



407 International Inc.

Management's Discussion and Analysis

March 31, 2022

407 ETR
Express Toll Route

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Management's Discussion and Analysis

The following is a discussion of the consolidated financial condition and results of operations of 407 International Inc. and its subsidiaries (the "Company") for the three-month period ended March 31, 2022 (the "MD&A"). The MD&A should be read in conjunction with the Interim Condensed Consolidated Financial Statements of the Company and the notes thereto for the three-month period ended March 31, 2022 (the "Financial Statements") and the Consolidated Financial Statements of the Company and the notes thereto for years ended December 31, 2021 and 2020 (the "2021 Annual Financial Statements") as well as the management's discussion and analysis for the year ended December 31, 2021. The Financial Statements were prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34") and the 2021 Annual Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). All amounts in the Financial Statements and the MD&A are shown in millions of Canadian dollars unless otherwise indicated. Additional information relating to the Company, including the Company's 2021 Annual Information Form dated February 17, 2022 (the "AIF"), can also be accessed on the System for Electronic Document Analysis and Retrieval (SEDAR) (www.sedar.com).

Forward-Looking Statements

The MD&A includes statements about expected future events and financial and operating results that are forward-looking. Forward-looking statements may include words such as anticipate, believe, could, expect, goal, intend, may, outlook, plan, strive, target and will. These forward-looking statements, including those set out in the "Outlook" sections of the MD&A, reflect the internal projections, expectations, future growth, performance and business prospects and opportunities of the Company and are based on information currently available to the Company. Actual results and developments may differ materially from results and developments discussed in the forward-looking statements as they are subject to a number of risks and uncertainties discussed under the section entitled "Risks and Uncertainties" and are made based on certain assumptions including those relating to traffic and the operation and maintenance of Highway 407 ETR (as defined below) and those relating to the novel coronavirus ("COVID-19") pandemic. These forward-looking statements are also subject to the risks described in the AIF under the heading "Risk Factors". Readers are cautioned not to place undue reliance on the Company's forward-looking statements and assumptions as management of the Company ("Management") cannot provide assurance that actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. These forward-looking statements are made as of April 21, 2022, 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

This MD&A contains certain non-IFRS financial measures and ratios, including earnings before interest and other expenses, taxes, depreciation and amortization (“EBITDA”) and EBITDA as a percentage of revenues. These non-IFRS financial measures and ratios are not standardized financial measures under IFRS and investors are cautioned that EBITDA and EBITDA as a percentage of revenues should not be construed as an alternative to net income (loss) or net income (loss) as a percentage of revenues as an indicator of the Company’s performance. The Company’s method of calculating EBITDA and EBITDA as a percentage of revenues may differ from other companies’ methods and may not be comparable to measures used by other companies. Management uses EBITDA and EBITDA as a percentage of revenues to assist in identifying underlying operating trends and it allows for a comparison of the Company’s operating performance on a consistent basis. Investors may also use EBITDA and EBITDA as a percentage of revenues, among other financial measures, to assist in the valuation of the Company. See “First Quarter 2022 Financial Highlights – EBITDA” for a reconciliation of EBITDA to net income.

Corporate Background

407 International Inc. was incorporated on March 17, 1999 under the *Business Corporations Act* (Ontario) (the “OBCA”). The Company was established for the purpose of submitting a bid to the government of the Province of Ontario (the “Province”) to acquire all of the issued and outstanding shares of 407 ETR Concession Company Limited (“407 ETR”). On May 5, 1999, the Company completed the acquisition of all of the issued and outstanding shares of 407 ETR. Currently, the principal business of the Company is the ownership of 407 ETR and, through 407 ETR, the operation, maintenance, management and expansion of Highway 407 ETR (see “Our Business” section below). On October 10, 2003, the Company was continued under the *Canada Business Corporations Act* (the “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. 11783378 Canada Inc. (“11783378 Inc.”) was incorporated under the CBCA on December 11, 2019, to assist in the implementation of the Company’s tax planning strategies.

The Company has no direct or indirect subsidiaries other than 407 ETR, Cantoll and 11783378 Inc. The registered and principal executive office of the Company, and the head office of 407 ETR, are located at 6300 Steeles Avenue West, Woodbridge, Ontario, L4H 1J1.

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

Our Business

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

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

The Company's ability to create economic value depends largely on its ability to sustain revenue growth as well as to generate earnings and cash flows from operations growth by controlling the level of its operating expenditures while maintaining a safe highway and a high standard of customer service. Revenue growth depends mostly on the future demand for this alternate transportation route in the GTA and the levels of toll rates. The Company has continued to expand Highway 407 ETR to meet increasing demand and maintain a congestion-free experience for customers. Factors that could affect future demand include residential and commercial construction along the Highway 407 ETR corridor, the relative congestion of traditional alternative routes, such as Highway 401 and the QEW, the addition of lanes on Highway 407 ETR and additional traffic resulting from the opening of Highway 407 (as defined below), which begins at the eastern terminus of Highway 407 ETR and runs from Pickering to Oshawa. Future demand could also be affected by economic conditions such as shocks to the macroeconomic environment (changes in fuel prices, inflation, employment and general spending patterns), including the measures taken in respect of the COVID-19 pandemic.

The Company's ability to remain profitable and improve cash flow from operating activities also depends largely upon other factors, such as its ability to widen Highway 407 ETR and the availability of funds on commercially reasonable terms to finance such expansions as well as its ability to finance operating and capital expenditures, interest to bondholders and income tax payments. As traffic volumes recover from the impact of the COVID-19 pandemic, Management is confident as to the Company's ability to access sufficient financial resources to finance such future amounts on commercially reasonable terms.

COVID-19 Pandemic

As the COVID-19 pandemic enters its third year, traffic levels on Highway 407 ETR continue to be impacted. During the first quarter of 2022, the Province of Ontario gradually removed COVID-19-related restrictions, compared to emergency stay-at-home orders that were in place during the first quarter of 2021. This change has had a positive impact on the economy and on overall traffic volumes on Highway 407 ETR.

The COVID-19 pandemic continues to have an impact on demand for highway travel in the GTA. Despite lower revenues compared to the pre-pandemic levels, the Company maintained sufficient liquidity to satisfy all of its financial obligations during the first quarter of 2022. However, if stay-at-home orders or lockdowns are reinstated in the future, the Company may not be able to satisfy the rate covenant set out in section 9.4 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) (the "Indenture"), as well as certain financial covenants under the Company's credit agreements. This would result in the restriction of dividend payments to shareholders. In addition, the Company would also be restricted from making interest payments on subordinated debt using cash from operations. In these circumstances, the Company could make interest payments on subordinated debt from other sources, such as borrowed funds. The COVID-19 pandemic may also impact the future cost of capital as a result of disrupted credit markets or potential credit rating actions in relation to the Company's debt.

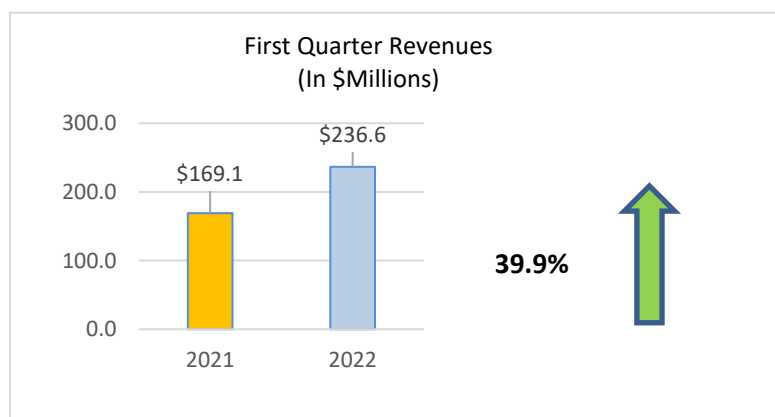
Management continues to monitor the financial impact of the COVID-19 pandemic, which could be material depending on the scope and duration. However, management does not believe the COVID-19 pandemic will have a long-term impact on the financial condition of the Company. In 2022, the Company will continue to review potential reductions to operating and capital expenditures.

First Quarter 2022 Financial Highlights

(In \$Millions, except per share amounts)

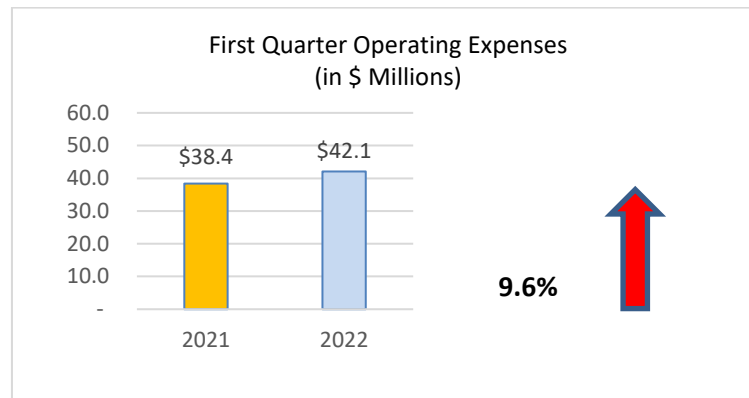
	Selected Financial Information	
	Q1 2022	Q1 2021
Revenues	236.6	169.1
Operating Expenses	42.1	38.4
EBITDA	194.5	130.7
Depreciation and Amortization	24.2	23.7
Interest and Other Expenses	92.5	102.0
Income Tax Expense	20.6	1.3
Net Income	57.2	3.7
Dividend paid	-	-
Dividend per share	-	-
	As at March 31, 2022	As at December 31, 2021
Total Current Assets	813.6	766.6
Total Non-current Assets	4,558.7	4,574.1
Total Current Liabilities	496.4	514.0
Total Non-current Liabilities	9,910.4	9,918.2

Revenues



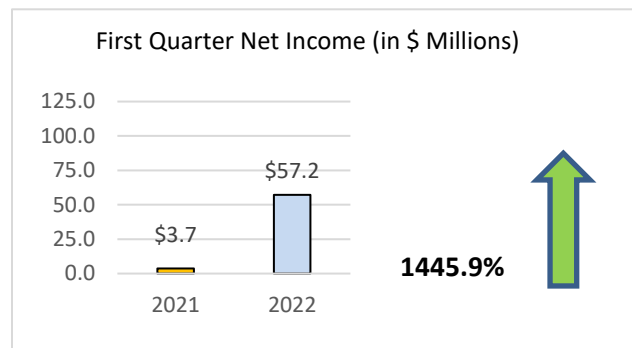
Total revenues in the first quarter of 2022 were higher compared to the same period in 2021. The easing of pandemic-related restrictions during the first quarter of 2022 has resulted in a gradual increase in traffic volumes and revenues. Average revenue per trip of \$13.03 in the first quarter of 2022 increased by 2.5% when compared to the same period in 2021.

Operating Expenses



Total operating expenses in the first quarter of 2022 were higher compared to 2021 due to higher customer operations costs resulting from a higher provision for lifetime expected credit loss (“Lifetime ECL”), billing costs and bank charges, higher highway operations expenses resulting from unfavourable weather conditions and higher systems operations expenses.

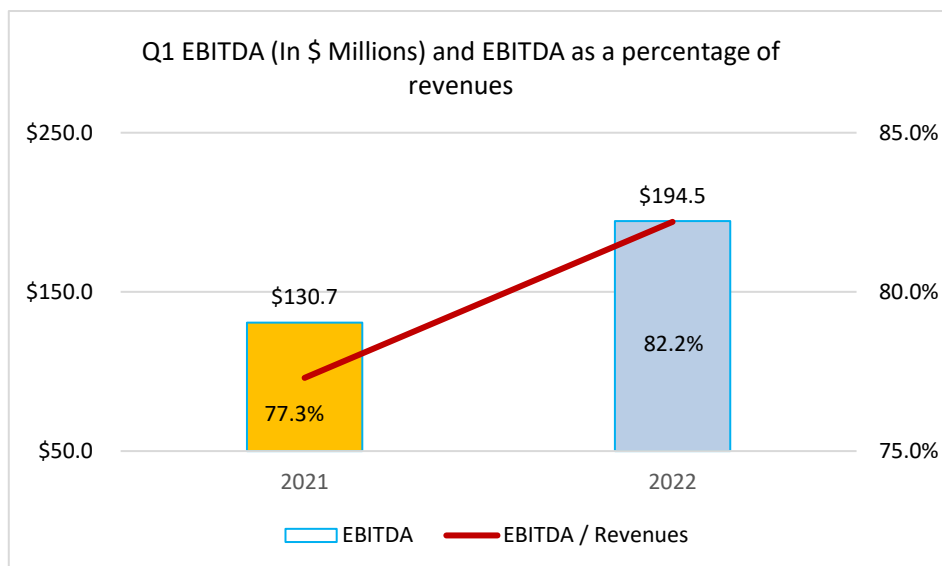
Net Income



The Company recorded net income of \$57.2 million in the first quarter of 2022 representing an increase of \$53.5 million compared to \$3.7 million in 2021 mainly due to higher revenues and lower interest and other expenses offset by higher income taxes, higher operating expenses, and higher depreciation and amortization expense.

EBITDA¹

(in \$ Millions)	Q1	
	2022	2021
Net Income	57.2	3.7
Current income tax expense	19.5	1.2
Deferred income tax expense	1.1	0.1
Interest and other expenses	92.5	102.0
Depreciation and amortization	24.2	23.7
EBITDA	194.5	130.7



EBITDA increased by \$63.8 million to \$194.5 million in the first quarter of 2022 compared to \$130.7 million for the same period in 2021. The increase in EBITDA was a result of higher traffic volumes and revenues due to the easing of COVID-19 pandemic-related restrictions during the first quarter of 2022. EBITDA as a percentage of revenues was 82.2% in the first quarter of 2022 and was higher than 77.3% for the same period in 2021. See “Non-IFRS Financial Measures”.

Dividends

No dividends were paid to shareholders in the first quarter of 2022 or 2021.

The Company’s share capital and contributed surplus remained unchanged at March 31, 2022 at \$775.0 million (775,000,003 common shares issued and outstanding) and \$29.6 million, respectively, as compared to December 31, 2021.

¹ EBITDA is a non-IFRS financial measure. See “Non-IFRS Financial Measures”

Statement of Financial Position Items

Current Assets

Total current assets were \$813.6 million at March 31, 2022 compared to \$766.6 million at December 31, 2021, and are comprised of cash and cash equivalents, restricted cash and investments, trade receivables and other and income tax receivable. The increase in current assets was primarily due to higher cash and cash equivalents, higher current restricted cash and investments coupled with higher corporate income tax receivable offset by lower trade receivables and other.

Current Liabilities

Total current liabilities were \$496.4 million as at March 31, 2022 compared to \$514.0 million as at December 31, 2021, and are comprised of trade and other payables, contract liabilities, lease obligations, accrued interest on long-term debt and the current portion of long-term debt. The decrease was mainly due to lower trade and other payables and a decrease in finance lease obligations partially offset by an increase in accrued interest on long-term debt.

Non-current Assets

Total non-current assets were \$4,558.7 million as at March 31, 2022 compared to \$4,574.1 million as at December 31, 2021, and are comprised of restricted cash and investments, other receivables, deferred tax assets, intangible assets and property, plant and equipment. The slight decrease was primarily due to lower intangibles and property, plant and equipment as a result of amortization.

Non-current Liabilities

Total non-current liabilities were \$9,910.4 million as at March 31, 2022 compared to \$9,918.2 million as at December 31, 2021, and are comprised of lease obligations, deferred tax liabilities and long-term debt. The decrease in long-term debt is due to favourable non-cash fair value adjustment on Senior Bonds, Series 04-A2 and the partial repayments of Senior Bonds, Series 99-A3. These decreases were primarily offset by an unfavourable non-cash inflation compensation component on the Real Return Bonds, Series 99-A6 and Series 99-A7 (collectively, the "RRBs") due to an increase in the Consumer Price Index ("CPI") and an increase in deferred tax liabilities.

Traffic Results

	Q1		
	2022	2021	% change
Traffic/Trips (in millions) ¹	17.930	13.081	37.1%
Vehicle Kilometers Travelled ("VKTs") (in millions) ²	373.907	256.055	46.0%
Average Workday Trips (in thousands)	233.289	176.045	32.5%
Average Trip Length ("ATL") (kilometres) ³	20.85	19.57	6.5%
Unbillable Trips (percent) ⁴	3.20	3.00	6.7%
Average Revenue per Trip (\$) ⁵	13.03	12.71	2.5%
Transponder Penetration Rate (percent) ⁶	81.9	83.9	(2.4%)
Transponders in Circulation at March 31 ⁷	1,625,219	1,580,995	2.8%

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

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

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

4. Unbillable Trips represents the number of trips that were not billed divided by the number of trips in the reporting period. Unbillable Trips includes unreadable transactions where a licence plate image was not captured, trips taken by vehicles from jurisdictions in which 407 ETR is unable to bill and trips taken by certain toll-exempt vehicles (such as emergency and 407 ETR service vehicles and vehicles with diplomatic plates).

5. Average Revenue per Trip is calculated as total tolls and fee revenue over total number of trips in the reporting period.

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

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

Total trips for the first quarter of 2022 were higher by 37.1%, VKTs were higher by 46.0% and average workday trips were higher by 32.5% as compared to the same period in 2021. ATL increased by 6.5% compared to the same period in 2021. The easing of COVID-19 pandemic-related restrictions in the first quarter of 2022 resulted in increased traffic levels compared to the first quarter of 2021.

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. In the event of any future COVID-19 pandemic-related closures or restrictions, the Company's on-going construction projects and rehabilitation initiatives are expected to continue as an essential service.

Information Technology

The Company continues to maintain and enhance its back-office systems. Formal processes are in place to identify, evaluate and implement potential system enhancements to ensure continued alignment with business strategies. The Company continues to focus on enhancing the core capabilities of capturing and processing vehicle information with continued investments in roadside network equipment, camera technology, and the operation of front-image capture system.

Additional system enhancements include collections processing, business process management, advanced traffic management, asset management, data management and analytics. The Company continues to enhance the security, functionality, scalability and usability of its self-service (website and interactive voice response) systems.

Work continued in the first quarter of 2022 on the implementation of a new enterprise resource planning (“ERP”) and customer relationship management (“CRM”) solution. This initiative will ultimately involve 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 the quality and stability of business operations. The Company plans to go-live with a select customer group towards the end of 2022.

Customer Service

The Company offers customers a broad range of services through its website, automated telephone attendant and live chat functionality 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.

407 ETR in the Community

407 ETR is focused on developing meaningful partnerships to support the health and prosperity of local communities across the GTA. In the first quarter of 2022, 407 ETR donated a total of \$150,000 to 15 hospitals across the Highway 407 ETR..

In response to the COVID-19 pandemic, 407 ETR established the Road to Recovery initiative and pledged \$4.0 million in funding over three years to United Way (2020 – 2022) to help provide critical social services in support of food security, seniors, employment/income security, and mental health. To date, the Company has donated \$3.0 million towards this initiative with a further \$1 million donation to be made during the second half of 2022. The funding is being directed to United Way agencies across the GTA in Durham, Halton, Hamilton, Peel, Toronto and York regions.

Highway 407

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

Highway 407, which was constructed by the Province in two phases, was fully completed in late December 2019 with tolling operations seamlessly commencing as the phases were opened to the public. The Province maintains public ownership, sets tolls and receives toll revenues in respect of its use. Effective April 5, 2022 the Ontario government has permanently removed tolls on Highway 412 and 418.

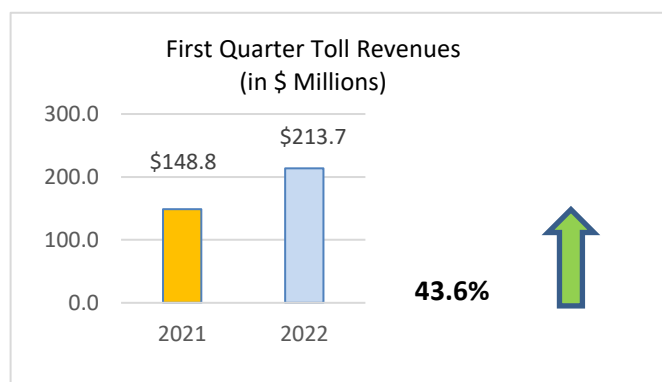
Cantoll continues to maintain the roadside tolling technology and provide tolling, billing and back-office services (the “Tolling Agreement”) for Highway 407. The operational aspect of the Tolling Agreement, which commenced in December 2015, has an initial term of 10 years and is renewable by 10-year increments for up to 30 years in total. The Company maintains a \$6.5 million segregated funds account as required by the Tolling Agreement.

First Quarter 2022 Results of Operations

Revenues

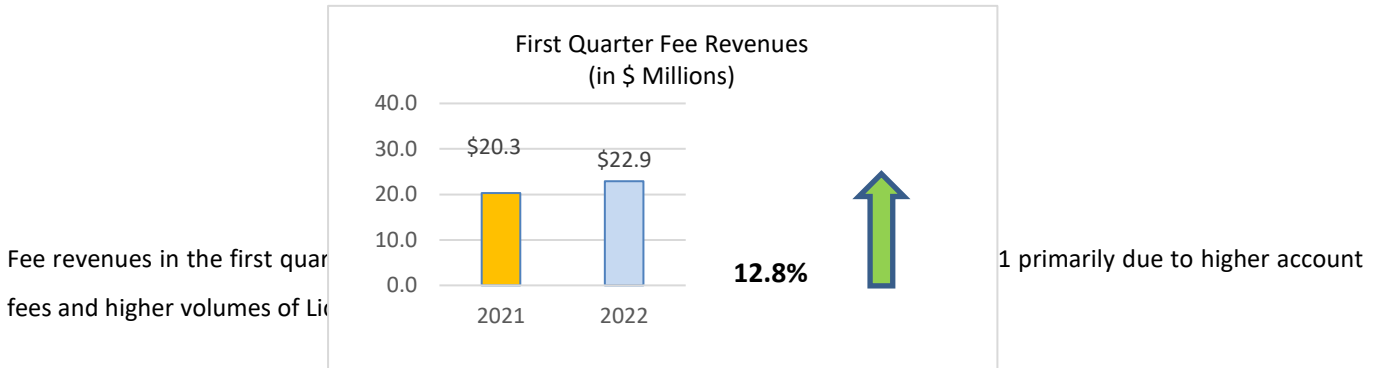
The Company’s revenues are generated from toll charges for trips on Highway 407 ETR including camera charges for non-transponder trips (“Tolls”) and monthly fees (“Fees”). Fees include transponder lease fees, account fees relating to the maintenance and billing of non-transponder customer accounts, late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

Toll Revenues



Toll revenues in the first quarter of 2022 were higher due to higher traffic volumes compared to the same period in 2021, resulting from the easing of COVID-19 pandemic related restrictions.

Fee Revenues



Outlook

Management anticipates revenues will continue to be impacted by the COVID-19 pandemic with reduced traffic volumes compared to pre-pandemic levels continuing through 2022. However, the gradual recovery in traffic volumes is expected to continue in 2022 resulting in higher revenues compared to 2021.

Toll Rates

Toll rates have remained unchanged since February 2020. Toll revenue is influenced by the mix of customers on Highway 407 ETR, which includes video and transponder customers, the type of vehicle, time, direction and zone of travel, distance travelled per trip, trip toll charge and toll rates.

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

Due to the COVID-19 pandemic and related Province-wide shutdowns and stay-at-home orders, traffic on Highway 407 ETR has been significantly lower and minimum traffic thresholds cannot be achieved as prescribed under Schedule 22. The Company and the Province are in agreement that the COVID-19 pandemic is considered a Force Majeure event under the provisions of the Concession and Ground Lease Agreement ("Concession Agreement"), and therefore the Company is not subject to Schedule 22 payments for 2020 and until the end of the Force Majeure event. The Company and the Province are also in agreement that the Force Majeure event terminates when the traffic volumes on Highway 407 ETR reach pre-pandemic levels (measured as the average of 2017 to 2019), or when there is an increase in toll rates or user charges. Upon the termination of the Force Majeure event, the Company will be subject to a Schedule 22 payment, if applicable, commencing the subsequent year.

Current toll rates are detailed in the following table:

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

Per km Rates Effective: February 1, 2020

Entire trip is based on time of entry.		Zone 1 QEW to Highway 401		Zone 2 Highway 401 to Highway 427		Zone 3 Highway 427 to Highway 404		Zone 4 Highway 404 to Brock Road	
		WESTBOUND	EASTBOUND	WESTBOUND	EASTBOUND	WESTBOUND	EASTBOUND	WESTBOUND	EASTBOUND
Weekdays	12 a.m. –	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢
	6 a.m. –	42.85 ¢	43.76 ¢	42.83 ¢	48.29 ¢	46.31 ¢	47.43 ¢	44.86 ¢	42.04 ¢
	7 a.m. –	48.74 ¢	55.13 ¢	50.89 ¢	56.44 ¢	54.43 ¢	56.43 ¢	54.93 ¢	47.83 ¢
	9:30 a.m. –	42.53 ¢	45.45 ¢	44.02 ¢	48.29 ¢	46.58 ¢	47.43 ¢	46.58 ¢	42.04 ¢
	10:30 a.m. –	39.07 ¢	39.07 ¢	39.07 ¢	40.17 ¢	40.17 ¢	40.90 ¢	39.07 ¢	38.47 ¢
	2:30 p.m. –	51.93 ¢	44.04 ¢	50.55 ¢	48.98 ¢	51.01 ¢	51.92 ¢	43.62 ¢	48.81 ¢
	3:30 p.m. –	81.14 ¢	50.10 ¢	55.45 ¢	59.00 ¢	58.99 ¢	62.24 ¢	49.56 ¢	58.48 ¢
	6 p.m. –	51.93 ¢	44.04 ¢	50.55 ¢	48.98 ¢	51.01 ¢	51.92 ¢	43.62 ¢	46.81 ¢
Weekends & Holidays	7 p.m. –	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢
	12 a.m. –	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢
	11 a.m. –	34.63 ¢	35.96 ¢	35.96 ¢	35.96 ¢	35.96 ¢	35.96 ¢	34.63 ¢	34.63 ¢
	7 p.m. –	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢	25.29 ¢

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

The Heavy Multiple Unit Vehicle (“HMU”) Rate (tractor trailers) is three times the Light Vehicle Rate.

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

For further details on the Company’s toll rates, please visit www.407etr.com. Information contained in or otherwise accessible through the website referenced in this MD&A does not form part of this MD&A and is not incorporated by reference into this MD&A.

Calculated Tolls

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

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

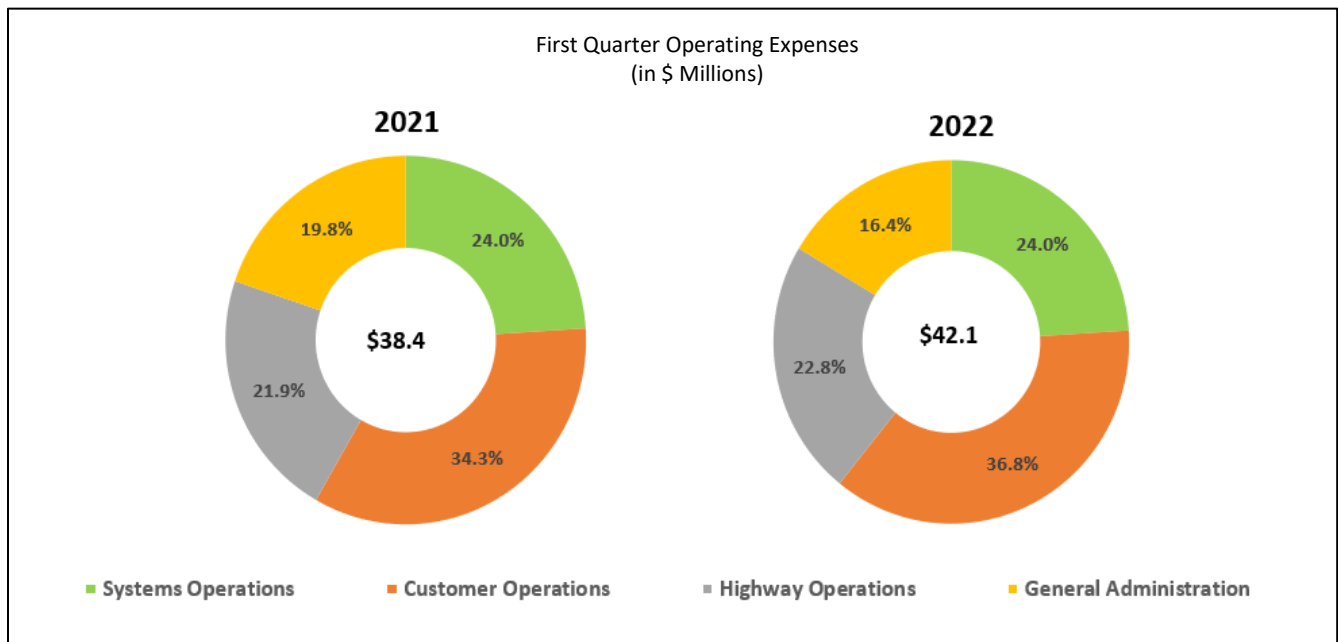
The following table details the flat toll charge for light and heavy vehicles:

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

Flat Toll Charge effective February 1, 2020.

Applicable to Light Vehicles without a transponder. Peak Period, Peak Hours, Off Peak, Weekday Midday, and Weekends and Holidays have the meanings shown in the Light Vehicle Rates chart above

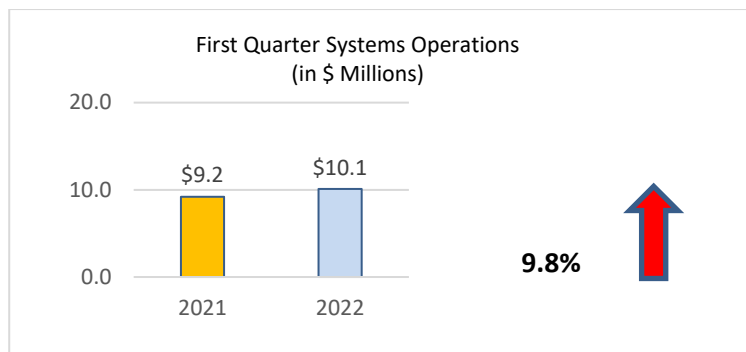
Operating Expenses



(In \$ Millions)	Q1	
	2022	2021
Systems Operations	10.1	9.2
Customer Operations	15.5	13.2
Highway Operations	9.6	8.4
General and Administration	6.9	7.6
Total Operating Expenses	42.1	38.4

Systems Operations

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



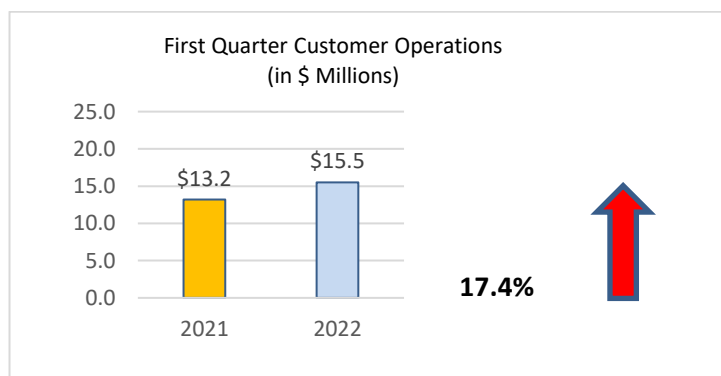
Systems operations expenses were higher in the first quarter of 2022 compared to the same period in 2021 mainly due to higher costs relating to the ERP and CRM project.

Outlook

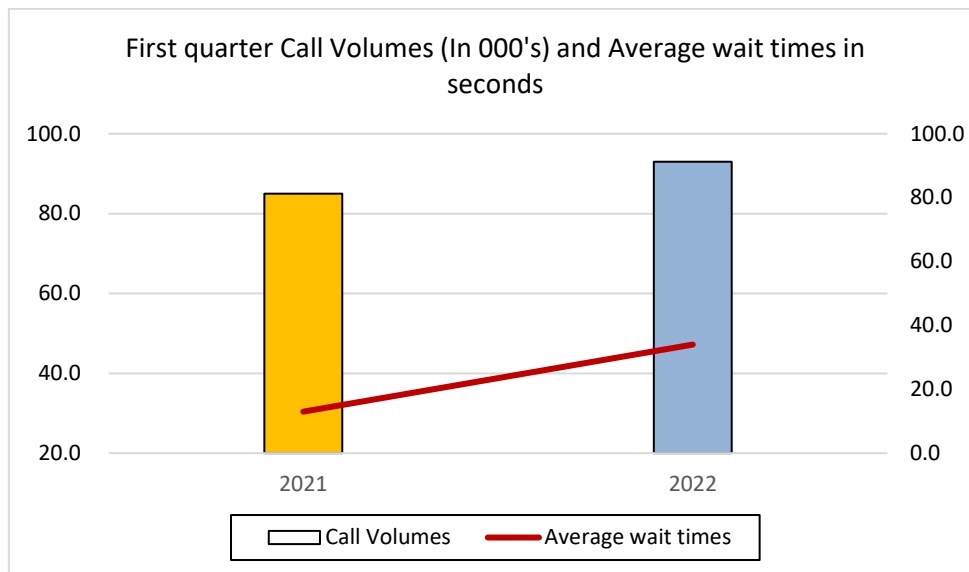
Systems operations expenses for 2022 are expected to be higher than 2021 mainly due higher consulting and other costs in relation to the ERP and CRM project.

Customer Operations

This category includes costs incurred to operate the Company's call centre and customer relations group. These costs include the account management salaries, transponder distribution channels, billing, customer address system access fees, ombudsman services and the collection of overdue accounts.



Customer operations expenses were higher in the first quarter of 2022 compared to the same period in 2021 mainly due to higher provision for Lifetime ECL due to higher revenues coupled with higher transactional billing costs and bank charges.



The Company's customer service representatives ("CSRs") continue to service and attend calls remotely due to the COVID-19 pandemic. The Company received 93 thousand telephone calls during the first quarter of 2022, compared to 85 thousand calls received during the same period in 2021. The increase in call volumes is a result of increased traffic volumes. The average wait time required for a customer to speak with a CSR was 34 seconds, compared to the average wait time of 13 seconds for the same period 2021. During the first quarter of 2022, 85.8% of calls were answered within 30 seconds, which was higher than the Company's target of 80%. The increase in average wait time was due to lower staffing levels.

Launched in 2020, the Company's 'Chat with an Expert' functionality has proven to be an effective channel to facilitate live conversations between CSRs and customers as well as the general public. During the first quarter of 2022, nine thousand live chat conversations were completed and the average wait time was 15 seconds.

Notwithstanding reduced customer operations, customers continue to have the ability to access various self-service options through the Company's secure website, which enables customers to perform a number of transactions without having to speak with a CSR.

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

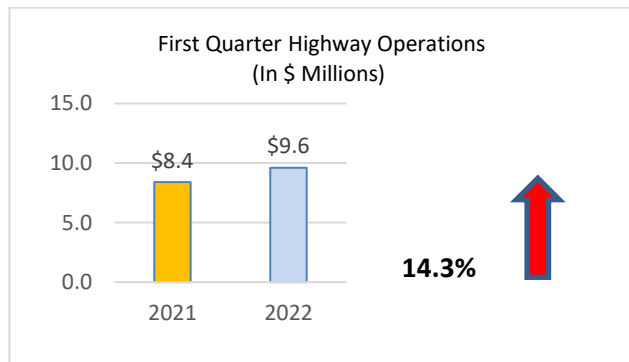
The Company has continued its Financial Hardship and Repayment Assistance Programs to support customers during the COVID-19 pandemic.

Outlook

Customer operations costs for 2022 are expected to be higher compared to 2021, mainly due to higher Lifetime ECL on accounts receivables, billing costs and bank charges associated with higher revenues expected in 2022.

Highway Operations

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



Highway operations expenses were higher in the first quarter of 2022 compared to the same period in 2021 mainly due to higher winter maintenance costs as a result of unfavourable weather.

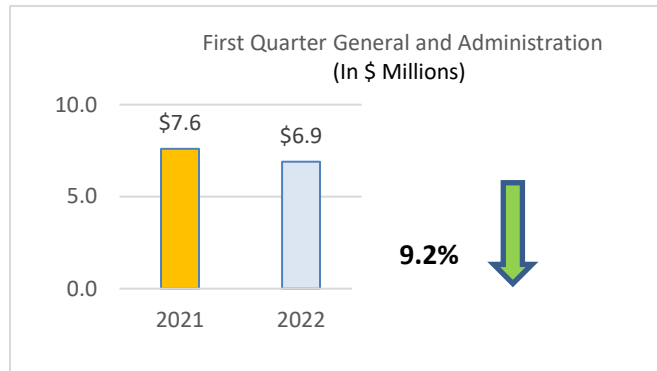
Highway maintenance cost per lane kilometer in the first quarter of 2022 amounted to \$7,600 which was higher than the \$6,600 in the first quarter of 2021 for the reasons mentioned above.

Outlook

Highway operations expenses for 2022 are expected to be higher than 2021 mainly due to favourable winter weather conditions experienced in 2021 relative to the first quarter of 2022.

General and Administration

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

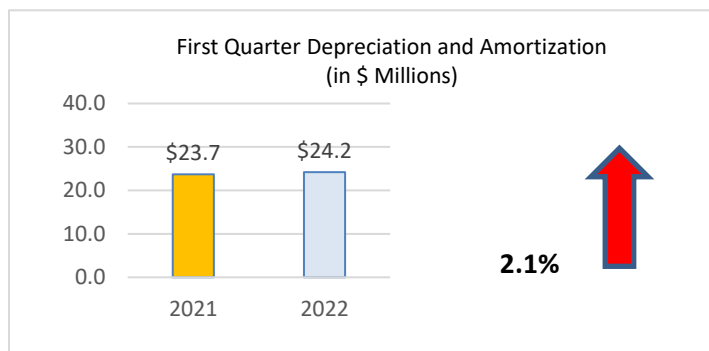


General and administration expenses in the first quarter of 2022, were lower compared to the same period in 2021 mainly due to the fact that there was no Schedule 22 expense in the first quarter of 2022.

Outlook

General and administration expenses for 2022 are expected to be higher than 2021 due to increased consulting fees and price increases.

Depreciation and Amortization



Depreciation and amortization expenses in the first quarter of 2022 were higher mainly due to higher toll highway depreciation as a result of higher VKTs.

Outlook

Depreciation and amortization expenses in 2022 are expected to be higher compared to 2021. As traffic volumes further recover, highway depreciation expense is expected to increase.

Interest and Other Expenses

(In \$ Millions)	Q1	
	2022	2021
Interest expense on Bonds and Credit Facilities	100.8	99.8
Non-cash inflation component of:		
Interest expense RRBs	8.6	4.0
Interest expense (recovery), Senior Bonds Series 04-A2	1.8	(0.1)
Fair value adjustment (recovery), Senior Bonds, Series 04-A2	(15.9)	0.8
Capitalized Interest	(0.3)	(0.6)
Total Interest Expense on Long-Term Debt	95.0	103.9
Interest income on financial assets designated as FVTPL	(1.3)	(1.8)
Other interest expense(recovery)	(1.0)	0.1
Reclassification of gain and losses on cash flow hedges	(0.2)	(0.2)
Total Interest and Other Expenses	92.5	102.0

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

Interest expense on Bonds and Credit Facilities:

Interest expense on Bonds and Credit Facilities for first quarter of 2022 was higher by \$1.0 million compared to the same period in 2021, resulting from higher cash interest expenses on the Real Return Bonds and Senior Bonds, Series 04-A2 due to an increase in inflation. Interest expenses on junior and subordinated bonds for the first quarter of 2022 amounted to \$11.6 million, which was comparable to same period in 2021.

Non-cash inflation component of interest expense:

The non-cash inflation component of the RRBs was unfavourable by \$4.6 million and the non-cash accretion on Senior Bonds, Series 04-A2 was unfavourable by \$1.9 million for first quarter of 2022 compared to same period in 2021, mainly due to an increase in the CPI..

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

The non-cash fair value adjustment to Senior Bonds, Series 04-A2 was favourable by \$16.7 million. The non-cash fair value adjustment recovery in the first quarter of 2022 of \$15.9 million was primarily due to a significant increase in the Nominal Discount Rate ("NDR") partially offset by an increase in the Break Even Inflation Rate ("BEIR"). The non-cash fair value adjustment expense of \$0.8 million in same period in 2021 was primarily due to an increase in the BEIR partially offset by an increase in the NDR.

Interest income on financial assets:

Interest income from cash balances and investments for the first quarter of 2022 was lower by \$0.5 million compared to the same period in 2021 primarily due to fair value losses on investments due to an increase in interest rates coupled with a lower average cash balance.

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 2022 to be in-line with 2021.

Income Taxes

(in \$ Millions)	Q1	
	2022	2021
Current income tax expense	19.5	1.2
Deferred income tax expense	1.1	0.1
Total Income Tax Expense	20.6	1.3

The combined current and deferred effective tax rate was 26.5% in 2022, which was consistent to the prior year effective tax rate of 26.0% .

Current income tax expense was higher compared to 2021 primarily due to higher earnings before taxes. Deferred income tax expense for 2022 was higher when compared to 2021 due to an increase in taxable temporary differences.

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 higher income tax expense due to higher earnings before taxes anticipated in 2022. The Company expects traffic volumes will continue to recover, resulting in higher revenues.

Liquidity and Capital Resources

Cash Flow Statement

(In \$ Millions)	Q1	
	2022	2021
Cash flows (used in) from operating activities	83.3	(45.1)
Cash flows from (used in) investing activities	(23.5)	27.4
Cash flows used in financing activities	(6.6)	(6.5)
Increase (decrease) in cash and cash equivalents	53.2	(24.2)
Cash and cash equivalents, beginning of period	307.0	614.5
Cash and cash equivalents, end of period	360.2	590.3

Cash and cash equivalents at March 31, 2022 were \$360.2 million, an increase of \$53.2 million from December 31, 2021. Cash and cash equivalents includes a \$10.0 million reserve required by the Indenture.

The cash increase of \$53.2 million in the first quarter of 2022 was mainly due to cash generated from operating activities of \$83.3 million and a decrease in non-trade receivables of \$1.9 million. These cash inflows were partially offset by purchases of property, plant and equipment and intangibles of \$13.4 million, an increase in restricted cash and investments of \$9.6 million, partial repayment of amortizing long-term debt of \$3.4 million, payments for obligations under finance leases of \$3.2 million and advance payment to a supplier of \$2.4 million.

Cash flow generated from operating activities:

Cash increased by \$128.4 million in the first quarter of 2022 compared to the first quarter of 2021, mainly due to lower corporate income tax payments of \$78.5 million resulting from a prior year income tax payment relating to 2020 income taxes, higher cash receipts of \$59.3 million primarily from higher revenues. These cash inflows were partially offset by higher cash payments for operating activities of \$7.6 million due to higher operating expenses and changes in working capital. Interest income received from investments and cash balances were lower by \$1.3 million mainly due to timing of receipts and lower average cash balance, and higher interest expense payments of \$0.5 million primarily from higher interest payment on Senior Bonds, Series 04-A2 due to an increase in inflation.

Cash flows used in investing activities:

Cash used in investing activities was \$23.5 million in the first quarter of 2022 compared to cash generated from investing activities of \$27.4 million in the first quarter of 2021. Included in investing activities are changes in the restricted cash and investments required to be maintained by the Indenture. The net increase in restricted cash and investments was \$9.6 million for first quarter of 2022 as compared to a net decrease of \$38.7 million in first quarter of 2021. The increase in restricted cash and investments of \$9.6 million in the current quarter was due to contributions to the debt service fund of \$104.5 million and interest income received from investments and cash balances of \$0.8 million. These increases were offset by interest payments of \$92.3 million and the repayment of amortizing long-term debt of \$3.4 million. The decrease in restricted cash and investments of \$38.7 million in the first quarter of 2021 was primarily due to the release of a portion of the operating and maintenance and replacement and renewal reserve to the general fund. Advance payment to a supplier amounted \$2.4 million in the first quarter of 2022. Also included in investing activities are investments in the widening of certain segments and replacement of certain components of Highway 407 ETR, enhancements and replacements of toll equipment, continuing development and enhancement of the Company's information systems, and the purchase of new transponders. Additions to property, plant and equipment and intangibles amounted to \$13.4 million in the first quarter of 2022 as compared to \$11.4 million in the first quarter of 2021, representing an increase of \$2.0 million primarily due to timing of payments.

Cash flows used in financing activities:

Cash flow used in financing activities was \$6.6 million in the first quarter of 2022 compared to \$6.5 million in the first quarter of 2021. Partial repayment of amortizing long-term debt amounted to \$3.4 million during the first quarter of 2022 compared to partial repayment of long-term debt of \$3.2 million in the first quarter of 2021. Payments for obligations under finance leases amounted to \$3.2 million for first quarter of 2022 compared to \$3.3 million in the first quarter of 2021.

The supplemental indenture for the RRBs requires the Company to fund a series excess inflation reserve should the principal outstanding multiplied by the difference between the applicable CPI at the time of measurement divided by the applicable CPI at the time of issue exceed a pre-established threshold level. As at March 31, 2022 and December 31, 2021, CPI had not reached the levels to require funding of the excess inflation reserve and Management does not anticipate CPI to reach these levels. Sufficient cash from operations will be generated in the event that funding of the reserve becomes necessary.

Certain Events of Default under the Indenture would allow bondholders to declare the bonds to be immediately payable. These Events of Default are described in the Company's AIF available at www.sedar.com. As at March 31, 2022 and December 31, 2021, the Company is in compliance with the terms of the Indenture.

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 appropriate. 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 Indenture. The additional debt, when issued, 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.

Earnings Coverage

(In \$ Millions)	Twelve-month period ended	
	March 31	
	2022	2021
Income before income tax expenses and interest expense on long-term debt	827.1	553.4
Interest expense on long-term debt	462.9	502.8
Earnings Coverage	364.2	50.6

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.

The Company experienced earnings coverage ratios of 1.79 times and 1.10 times for the twelve month periods ended March 31, 2022 and 2021, respectively. The Company expects income before income tax expenses and interest expense on long-term debt to continue to be sufficient to cover interest expense on long-term debt. The earnings coverage ratio is different from the Company's debt service coverage ratio as is defined in the Indenture.

Risks and Uncertainties

COVID-19 Pandemic

The Company faces new challenges and uncertainties related to the COVID-19 pandemic. The potential effects and impact of the COVID-19 pandemic have been disclosed earlier in this MD&A under "COVID-19 Pandemic".

Toll Revenues

The Company's ability to derive toll 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 price setting is approved by the Company's Board of Directors (the "Board"). In March 2022, the Province eliminated the annual licence plate renewal fee and also the requirement for a renewed licence plate to display a validation sticker. These changes are being monitored to assess potential impacts to collections performance. Actual results are monitored against the revenue projections on a monthly basis, giving Management adequate time to analyze and respond to variances. The COVID-19 pandemic has adversely impacted demand for highway travel in the GTA. The resulting traffic reduction could continue to have a significant negative impact on the Company's revenues. However, Management expects traffic will continue to recover.

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 budget. 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.

On November 11, 2020, Standard & Poor's ("S&P") placed the Company's senior, junior and subordinated credit ratings on "CreditWatch Negative". On June 8, 2021, S&P removed the Company's senior, junior and subordinated credit ratings from "CreditWatch Negative" and changed the outlook to "Stable". S&P cited the force majeure provisions of the Concession Agreement resulting in no amounts payable to the Province under Schedule 22, along with the Company's significant liquidity, as reasons for the ratings actions. On November 25, 2020, DBRS Limited changed the trend on the Company's senior, junior and subordinated credit ratings from "Stable" to "Negative", which remains in effect. DBRS has cited the uncertainty surrounding the recovery of traffic volumes as the primary reason for their action.

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.

Periodically, the Company engages external consultants to undertake studies on the impact of climate change on the various pavements along Highway 407 ETR. Earlier studies have shown that Highway 407 ETR pavements are robust and resilient to climate change with little or no expected impact.

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

407 ETR will continue to assess and mitigate the impact of climate change on its longer-term operations and will adjust its preventative maintenance, infrastructure, rehabilitation and construction plans accordingly.

Risks Arising from Financial Instruments

Credit Risk

Financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, trade receivables and other, 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 amounts are estimated based on prior experience, anticipated collection strategies and ultimate recovery of balances for which collection is uncertain.

Trade receivables and other are aged as follows:

(In \$ Millions)	As at	
	March 31, 2022	December 31, 2021
Unbilled	70.0	66.0
0 to 60 days	46.2	70.0
60 to 90 days	11.0	8.7
90 to 120 days	6.8	7.0
121 to 150 days	5.8	6.2
151 + days	26.8	28.0
Sub-total ¹	166.6	185.9
Other ²	21.3	19.7
	187.9	205.6

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

2. Other consists of salt inventory, prepaids, other non-trade receivables and an advance payment to supplier.

In accordance with the revenue recognition policy, toll revenues are recognized on the date trips are taken on Highway 407 ETR. Tolls and other charges are recorded in trade receivables as "Unbilled" until invoiced. The provision for Lifetime ECL is based principally on historical collection rates and Management's expectation of success rates for collection of overdue accounts by the Registrar through Licence Plate Denial as well as Management's expectation of success rates for collection through collection agencies and legal proceedings. When a licence plate associated with a customer's unpaid 407 ETR account becomes unattached from the vehicle or expired, the Registrar is required to refuse to renew another single vehicle permit issued to the same customer or issue a vehicle permit to that customer. The legislation affording 407 ETR the right to Licence Plate Denial requires that a series of notices be sent to customers with delinquent accounts. This process takes a minimum of

150 days from the date an invoice is sent until a customer is subject to Licence Plate Denial, followed by up to two years before a customer's licence plate is subject to renewal. The Licence Plate Denial process, together with other collection strategies, results in the successful collection of net trade receivables that are more than 151 days past due. The provision for Lifetime ECL could materially change and may result in significant changes to trade receivables balances as Management continues to monitor the collection of outstanding 407 ETR charges through the Licence Plate Denial process with the Ontario Ministry of Transportation, as well as collections through collection agencies and legal proceedings.

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

Management continuously monitors the collection of overdue accounts including the allowance for Lifetime ECL. 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 accounts by approximately \$2.4 million (2021 - \$1.7 million) and decreased net income by approximately \$1.7 million (2021 - \$1.3 million) for the three-month period ended March 31, 2022.

Interest Rate Risk

As at March 31, 2022, 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 (2021 - \$0.9 million) and net income by approximately \$0.5 million (2021 - \$0.6 million) for the first quarter of 2022.

Inflation Risk

The Company is exposed to inflation risk as interest expense and debt service payments relating to RRBs and Senior Bonds, Series 04-A2 are linked to the CPI. An increase of 50 basis points in the CPI would have increased interest expense by approximately \$7.0 million (2021 - \$7.1 million), decreased net income by approximately \$5.1 million (2021 - \$5.2 million) and increased debt service payments by approximately \$0.2 million (2021 - \$0.1 million) for the first quarter of 2022. BEIR is highly volatile and may lead to significant changes in the fair value of Senior Bonds, Series 04-A2 that may not be representative of actual inflation paid or to be paid to the Senior Bonds, Series 04-A2 bondholders. An increase of 10 basis points in the BEIR would have increased interest expense by approximately \$4.4 million (2021 - \$5.1 million) and decreased net income by approximately \$3.2 million (2021 - \$3.8 million) for the first quarter of 2022. A decrease of 10 basis points in the BEIR would have reduced interest expense by approximately \$4.4 million (2021 - \$5.0 million) and increased net income by approximately \$3.2 million (2021 - \$3.7 million) for the first quarter of 2022. This inflation risk is partially mitigated by the Company's right to increase toll rates.

Liquidity Risk

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

Despite the impact of lower revenues due to the COVID-19 pandemic, the Company maintained sufficient liquidity to satisfy all its obligations in 2022. The Company is confident in its ability to pay interest on all subordinated debt. The Company does not have any scheduled bond maturities until September 2022, when the \$300.0 million Subordinated Bonds, Series 17-D1, are scheduled to mature. The Company expects to refinance the \$300.0 million Subordinated Bonds, Series 17-D1, with similar instruments.

The following are the Company's commitments, contractual maturities and related interest obligations as at March 31, 2022:

(In \$ Millions)	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Beyond 5 years
Trade and other payables	\$ 53.2	\$ -	\$ -	\$ -	\$ -	\$ -
Contract liabilities	11.9	-	-	-	-	-
Lease obligations	2.0	1.0	0.5	0.3	0.1	0.2
Interest payments on lease obligations	0.1	-	-	-	-	0.1
Long-term debt	319.7	270.9	22.1	373.4	700.8	7,144.6
Derivative financial liability	10.0	10.0	10.0	10.0	10.0	124.7
Interest payments on long-term debt	366.2	361.3	355.9	347.2	342.1	4,203.0
	\$ 763.1	\$ 643.2	\$ 388.5	\$ 730.9	\$ 1,053.0	\$ 11,472.6

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.

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.

Cash and cash equivalents of \$360.2 million as of March 31, 2022 consist of cash, government treasury bills and provincial promissory notes with maturities of three months or less. Cash and cash equivalents are used for working capital and other general corporate purposes.

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' 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.

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.

Credit Facilities

The Company has existing credit agreements establishing syndicated credit facilities with four Canadian chartered banks (the "Syndicated Credit Facility"). The amount available to be drawn under the Syndicated Credit Facility is \$800.0..

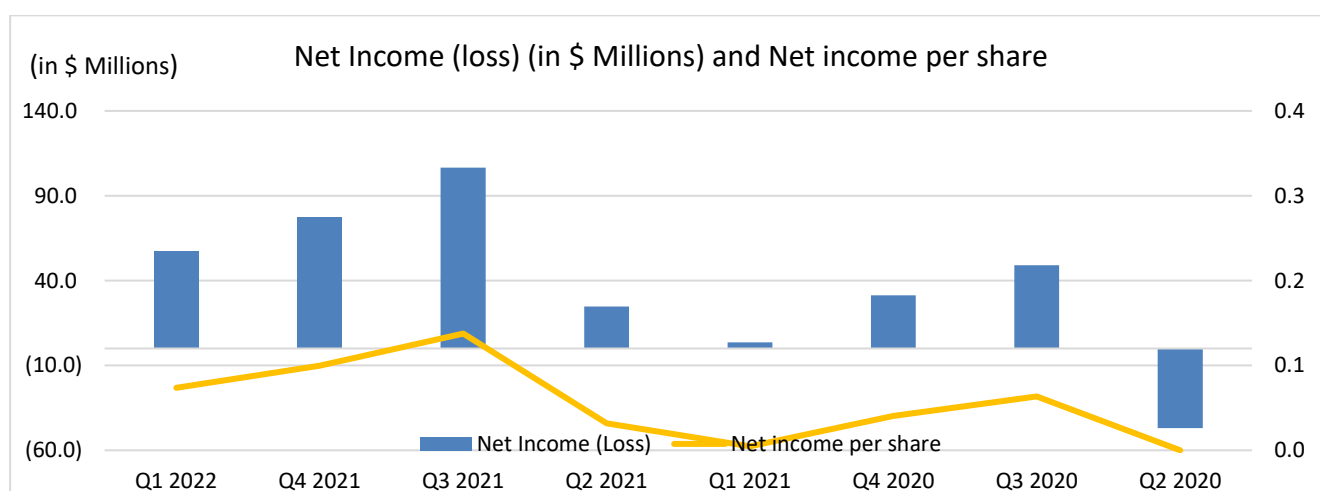
As at March 31, 2022, the Company had drawn \$nil (2021 – \$nil) under the Syndicated Credit Facility.

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.

Quarterly Financial Information

Net Income (Loss) and Net Income (Loss) per Share *	2022		2021				2020		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
(In \$ Millions, except per share amounts)									
Revenues	236.6	308.7	333.1	212.2	169.1	225.5	265.7	129.6	
Operating Expenses	42.1	49.0	43.9	32.8	38.4	44.3	39.1	36.2	
Depreciation and amortization	24.2	28.0	26.6	23.9	23.7	23.9	24.1	22.0	
Interest and other expenses	92.5	124.7	116.8	121.9	102.0	113.8	135.3	136.4	
Income tax expenses (recovery)	20.6	29.6	39.2	8.9	1.3	12.2	18.1	(18.1)	
Net income (loss)	57.2	77.4	106.6	24.7	3.7	31.3	49.1	(46.9)	
Net income (loss) per share (basic and diluted)	0.074	0.100	0.138	0.032	0.005	0.040	0.063	(0.061)	



Toll and fee revenues are subject to seasonal fluctuations that may materially impact quarter-to-quarter financial results; therefore one quarter's revenues are not necessarily indicative of another quarter's revenues. Seasonal and other trends affecting the Company's revenues include factors such as economic activity, recreational travel, weather conditions, pricing structure, fuel prices and traffic volumes on neighbouring infrastructure. In particular, this seasonality generally results in relatively lower revenues during the first quarter, relatively higher levels of toll and fee revenues in the second and fourth quarters and the highest revenue in the third quarter. Revenues may be significantly impacted if the COVID-19 pandemic continues for a prolonged period of time. Interest expense on RRBs and Senior Bonds, Series 04-A2 is calculated based on changes in CPI; as such, interest expense in respect of RRBs and Senior Bonds, Series 04-A2 will fluctuate due to the volatility of CPI.

The Company recorded net income of \$57.2 million in the first quarter of 2022, \$20.2 million lower than the fourth quarter of 2021, mainly due to the continued impact of the COVID-19 pandemic on traffic levels and revenues, offset by lower interest and other expenses mainly due to the favourable fair value adjustment of Senior Bonds, Series, 04-A2 due to a significant increase in NDR, favourable non-cash inflation compensation expense on the RRBs and non-cash accretion expense on Senior Bonds Series 04-A2 due to a lower increase in inflation and lower interest expense on senior bonds due to lower cash interest expenses on the RRBs and Senior Bonds, Series 04-A2, lower income tax expense, lower operating expenses and lower depreciation and amortization.

Net income of \$77.4 million in the fourth quarter of 2021, was \$29.2 million lower than the third quarter of 2021, mainly due to the continued impact of the COVID-19 pandemic on traffic levels and revenues, coupled with higher operating expenses mainly due to higher staffing costs, higher interest and other expenses mainly due to the unfavourable fair value adjustment of Senior Bonds, Series, 04-A2 due to an increase in BEIR offset by favourable non-cash inflation compensation expense on the RRBs and non-cash accretion expense on Senior Bonds Series 04-A2 due to a lower increase in inflation and higher depreciation and amortization offset by lower income tax expense.

Net income of \$106.6 million in the third quarter of 2021 was \$81.9 million higher than the second quarter of 2021 mainly due to seasonally higher revenues and improvement in traffic volumes due to further easing of COVID-19 pandemic restrictions, coupled with lower interest and other due to the favourable non-cash inflation compensation component of the RRBs and a favourable fair value adjustment of Senior Bonds, Series 04-A2 due to a lower increase in the CPI level, offset by higher income taxes and higher operating expenses and higher depreciation expense.

Net income of \$24.7 million in the second quarter of 2021 was \$21.0 million higher than the first quarter of 2021 mainly due to higher revenues from the phased re-opening of businesses, outdoor activities and public spaces in the Province and the GTA, compared to the severe impact of stay-at-home orders in the first quarter of 2021, coupled with lower operating expenses, offset by higher interest and other expenses due to the unfavourable non-cash inflation compensation component of the RRBs and non-cash accretion of Senior Bonds, Series 04-A2 due to a higher increase in the CPI level. In addition, there was an unfavourable non-cash fair value adjustment of Senior Bonds, Series 04-A2 primarily due to a decrease in NDR and higher income tax expense.

Net income of \$3.7 million in the first quarter of 2021 was \$27.6 million lower than the fourth quarter of 2020 mainly due to lower revenues due to the impact of the COVID-19 pandemic, coupled with lower operating expenses, lower interest and other expenses due to an unfavourable fair value adjustment on Senior Bond 04-A2 resulting from a significant decrease in the NDR in first quarter of 2021, including an increase in BEIR in the fourth quarter of 2020 and lower income tax expense.

Net income of \$31.3 million in the fourth quarter of 2020 was \$17.8 million lower than the third quarter of 2020, mainly due to the continued impact of the COVID-19 pandemic on traffic levels and revenues, coupled with higher operating expenses, and offset by lower income tax expense and lower interest and other expenses due to the favourable non-cash inflation compensation component of the RRBs and non-cash accretion of Senior Bonds, Series 04-A2 due to a lower increase in the CPI level. In addition, there was a lower unfavourable non-cash fair value adjustment of Senior Bonds, Series 04-A2 primarily due to lower increase in the BEIR.

Net Income of \$49.1 million in the third quarter of 2020 was \$96.0 million higher than the second quarter of 2020, mainly due to higher revenues as the Province continued the process of re-opening businesses, schools and public spaces as well as easing restrictions on indoor and outdoor gatherings and activities. This increase in revenues were offset by higher income taxes, higher operating expenses, and higher depreciation expense.

Net loss of \$46.9 million in the second quarter of 2020 was \$161.4 million lower than the first quarter of 2020, mainly due to lower revenues due to the impact of the COVID-19 pandemic and higher interest and other expenses due to the redemption premium expense resulting from the early redemption of Senior Bonds, Series 99-A5 and Senior Bonds, Series 10-A3 and interest expense on the issuance of \$700.0 million of Senior Bonds, Series 20-A1 on March 6, 2020, offset by lower income taxes, lower operating expenses and lower depreciation expense.

Accounting and Control 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.

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.

Future Changes in Accounting Policies

IAS 1 *Presentation of Financial Statements - Classification of Liabilities as Current or Non-Current ("IAS 1")*: This amendment states that an entity shall classify a liability as current when it does not have the right at the end of reporting period to defer settlement of liability for at least twelve months after the reporting period. The right to defer settlement must have substance, and if subject to complying with specified conditions, the right exists at the end of reporting period only if the entity complies with those conditions. Furthermore, classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period. If a liability meets the criteria for classification as non-current, it is classified as such even if Management intends or expects to settle the liability within twelve months after the reporting period, or even if it settles the liability between the end of the reporting period and the date the financial statements are authorized for issue. However, in either of those circumstances, the entity is required to disclose information about the timing of settlement to enable users of the financial statements to understand the impact of the liability on the entity's financial position. The latest mandatory implementation of this amendment is January 1, 2023. The Company is currently evaluating the impact on the Financial Statements.

IAS 1 *Presentation of Financial Statements - Disclosure of Accounting Policies ("IAS 1")*: This amendment states that a complete set of financial statements is comprised of the notes to the financial statements and shall include material accounting policy information and other explanatory information. Accounting policy information is material if it is expected that users would need the information to understand other material information included in an entity's financial statements. Accounting policy information that relates to immaterial transactions, other events or conditions that are immaterial need not be disclosed. The latest mandatory implementation of this amendment is January 1, 2023. The Company is currently evaluating the impact on the Financial Statements.

IAS 8 *Accounting policies, changes in accounting estimates and errors - Definition of Accounting Estimates ("IAS 8")*: This amendment defines accounting estimates as monetary amounts in financial statements that are subject to measurement uncertainty. An accounting policy may require items to be measured at monetary amounts that cannot be observed directly and instead are estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates requires the use of judgement and/or assumptions based on latest available, reliable information. Measurement techniques and inputs to develop accounting estimates includes estimation techniques and valuation techniques. The change in an accounting estimate resulting from a change in an input or a measurement technique are changes in accounting estimates unless these result from the correction of prior period errors. The latest mandatory implementation of this amendment is January 1, 2023. The Company is currently evaluating the impact on the Financial Statements.

Additional Information

Related Party Transactions

The Company entered into the following transactions with related parties:

(In \$ Millions) Related Party	Relationship	Classification in the Financial Statements	Nature of transaction with the related party	Three-month period ended March 31	
				2022	2021
Cintra	Subsidiary of Shareholder	Operating Expenses	Payment for administration costs	0.2	0.2

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

Amounts owed to related parties were as follows:

(In \$ Millions) Related Party	Relationship	Classification in the Financial Statements	As at	
			March 31, 2022	December 31, 2021
Cintra Servicios de Infraestructuras S. A.	Subsidiary of shareholder	Trade and other payables	0.9	0.7

Overall Outlook

Management anticipates revenues will continue to be impacted by the COVID-19 pandemic with traffic volumes through 2022 being lower than pre-pandemic levels, but higher than 2021 levels. Management anticipates a gradual recovery in traffic volumes in 2022 and expects to satisfy all of its obligations during 2022 while remaining in compliance with the Concession Agreement and the Indenture.