customer address system access fees, ombudsman services and the collection of overdue accounts. Also included in customer operations is provision for lifetime expected credit loss (**Lifetime ECL**). Customer operations costs were higher in the three and nine months ended September 30, 2024 compared to the same periods in 2023 as a result of a higher provision rate for Lifetime ECL and higher revenues.

Highway operations costs relate to operating activities such as the maintenance of major elements of the highway system including roadway surfaces, bridges, culverts, drainage and lighting, together with seasonal maintenance, highway patrol operations, road safety enforcement and police enforcement. Highway operations expenses are seasonal in nature as winter maintenance expenses such as snow plowing and salt application, occur in the first and fourth quarters of the year and most other repairs and maintenance take place in the second and third quarters of the year. Highway operations costs were higher in the three and nine months ended September 30, 2024 compared to the same periods in 2023 due to higher rehabilitation costs for pavement markings and higher vehicle and other maintenance costs.

General and administration expenses include public relations, finance, administration, facilities, human resources, business process, legal, audit and executive costs. General and administration expenses were higher in the three and nine months ended September 30, 2024 compared to the same periods in 2023 due to consulting costs and marketing costs mainly related to promotional programs.

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

OPERATING EXPENSES OUTLOOK

Management anticipates higher traffic volumes and higher revenues in 2024 resulting in higher customer operations expenses. Management also anticipates higher general and administration costs as a result of price increases and higher system operations costs as a result of higher consulting costs for the development of digital programs.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses were higher in the three and nine months ended September 30, 2024, compared to the same periods in 2023 mainly due to depreciation of the ERP and CRM project that went live during the first quarter of 2024.

DEPRECIATION AND AMORTIZATION OUTLOOK

Management anticipates depreciation and amortization in 2024 to be higher compared to 2023 as a result of higher highway depreciation from an increase in traffic volumes and the additional depreciation resulting from the ERP and CRM projects being in use in 2024.

INTEREST AND OTHER EXPENSES

| | For the periods ended September 30 | | | | | | | |
|--|------------------------------------|-------------|---------------|----------------|--------------|--------------|---------------|---------------|
| | Three months | | | | Nine months | | | |
| | 2024 | 2023 | Change | | 2024 | 2023 | Change | |
| | | | \$ | % | | | \$ | % |
| Interest expense on Bonds and Credit Facilities | 120.2 | 114.7 | (5.5) | (4.8%) | 352.4 | 331.7 | (20.7) | (6.2%) |
| Non-cash inflation component of: | | | | | | | | |
| Interest recovery Real Return Bonds | 8.5 | 10.2 | 1.7 | 16.7% | 18.9 | 25.4 | 6.5 | 25.6% |
| Interest recovery, Senior Bonds Series 04-A2 | 0.9 | 1.9 | 1.0 | 52.6% | - | 3.6 | 3.6 | 100.0% |
| Fair value adjustment recovery, Senior Bonds, Series 04-A2 | 3.8 | (11.6) | (15.4) | 132.8% | 0.2 | (17.5) | (17.7) | (101.1%) |
| Capitalized Interest | (0.1) | (0.5) | (0.4) | 80.0% | (0.6) | (1.4) | (0.8) | 57.1% |
| Total Interest Expense on Long-Term Debt | 133.3 | 114.7 | (18.6) | (16.2%) | 370.9 | 341.8 | (29.1) | (8.5%) |
| Interest income on financial assets designated as FVTPL | (19.1) | (17.2) | 1.9 | 11.0% | (50.3) | (41.9) | 8.4 | 20.0% |
| Other interest expense | 1.1 | 0.3 | (0.8) | (266.7%) | 1.5 | 2.1 | 0.6 | 28.6% |
| Reclassification of gain and losses on cash flow hedges | (0.2) | (0.2) | - | 0.0% | (0.6) | (0.6) | - | 0.0% |
| Total Interest and Other Expenses | 115.1 | 97.6 | (17.5) | (17.9%) | 321.5 | 301.4 | (20.1) | (6.7%) |

INTEREST EXPENSE ON BONDS AND CREDIT FACILITIES

Interest expense on the Company's senior bonds was higher in the three and nine months ended September 30, 2024 compared to the same periods in 2023 primarily due to interest expense on the issuance of \$500.0 million of Senior Bonds, Series 23-A1 on July 31, 2023, higher interest expense on Senior Bonds, Series 24-A1 issued to refinance Senior Bonds, Series 14-A1 and higher interest expense on the cash component of the Company's Senior Bonds, Series 99-A6 and Series 99-A7 (together, with Senior Bonds, Series 00-A2, the **Real Return Bonds**) and Senior Bonds, Series 04-A2 due to a higher increase in the consumer price index (**CPI**) opening base. The interest expense on the Company's junior bonds and subordinated bonds in the three and nine months ended September 30, 2024, was comparable with the same periods in 2023.

NON-CASH INFLATION COMPONENT OF INTEREST EXPENSE

During the three and nine months ended September 30, 2024, the non-cash inflation component of the Real Return Bonds was favourable and the non-cash accretion on Senior Bonds, Series 04-A2 was favourable compared to the same periods in 2023, in each case, mainly due to a lower increase in the CPI level.

FAIR VALUE ADJUSTMENT, SENIOR BONDS, SERIES 04-A2

The non-cash fair value adjustment to Senior Bonds, Series 04-A2 was unfavourable in the three months and nine months ended September 30, 2024, compared to the same periods in 2023. The non-cash fair value adjustment expenses in the three and nine months ended September 30, 2024, was primarily due to a decrease in the nominal discount rate partially offset by a decrease in the break-even inflation rate (**BEIR**).

INTEREST INCOME ON FINANCIAL ASSETS

Interest income from cash balances and investments was higher in the three and nine months ended September 30, 2024 compared to the same periods in 2023, due to higher interest yields on investments and cash balances.

INTEREST AND OTHER EXPENSES OUTLOOK

With the exception of interest income, the non-cash inflation compensation component of interest expense relating to the Real Returns Bonds 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 2024 to be higher than 2023 due to the full year impact of additional leverage issued in 2023 and 2024.

Subsequent to quarter end, on October 9, 2024, the Company issued \$500.0 million at 4.54% of Senior Bonds, Series 24-A2. The net proceeds were used to repay the outstanding balance on the Syndicated Credit Facility, to fund a related debt service reserve fund and for other general corporate purposes.

INCOME TAXES

The combined annual current and deferred effective tax rate was 26.5% in 2024 and 26.3% in 2023. The total current and deferred income tax expense was higher in the three and nine months ended September 30, 2024 compared to the same periods in 2023 primarily due to higher earnings before taxes.

With the exception of the non-cash inflation compensation component of interest expense relating to the Real Return Bonds and Senior Bonds, Series 04-A2 and the non-cash fair value adjustment on Senior Bonds, Series 04-A2, the Company expects higher income tax expense due to higher earnings before taxes anticipated in 2024.

NET INCOME

During the three and nine months ended September 30, 2024, the Company recorded net income of \$212.3 million and \$519.8 million representing an increase of \$29.8 million and \$81.8 million or 16.3% and 18.7% compared to \$182.5 million and \$438.0 million for the same periods in 2023 mainly due to higher revenues resulting from higher traffic volumes and higher toll rates. These favourable amounts were offset by higher operating expenses, depreciation and amortization, interest and other expenses and income taxes.

EBITDA

| | For the periods ended September 30 | | | | | | | |
|------------------------------------|------------------------------------|--------------|-------------|--------------|----------------|--------------|--------------|--------------|
| | Three months | | | | Nine months | | | |
| | 2024 | 2023 | Change | | 2024 | 2023 | Change | |
| | | | \$ | % | | | \$ | % |
| Net Income | 212.3 | 182.5 | 29.8 | 16.3% | 519.8 | 438.0 | 81.8 | 18.7% |
| Add: Current income tax expense | 76.7 | 58.9 | 17.8 | 30.2% | 187.1 | 150.9 | 36.2 | 24.0% |
| Add: Deferred income tax expense | 0.3 | 7.1 | (6.8) | (95.8%) | 0.7 | 5.3 | (4.6) | (86.8%) |
| Add: Interest and other expenses | 115.1 | 97.6 | 17.5 | 17.9% | 321.5 | 301.4 | 20.1 | 6.7% |
| Add: Depreciation and Amortization | 26.6 | 24.3 | 2.3 | 9.5% | 78.7 | 73.0 | 5.7 | 7.8% |
| EBITDA | 431.0 | 370.4 | 60.6 | 16.4% | 1,107.8 | 968.6 | 139.2 | 14.4% |
| EBITDA Margin | 88.5% | 88.3% | | | 87.4% | 86.5% | | |

EBITDA⁽¹⁾ increased in the three and nine months ended September 30, 2024 mainly as a result of higher traffic volumes and revenues.

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

SUMMARY OF QUARTERLY RESULTS

| Net Income and Net Income per Share (In \$ Millions, except per share amounts) | 2024 | | | 2023 | | | | 2022 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| | Revenues | 487.1 | 450.3 | 329.8 | 375.9 | 419.4 | 405.3 | 294.9 |
| Operating Expenses | 56.1 | 52.7 | 50.6 | 60.6 | 49.0 | 49.4 | 52.6 | 58.1 |
| Depreciation and amortization | 26.6 | 24.7 | 27.4 | 24.1 | 24.3 | 24.2 | 24.5 | 26.4 |
| Interest and other expenses | 115.1 | 117.6 | 88.8 | 110.6 | 97.6 | 122.2 | 81.6 | 104.1 |
| Income tax expenses | 77.0 | 68.0 | 42.8 | 51.3 | 66.0 | 54.1 | 36.1 | 46.0 |
| Net income | 212.3 | 187.3 | 120.2 | 129.3 | 182.5 | 155.4 | 100.1 | 127.9 |
| Net income per share (basic and diluted) | 0.274 | 0.242 | 0.155 | 0.167 | 0.235 | 0.201 | 0.129 | 0.165 |

Toll and fee revenues are subject to seasonal fluctuations that may materially impact quarter-to-quarter financial results. As a result, one quarter's revenues are not necessarily indicative of another quarter's revenues. Seasonal and other trends affecting the Company's revenues include factors such as economic activity, recreational travel, weather conditions, pricing structure, fuel prices, trends related to work-from-home and remote work and traffic volumes on neighbouring infrastructure. In particular, this seasonality generally results in relatively lower revenues during the first and fourth quarter, and relatively higher levels of toll and fee revenues in the remaining quarters. Interest expense on Real Return Bonds and Senior Bonds, Series 04-A2 is calculated based on changes in CPI; as such, interest expense in respect of Real Return Bonds and Senior Bonds, Series 04-A2 will fluctuate due to the volatility of CPI.

STATEMENT OF FINANCIAL POSITION ITEMS

| | September 30, 2024 | December 31, 2023 | Change \$ |
|-------------------------------|--------------------|-------------------|-----------|
| Total Current Assets | 1,435.1 | 1,013.6 | 421.5 |
| Total Non-Current Assets | 4,558.3 | 4,584.3 | (26.0) |
| Total Current Liabilities | 850.5 | 480.4 | 370.1 |
| Total Non-Current Liabilities | 10,814.2 | 10,908.0 | (93.8) |
| Total Shareholders' Deficit | (5,671.3) | (5,790.5) | 119.2 |

Total current assets are comprised of cash and cash equivalents, restricted cash and investments, and trade receivables and other. The increase in current assets as at September 30, 2024 compared to December 31, 2023 was primarily due to higher cash and cash equivalents, and higher trade receivables due to higher revenues.

Total non-current assets are comprised of restricted cash and investments, other receivables, deferred tax assets, intangible assets and property and plant and equipment. The decrease in non-current assets as at September 30, 2024 compared to December 31, 2023 was primarily due to lower property, plant and equipment and intangibles as a result of depreciation and amortization.

Total current liabilities are comprised of trade and other payables, contract liabilities, lease obligations, accrued interest on long-term debt, the current portion of long-term debt and the outstanding balance on the Syndicated Credit Facility. The increase in current liabilities as at September 30, 2024 compared to December 31, 2023 was mainly due to the reclassification of the principal component of certain bonds that will become payable within the next 12 months and the outstanding balance on the Syndicated Credit Facility.

Total non-current liabilities are comprised of lease obligations, deferred tax liabilities and long-term debt. The decrease in long-term debt as at September 30, 2024 compared to December 31, 2023 was due to the reclassification of the principal component of certain bonds that will become payable within the next 12 months, from non-current liabilities to current liabilities. These decreases were partially offset by the issuance of \$250.0 million of Senior Bonds, Series 24-A1 to refinance Senior Bonds, Series 14-A1 in May 2024 and an increase in the non-cash inflation compensation component on the Real Return Bonds.

The Company's share capital and contributed surplus remained unchanged as at September 30, 2024 at \$775.0 million (775,000,003 common shares issued and outstanding) and \$29.6 million, respectively, compared to December 31, 2023. Dividends paid to shareholders in the three and nine months ended September 30, 2024 amounted to \$225.0 million and \$400.0 million respectively.

LIQUIDITY AND CAPITAL RESOURCES

| | For the periods ended September 30 | | | | | |
|--|------------------------------------|---------------|----------------|----------------|----------------|----------------|
| | Three months | | | Nine months | | |
| | 2024 | 2023 | Change \$ | 2024 | 2023 | Change \$ |
| Cash flows from operating activities | | | | | | |
| Receipts from customers | \$ 442.5 | \$ 396.0 | \$ 46.5 | \$ 1,123.4 | \$ 1,028.8 | \$ 94.6 |
| Payments to suppliers and employees | (46.9) | (42.4) | (4.5) | (148.4) | (153.0) | 4.6 |
| Cash generated from operations | 395.6 | 353.6 | 42.0 | 975.0 | 875.8 | 99.2 |
| Interest received | 18.6 | 19.5 | (0.9) | 46.3 | 40.0 | 6.3 |
| Interest paid | (118.5) | (105.1) | (13.4) | (348.1) | (319.7) | (28.4) |
| Income tax paid | (52.5) | (50.1) | (2.4) | (150.5) | (138.1) | (12.4) |
| | 243.2 | 217.9 | 25.3 | 522.7 | 458.0 | 64.7 |
| Cash flows from investing activities | | | | | | |
| Additions to property, plant and equipment | (17.9) | (23.5) | \$ 5.6 | (43.1) | (43.3) | \$ 0.2 |
| Additions to intangible assets | - | - | - | (0.9) | - | (0.9) |
| Advance payment | - | (0.1) | 0.1 | (3.1) | (1.0) | (2.1) |
| Restricted cash and investments | (11.6) | (50.2) | 38.6 | (31.6) | (64.0) | 32.4 |
| Non-trade receivables and other | 0.3 | 2.3 | (2.0) | 2.4 | 5.8 | (3.4) |
| | (29.2) | (71.5) | 42.3 | (76.3) | (102.5) | 26.2 |
| Cash flows from financing activities | | | | | | |
| Proceeds from long-term debt and credit facility | 240.0 | 549.4 | \$ (309.4) | 489.6 | 549.4 | \$ (59.8) |
| Debt issue costs | (0.3) | (3.4) | 3.1 | (2.4) | (3.5) | 1.1 |
| Repayment of long-term debt and credit facility | (4.0) | (53.8) | 49.8 | (262.3) | (61.6) | (200.7) |
| Repayment of lease obligations | (0.3) | (0.4) | 0.1 | (4.1) | (4.4) | 0.3 |
| Dividends paid to shareholders | (225.0) | (150.0) | (75.0) | (400.0) | (300.0) | (100.0) |
| | 10.4 | 341.8 | (331.4) | (179.2) | 179.9 | (359.1) |
| Increase/(decrease) in cash and cash equivalents | 224.4 | 488.2 | (263.8) | 267.2 | 535.4 | (268.2) |
| Cash and cash equivalents, beginning of period | 453.3 | 416.7 | 36.6 | 410.4 | 369.5 | 40.9 |
| Cash and cash equivalents, end of period | 677.7 | 904.9 | (227.2) | 677.6 | 904.9 | (227.3) |

Cash and cash equivalents consist of cash, government treasury bills and provincial promissory notes with maturities of three months or less and are used for working capital and other general corporate purposes.

CASH FLOWS GENERATED FROM OPERATING ACTIVITIES

Cash flows generated from operating activities increased in the three and nine months ended September 30, 2024 compared to the same periods in 2023, mainly due to higher cash receipts resulting from higher operating revenues and timing of cash receipts from customers. Cash payments for operating expenses for the three months period ended in September 30, 2024 were higher mainly due to higher operating expenses. Cash payments for operating expenses for the nine months ended September 30, 2024 were lower primarily due to contract costs incurred in the prior year. For the nine months period ended September 30, 2024, interest income received from investments and cash balances were higher compared to the same period in 2023 due to higher interest yields and higher average cash balances. Interest payments were higher in the three and ninth-months ended September 30, 2024 primarily due to additional senior debt issued in the prior

year coupled with interest payments on drawdowns on the Syndicated Credit Facility. Income tax paid were higher in the three and nine months ended September 30, 2024 mainly due to higher earnings before taxes.

CASH FLOWS USED IN INVESTING ACTIVITIES

Cash flows used in investing activities decreased during the three and nine months ended September 30, 2024 compared to the same periods in 2023. Additions to property, plant and equipment and intangibles during the three months period ended on September 30, 2024 was lower compared to the same period in 2023 due to the near completion of the IT digital enhancements to replace platforms and applications with cloud-based and scalable solutions and back-office refurbishment projects. The restricted cash and investments increase for the three and nine month ended September 30, 2024 were lower than the same periods in 2023 primarily due to the establishment of a debt service reserve fund for issuance of Senior Bonds, Series 23-A1 in the prior year. The increase in non-trade receivables for the three and nine month period were lower than the increase in the same prior periods mainly due to changes in third party account balances.

CASH FLOWS USED IN FINANCING ACTIVITIES

Cash flows used in financing activities in the nine months ended September 30, 2024 were higher compared to the same periods in 2023 due to higher debt repayment, higher dividends and lower proceeds from issuance of long-term debt in the current period in 2024. During the nine months period ended September 30, 2024, the Company issued Senior Bonds, Series 24-A1 to refinance Senior Bonds, Series 14-A1. Cash flows generated from financing activities in the three months ended September 30, 2024 were lower compared to the same period in 2023 mainly due to lower proceeds from the issuance of long-term debt and higher dividends partially offset by lower debt repayments.

LIQUIDITY OUTLOOK

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

OTHER LIQUIDITY INFORMATION

Certain Events of Default under the Indenture would allow bondholders to declare the bonds to be immediately payable. These Events of Default are described in the Company's AIF available at [sedarplus.ca](https://www.sedarplus.ca).

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, trade and other payables, long-term debt and derivative financial instruments.

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 pursuant to the Tolling Services Agreement between Cantoll and the Province. Restricted cash and investments consist of cash, bankers' acceptance notes, bank bonds, guaranteed investment certificates, floating rate notes, treasury bills and provincial promissory notes with, from time to time, both short-term and long-term maturities.

SYNDICATED CREDIT FACILITY

The Company has a credit agreement establishing a syndicated credit facility with four Canadian chartered banks (**Syndicated Credit Facility**). The Syndicated Credit Facility will be used to refinance existing debt, fund future operating and capital expenditures, make interest and tax payments and for general corporate purposes. The obligations under the Syndicated Credit Facility rank *pari passu* with the senior debt of the Company. The Syndicated Credit Facility is a sustainability linked loan with three key performance indicators (**KPIs**) (greenhouse gas, Board diversity and employee health and safety) and related targets to be measured against on an annual basis. Annual favourable or unfavourable pricing adjustments to the drawn and undrawn portion of the Syndicated Credit Facility will be made depending on if the targets for each KPI have been met. The amount available to be drawn under the Syndicated Credit Facility is \$800.0 million. The Syndicated Credit Facility bears interest at floating rates based, at the option of the Company, on the prime rate for Canadian dollar loans and the Term Canadian Overnight Repo Rate Average (**CORRA**) advances, plus an applicable fixed margin. The Company paid an upfront fee in respect of the Syndicated Credit Facility and is also obligated to pay a commitment fee, calculated on the undrawn portion of the Syndicated Credit Facility.

As at September 30, 2024, the Company had an outstanding balance of \$240.0 million under the Syndicated Credit Facility as compared to \$nil as at December 31, 2023.

LONG-TERM DEBT

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

DERIVATIVE FINANCIAL INSTRUMENT

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

EARNINGS COVERAGE

Earnings coverage is calculated as income before income tax expenses and interest expense on long-term debt less interest expense on long-term debt. Earnings coverage ratio is income before income tax expenses and interest expense on long-term debt, divided by interest expense on long-term debt. Earnings coverage

and earnings coverage ratio are provided pursuant to and in compliance with National Instrument 44-102 *Shelf Distributions* of the Canadian Securities Administrators.

| | Twelve month period ended September 30 | | | |
|--|--|---------------|--------------|--------------|
| | 2024 | 2023 | Change | |
| | | | \$ | % |
| Income before income tax expenses and interest expense on long-term debt | 1,391.8 | 1,226.8 | 165.0 | 13.4% |
| Interest expense on long-term debt | 503.6 | 458.7 | 44.9 | 9.8% |
| Earnings Coverage | 888.2 | 768.1 | 120.1 | 15.6% |
| Earnings Coverage Ratio | 2.76 x | 2.67 x | | |

The Company's earnings coverage ratio is different from the Company's debt service coverage ratio under the Indenture.

OVERVIEW OF CURRENT OPERATIONS

CONSTRUCTION

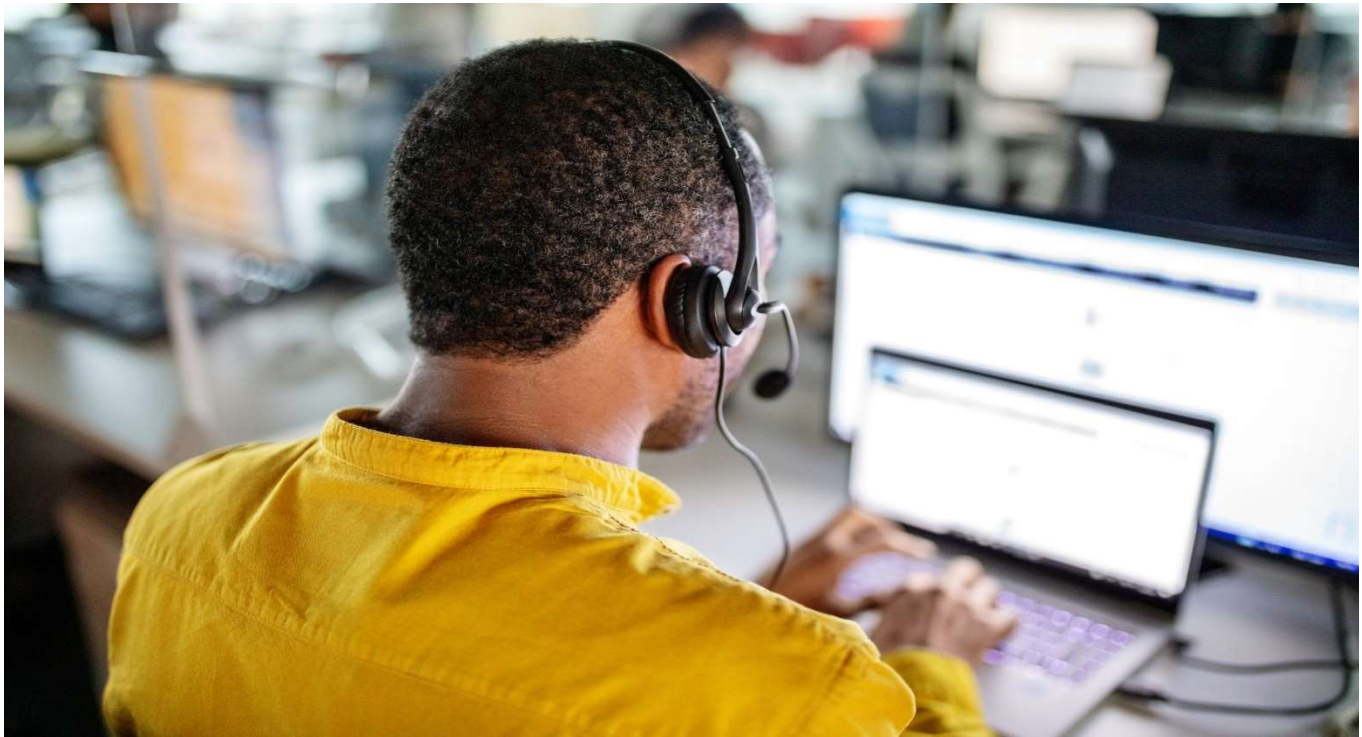


The Company makes improvements to Highway 407 ETR as needed through construction projects designed to increase capacity and improve traffic flow and customer convenience, including investments in adding new lanes, as required. The Company also regularly undertakes various rehabilitation initiatives designed to improve and replace existing elements of Highway 407 ETR infrastructure in order to continue to provide customers with fast, safe and reliable travel. Rehabilitation initiatives include asphalt replacement, concrete rehabilitation and bridge, joints and culvert maintenance.



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

Work continued in the three and nine months ended September 30, 2024 to deliver a new ERP and CRM solution. This initiative involves the majority of the Company's back-office processes and systems. A phased approach has been undertaken to manage implementation risks and the Company has developed a release strategy that will balance the demands of introducing functionality while assuring quality and stability of business operations. The Company migrated all customers by the end of the third quarter of 2024 and is currently working to complete all functionality by the end of 2024.



| | Three months ended September 30 | | | |
|---|---------------------------------|----------------|---------------|--------------|
| | 2024 | 2023 | Change | |
| | | | # | % |
| Inbound Calls (personal and business support) | 133,790 | 132,645 | 1,145 | 0.9% |
| Live and Artificial Intelligence (AI) chat | 141,312 | 84,249 | 57,063 | 67.7% |
| Email | 20,765 | 11,580 | 9,185 | 79.3% |
| Interactive Voice Response (IVR) | 73,577 | 87,991 | (14,414) | (16.4%) |
| Total | 369,444 | 316,465 | 52,979 | 16.7% |

407 ETR prides itself on delivering a world class experience on and off the roadway. When it comes to customer service channels, the Company provides convenient self-service options for payments and updates through its website, IVR automated telephone attendant, and text or email.

The Company’s customer service representatives (**CSRs**) answer calls while the digital support specialists (**DSS**) facilitate the artificial intelligence (**AI**) chatbot live conversations with customers and the general public. Customer contacts through the third quarter of 2024 have increased over the same period in 2023 with almost 20% of conversations managed by the AI chatbot alone.

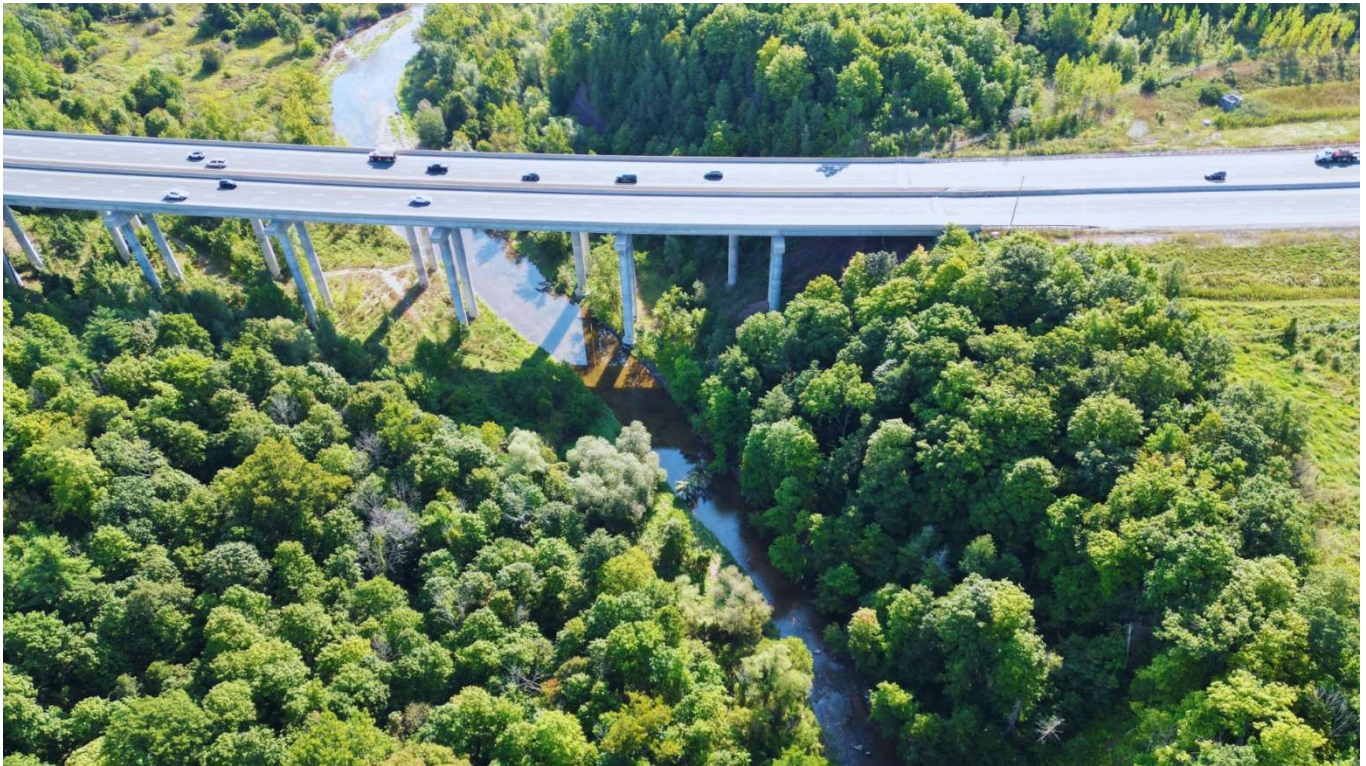


407 ETR continues to focus on making life better for its customers and surrounding communities.

In August 2024, 407 ETR was delighted to once again host 407 ETR's Family Weekend at the National Bank Open presented by Rogers. Over 34,000 attendees visited 407 ETR's Family Weekend, a free two-day event offering exciting activities, such as the 407 ETR Fastest Serve Cage, and an opportunity to watch qualifying tennis matches, making it a highlight for families and tennis enthusiasts alike.

In addition, 407 ETR was proud to launch the 407 ETR Keep Moving Clinic (the **Clinic**) at Sobey's Stadium in partnership with Tennis Canada. The Clinic featured Change Through Sport, an organization dedicated to empowering individuals through adaptive athletics, including blind tennis. Ten participants from the program enjoyed an hour-long training session, where they honed their skills and enjoyed a suite experience at the quarter final match, experiencing the thrill of the game.

This year, Keep Moving™ by 407 ETR has supported over 2,500 youth across the GTA and is continuing to grow.



The Company believes that transparency and accountability to its investors and stakeholders regarding environmental, social and governance (**ESG**) commitments are critically important. The Company has adopted leading ESG reporting frameworks, specifically Sustainability Accounting Standards Board and the recommendations of the Taskforce on Climate-Related Financial Disclosures for its annual ESG reporting. In addition, the Company aligned its reporting with six of the United Nations Sustainable Development Goals: Good Health and Well-Being, Gender Equality, Decent Work and Economic Growth, Industry, Innovation and Infrastructure, Climate Action and Life on Land.

The Company has developed its greenhouse gas (**GHG**) emission reduction roadmap as part of its strategy towards achieving its targeted 25% reduction in Scope 1 and Scope 2 GHG emissions by 2030 relative to the 2018 baseline. The roadmap outlines the emission sources, strategic and specific decarbonization initiatives, emission targets and associated timelines aimed at reducing the Company's operational emissions and supports the Company's efforts towards mitigation of climate transition risks. The roadmap was also approved by the syndicate of banks as a requirement for the Company's Syndicated Credit Facility. See **Syndicated Credit Facility** above for further details.

The Company completed its climate risk scenario analysis for both physical and transition risks. The analysis evaluated the potential impacts of various transition and physical climate related risks on the Company's operational and financial performance across different scenarios and time horizons while detailing the resilient and adaptive established strategies, including a preventative maintenance plan that considers the effect of climate change in the design, and maintenance of the highway infrastructure. The result of the analysis showed no material financial and operational impact for the Company.

The Company's ESG reports can be found on the Company's website at 407etr.com/esgreporting.

The Company is committed to supporting communities across the GTA. For more information on community initiatives completed in the third quarter, see **407 ETR In the Community**.

RISKS AND UNCERTAINTIES

The risks and uncertainties and risk management practices of the Company, including risks related to toll revenues, operations and maintenance, information technology, and climate change are described in the AIF available at sedarplus.ca.

CREDIT RISK

Financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, trade receivables and other, and restricted cash and investments.

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

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

At September 30, 2024, the Company had \$569.3 million (2023 - \$472.3 million) in trade receivables that were 90 days past due against which the Company has recorded an allowance for expected credit losses of \$420.4 million (2023 - \$351.7 million).

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

in significant changes to trade receivables balances as Management continues to monitor the collection of outstanding 407 ETR charges.

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

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

An increase of 1 percent in the weighted-average provision rate would have increased the provision for Lifetime ECL by approximately \$4.9 million and \$12.7 million (2023 - \$4.2 million and \$11.2 million) and decreased net income by approximately \$3.6 million and \$9.3 million (2023 - \$3.1 million and \$8.3 million) for the three and nine months ended September 30, 2024, respectively.

LIQUIDITY RISK

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

The following are the Company's commitments, contractual maturities and related interest obligations as at September 30, 2024:

| | 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 | \$ 94.5 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contract liabilities | 13.6 | - | - | - | - | - |
| Lease obligations | 1.1 | 0.6 | 0.5 | 0.3 | 0.2 | 0.1 |
| Interest payments on lease obligations | 0.1 | 0.1 | 0.1 | - | - | - |
| Long-term debt | 614.4 | 25.9 | 741.1 | 379.0 | 430.7 | 8,518.0 |
| Derivative financial liability | 14.1 | 14.1 | 14.1 | 14.1 | 14.1 | 141.4 |
| Interest payments on long-term debt | 443.0 | 435.0 | 423.8 | 352.1 | 429.6 | 4,756.1 |
| | \$1,180.8 | \$475.7 | \$1,179.6 | \$745.5 | \$874.6 | \$13,415.6 |

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

The Company's next scheduled bond maturity is May 22, 2025, when the \$350.0 million Senior Bonds, Series 20-A2 are scheduled to mature. On April 4, 2024, the Company issued \$250.0 million Senior Bonds, Series 24-A1 to repay Senior Bonds, Series 14-A1 on May 16, 2024 and on October 9, 2024, the Company issued \$500.0 million at 4.54% of Senior Bonds, Series 24-A2. The net proceeds were used to repay the outstanding balance on the Syndicated Credit Facility, to fund the related debt service reserve fund and for other general corporate purposes.

DEBT RATING RISK

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 shareholder 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.

INTEREST RATE RISK

As at September 30, 2024, 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 the Company's current bonds but may impact the fair value of such long-term debt.

The Company also manages this risk by investing its cash and cash equivalents and restricted cash and investments in debt instruments with credit ratings equal to or higher than those required by the Indenture. A decrease of 25 basis points in interest rates would have decreased interest income by approximately \$0.9 million and \$2.6 million (2023 - \$0.9 million and \$2.4 million) and net income by approximately \$0.7 million and \$1.9 million (2023 - \$0.7 million and \$1.8 million) for the three and nine months ended September 30, 2024, respectively.

INFLATION RISK

The Company is exposed to inflation risk as interest expense and debt service payments relating to Real Return Bonds and Senior Bonds, Series 04-A2 are linked to the CPI. This inflation risk can be mitigated by 407 ETR's right under the CGLA to increase toll rates at or above the rate of inflation. An increase of 50 basis points in the CPI would have increased interest expense by approximately \$7.6 million (2023 - \$7.5 million), decreased net income by approximately \$5.6 million (2023 - \$5.5 million) and increased debt service payments by approximately \$0.2 million and \$0.6 million (2023 - \$0.2 million and \$0.7 million) for the three and nine months ended September 30, 2024, respectively. BEIR is highly volatile and may lead to significant changes in the fair value of Senior Bonds, Series 04-A2 that may not be representative of actual inflation paid or to be paid to the Senior Bonds, Series 04-A2 bondholders. An increase of 10 basis points in the BEIR would have increased interest expense by approximately \$3.5 million (2023 - \$3.4 million) and decreased net income by approximately \$2.6 million (2023 - \$2.5 million) for the three and nine months ended September 30, 2024.

A decrease of 10 basis points in the BEIR would have reduced interest expense by approximately \$3.5 million (2023 - \$3.4 million) and increased net income by approximately \$2.5 million (2023 - \$2.5 million) for the three and nine months ended September 30, 2024.

ACCOUNTING MATTERS

ACCOUNTING POLICIES

The Financial Statements are prepared in accordance with IFRS. The Company has identified the accounting policies and estimates that are critical to the understanding of the Company's operations and financial results, which have been disclosed in the Financial Statements.

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

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

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

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

FUTURE CHANGES IN ACCOUNTING POLICIES

The following amendments are effective for annual reporting periods beginning on or after January 1, 2025.

IAS 21 THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES (IAS 21)

The amendments in lack of exchangeability amend IAS 21 to specify when a currency is exchangeable into another currency and when it is not, how an entity determines the exchange rate to apply when a currency is not exchangeable and requires the disclosure of additional information when a currency is not exchangeable.

IFRS 10 CONSOLIDATED FINANCIAL STATEMENTS AND IAS 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (IFRS 10 AND IAS 28)

The amendments relate to a sale or contribution of assets between an investor and its associate or joint venture. Specifically, gains or losses resulting from the loss of control of a subsidiary accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Company has assessed the impacts of the above amendments and concluded no material impact on the Financial Statements and future financial statements.

IFRS 18 PRESENTATION AND DISCLOSURE IN THE FINANCIAL STATEMENTS (IFRS 18)

IFRS 18 replaces the guidance in IAS 1, Presentation of Financial Statements and sets out requirements for presentation and disclosure of information, focusing on providing relevant information to users of the financial statements and will be effective for annual reporting periods beginning on or after January 1, 2027. The standard introduces new defined subtotals to be presented in the Consolidated Statements of Income, disclosure of management-defined performance measures and requirements for grouping of information.

The Company is currently assessing the impact of adopting this standard.

CRITICAL ACCOUNTING ESTIMATES

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

RELATED PARTY TRANSACTIONS

Transactions with related parties are measured at their exchange amounts, which is the consideration agreed to by the parties. For the three and nine months ended September 30, 2024 the Company paid \$0.2 million and \$0.6 million (2023 - \$0.2 million and \$0.7 million) for administration costs included in operating expenses to a subsidiary of its shareholder, Cintra. Amounts owed to Cintra Servicios de Infraestructuras S.A., are \$0.6 million (2023 - \$0.4 million) and included in current liabilities as at September 30, 2024.

The Company has future commitments comprised of a winter maintenance contract for \$124.4 million for years 2025 through 2033 to a related party, Webber Infrastructure Management Canada Limited, a subsidiary of Cintra's parent company.

OVERALL OUTLOOK

The outlook for 2024 is positive with revenue growth driven by higher traffic volumes and higher toll rates. The Company is focused on driving traffic growth, while managing expenses, maintaining a high level of customer satisfaction and achieving efficiencies throughout the organization. As a result, 2024 earnings before income tax expense and interest expense are expected to be higher than 2023.