

407 International Inc.

Management's Discussion and Analysis

March 31, 2025



TABLE OF CONTENTS

Table of Contents	1
Forward-looking information	2
Non-IFRS Financial Measures	2
Company Background	3
Our Business	3
Select Key Financial and Traffic Results	5
Traffic Results	6
Schedule 22	6
Results of Operations.....	6
Statement of Financial Position Items.....	12
Liquidity and Capital Resources.....	13
Overview of Current Operations	16
Risks and Uncertainties	21
Accounting Matters	23
Related Party Transactions	24
Overall Outlook	25

The following is management's discussion and analysis dated April 24, 2025 (**MD&A**) of the consolidated financial condition and results of operations of 407 International Inc. and its subsidiaries (**Company**) for the three-month period ended March 31, 2025, otherwise referred to as the first quarter of 2025. 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 period (**Financial Statements**) and the consolidated financial statements of the Company and the related notes for the years ended December 31, 2024 and 2023 as well as the management's discussion and analysis for the year ended December 31, 2024. Unless otherwise indicated, all financial information presented in the MD&A is in millions of Canadian dollars and is prepared in accordance with IFRS[®] Accounting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**). Additional information about the Company, including the Financial Statements and the Company's 2024 annual information form (**AIF**), dated February 13, 2025, can be accessed on **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 April 24, 2025, 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**).

407 International Inc. has the following subsidiaries other than 407 ETR, Canadian Tolling Company International Inc. (**Cantoll**), and 14374304 Canada Inc. (**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.

On December 6, 2001, 2007466 Ontario Inc. was incorporated under the OBCA. On October 10, 2003, 2007466 Ontario Inc. was continued under the CBCA as 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 Inc. was incorporated under the CBCA on September 20, 2022 to assist in the implementation of the Company's tax planning strategies.

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., entities controlled by Canada Pension Plan Investment Board (**CPPIB**), also known as CPP Investments, and AtkinsRéalis Highway Holdings Inc., a wholly-owned subsidiary of AtkinsRéalis Canada Inc. (**AtkinsRéalis**). On March 13, 2025, it was announced that, following completion of a series of transactions, ownership control of the Company is expected to be Cintra at 48.29%, CPP Investments at 44.20%, and Public Sector Pension Investment Board at 7.51%. AtkinsRéalis will cease to be a shareholder. These shareholder transactions are expected to occur in the second quarter of 2025, subject to various closing conditions.

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 10-lane sections (expandable to eight and 10 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

Financial Results	Three months ended March 31			
	2025	2024	Change	
Revenues	410.0	329.8	80.2	24.3%
Expenses	115.5	78.0	37.5	48.1%
Interest and other expenses	105.6	88.8	16.8	18.9%
Income before tax	188.9	163.0	25.9	15.9%
Current income tax expense	50.2	42.7	7.5	17.6%
Deferred income tax expense	(0.2)	0.1	(0.3)	(300.0%)
Net Income	138.9	120.2	18.7	15.6%
EBITDA¹	321.1	279.2	41.9	15.0%
EBITDA Margin¹	78.3%	84.7%	-	(6.4%)
Traffic Results				
Traffic/Trips (in millions)²	24.2	23.8	0.4	1.7%
Average Revenue per Trip (\$) ³	16.81	13.72	3.1	22.5%
Vehicle Kilometres Travelled (VKTs) (in millions)⁴	524.3	514.2	10.0	1.9%
Average Workday Trips (in thousands)	317.7	307.7	10.0	3.2%
Number of Workdays	62.0	62.0	-	(0.0%)
Average Trip Length (ATL) (kilometres) ⁵	21.7	21.6	0.1	0.3%
Unbillable Trips (percent) ⁶	2.5%	2.2%	-	0.3%
Transponder Penetration Rate (percent) ⁷	80.4%	80.9%	-	(0.5%)
Number of Transponders in Circulation at March 31 ⁸	1,929,422	1,799,267	130,155	7.2%

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

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

3. 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 first quarter of 2025, were higher compared to the same period in 2024 due to an increase in mobility and rush-hour commuting from a higher percentage of on-site employees and as well as more targeted rush hour driving offers to alleviate congestion across the GTA during workday peak hours. Furthermore, traffic was negatively impacted by unfavourable weather.

SCHEDULE 22

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**).

For the years 2020 to 2024 inclusive, the Company and the Province agreed that the COVID-19 pandemic was 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, terminated the Force Majeure event. The Company will be subject to a Schedule 22 Payment for 2025, payable to the Province in 2026.

At the end of each reporting period, Management prepares an estimate of the Schedule 22 Payment for the calendar year 2025 (**2025 Schedule 22 Payment Estimate**). The Schedule 22 Payment expense for the first quarter of 2025 is determined by allocating the 2025 Schedule 22 Payment Estimate, on the basis of dividing the toll revenues of the first quarter of 2025, over the total estimated toll revenues for 2025. The Schedule 22 Payment expense for each quarter of 2025 will fluctuate due to the seasonal nature of the business.

RESULTS OF OPERATIONS

REVENUES

	Three months ended March 31			
	2025	2024	Change	
Toll Revenue	381.5	308.6	72.9	23.6%
Fee Revenue	28.5	21.2	7.3	34.4%
Total Revenues	410.0	329.8	80.2	24.3%

TOLL REVENUE

Toll revenue includes: (a) toll rate charges which are determined by the type of vehicle, time of day, distance, direction and zone travelled; (b) a camera charge which applies if a vehicle travels without a transponder, and (c) trip toll charge for all trips. A new toll rate and fee schedule came into effect on January 1, 2025. The changes include additional toll zones and new vehicle classifications.

Toll revenue for the first quarter of 2025 was higher compared to the same period in 2024, due to higher traffic volumes, longer trips and higher toll rates effective January 1, 2025.

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

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 for the first quarter of 2025 compared to the same period in 2024 due to higher account fees resulting from higher traffic volumes and higher fee rates effective January 1, 2025. Fee revenue was also higher due to higher net interest from higher delinquent balances and higher enforcement fees.

REVENUE OUTLOOK

Management anticipates higher revenue in 2025 than 2024 due to higher traffic volumes and the new toll rate and fee schedule effective January 1, 2025.

EXPENSES

	Three months ended March 31			
	2025	2024	Change	
System Operations	17.2	14.4	2.8	19.4%
Customer Operations	24.6	18.3	6.3	34.4%
Highway Operations	12.1	9.8	2.3	23.5%
General and Administration	9.1	8.1	1.0	12.3%
Schedule 22 Payment	25.9	0.0	25.9	100.0%
Operating expenses	88.9	50.6	38.3	75.7%
Depreciation and Amortization	26.6	27.4	(0.8)	(2.9%)
Expenses	115.5	78.0	37.5	48.1%

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 first quarter of 2025 compared to the same period in 2024 as a result of lower salary capitalization as the Company's enterprise resource planning (**ERP**) and customer relationship management (**CRM**) project went live during the first quarter of 2024 and due to higher license renewal and data usage costs.

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 first quarter of 2025 compared to the same period in 2024 as a result of a higher provision for Lifetime ECL due to higher toll and fee revenue and due to higher billing and collection costs consistent with higher billing volumes.

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 first quarter of 2025 compared to the same period in 2024 mainly due to higher winter maintenance costs as a result of unfavourable weather conditions.

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 first quarter of 2025 compared to the same period in 2024 due to timing of certain professional services costs and environmental initiatives.

Schedule 22 Payment expense is to account for certain Highway 407 ETR traffic levels that are expected to be below the annual minimum traffic thresholds as described above in section **Schedule 22**.

OPERATING EXPENSES OUTLOOK

Management anticipates higher traffic volumes and higher revenues in 2025 resulting in higher customer operations expenses compared to 2024. Management also anticipates higher general and administration costs as a result of price increases and higher system operations costs for the development of digital programs and additional application management services. The Company will incur a Schedule 22 payment expense in 2025 as the traffic levels of certain segments of Highway 407 ETR could be below the annual minimum traffic thresholds.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses in the first quarter of 2025 were comparable to the same period in 2024 as higher depreciation due to higher VKTs was offset by lower depreciation due to certain back-office systems being fully depreciated in 2025.

DEPRECIATION AND AMORTIZATION OUTLOOK

Management anticipates depreciation and amortization in 2025 to be higher compared to 2024 as a result of higher highway depreciation from an increase in traffic volumes.

INTEREST AND OTHER EXPENSES

	Three months ended March 31			
	2025	2024	Variance	
Interest expense on Bonds and Credit Facilities	122.0	114.3	(7.7)	(6.7%)
Non-cash inflation component of:				
Interest recovery RRBs	(4.8)	(3.5)	1.3	37.1%
Interest recovery, Senior Bonds Series 04-A2	(4.8)	(4.2)	0.6	14.3%
Fair value adjustment recovery, Senior Bonds, Series 04-A2	6.0	(3.0)	(9.0)	(300.0%)
Capitalized Interest	-	(0.4)	(0.4)	100.0%
Total Interest Expense on Long-Term Debt	118.4	103.2	(15.2)	(14.7%)
Interest income on financial assets designated as FVTPL	(12.9)	(14.4)	(1.5)	10.4%
Other interest expense	0.3	0.2	(0.1)	50.0%
Reclassification of gain and losses on cash flow hedges	(0.2)	(0.2)	-	-
Total Interest and Other Expenses	105.6	88.8	(16.8)	(18.9%)

INTEREST EXPENSE ON BONDS AND CREDIT FACILITIES

Interest expense on the Company's senior bonds was higher in the first quarter of 2025 compared to the same period in 2024 primarily due to interest expense on the issuance of \$500.0 million of Senior Bonds, Series 24-A2 on October 9, 2024, interest expense on the issuance of \$350.0 million of Senior Bonds, Series 25-A1 on March 5, 2025, to refinance in part Senior Bonds, Series 20-A2 on May 22, 2025, and higher interest expense on the refinancing of Senior Bonds, Series 14-A1 with Senior Bonds, Series 24-A2 in 2024 at a higher coupon rate. The interest expense on the Company's junior bonds and subordinated bonds in the first quarter of 2025 was comparable with the same period in 2024.

NON-CASH INFLATION COMPONENT OF INTEREST EXPENSE

During the first quarter of 2025, the non-cash inflation component of the Senior Bonds, Series 99-A6 and Series 99-A7 (together, with Senior Bonds, Series 00-A2, the Real Return Bonds or RRBs) was favourable and the non-cash accretion on Senior Bonds, Series 04-A2 was favourable compared to the same period in 2024, in each case, mainly due to a higher decrease in the consumer price index (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 first quarter of 2025 compared to the same period in 2024. The non-cash fair value adjustment expense in the first quarter of 2025 was primarily due to an increase in the break-even inflation rate (BEIR) coupled with a decrease in the nominal discount rate.

INTEREST INCOME ON FINANCIAL ASSETS

Interest income from cash balances and investments was lower for the first quarter of 2025 compared to the same period in 2024, due to lower interest yields on investments and cash balances.

INTEREST AND OTHER EXPENSES OUTLOOK

Except for 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 expense on long-term debt for 2025 to be higher than 2024 due to the full year impact of additional leverage issued in 2024. The Company expects 2025 interest income to be lower than 2024 due to projections of a lower interest rate environment in 2025.

INCOME TAXES

The combined annual current and deferred effective tax rate is 26.5% in 2025, which is comparable to the prior year. Current income tax expense was higher in the first quarter of 2025 compared to the same period in 2024 primarily due to higher earnings before taxes. Deferred income tax expense for 2025 is lower compared to 2024 due to lower taxable temporary differences.

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 2025.

NET INCOME

During the first quarter of 2025, the Company recorded net income of \$138.9 million representing an increase of \$18.7 million or 15.6% compared to \$120.2 million for the same period in 2024 mainly due to higher revenues resulting from higher traffic volumes and higher toll rates. These favourable amounts were offset by higher expenses, interest and other expenses and income taxes.

EBITDA

	Three months ended March 31			
	2025	2024	Change	
Net Income	138.9	120.2	18.7	15.6%
Add: Current income tax expense	50.2	42.7	7.5	17.6%
Add: Deferred income tax expense	(0.2)	0.1	(0.3)	(300.0%)
Add: Interest and other expenses	105.6	88.8	16.8	18.9%
Add: Depreciation and Amortization	26.6	27.4	(0.8)	(2.9%)
EBITDA	321.1	279.2	41.9	15.0%
EBITDA Margin	78.3%	84.7%		

EBITDA⁽¹⁾ increased in the first quarter of 2025 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	2025	2024				2023		
(In \$ Millions, except per share amounts)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	410.0	438.0	487.1	450.3	329.8	375.9	419.4	405.3
Operating Expenses	88.9	68.2	56.1	52.7	50.6	60.6	49.0	49.4
Depreciation and amortization	26.6	27.3	26.6	24.7	27.4	24.1	24.3	24.2
Interest and other expenses	105.6	107.9	115.1	117.6	88.8	110.6	97.6	122.2
Income tax expenses	50.0	62.2	77.0	68.0	42.8	51.3	66.0	54.1
Net income	138.9	172.4	212.3	187.3	120.2	129.3	182.5	155.4
Net income per share (basic and diluted)	0.179	0.222	0.274	0.242	0.155	0.167	0.235	0.201

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

	As at March 31 2025	As at December 31 2024	Change
Total Current Assets	1,601.1	1,162.7	438.4
Total Non-Current Assets	4,597.2	4,593.9	3.3
Total Current Liabilities	610.6	647.2	(36.6)
Total Non-Current Liabilities	11,648.1	11,308.5	339.6
Total Shareholders' Deficit	(6,060.4)	(6,199.1)	138.7

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 March 31, 2025 compared to December 31, 2024 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. Non-current assets as at March 31, 2025 are comparable to the balance as at December 31, 2024.

Total current liabilities are comprised of trade and other payables, contract liabilities, lease obligations, accrued interest on long-term debt and the current portion of long-term debt. The decrease in current liabilities as at March 31, 2025 compared to December 31, 2024 was mainly due to a decrease in trade and other payables as a result of timing.

Total non-current liabilities are comprised of lease obligations, deferred tax liabilities and long-term debt. The increase in long-term debt as at March 31, 2025 compared to December 31, 2024 was due to the issuance of Senior Bonds, Series 25-A1 on March 5, 2025 to refinance the maturing Senior Bond, Series 20-A2 in May 2025 and an increase in the non-cash fair value adjustment expenses on Senior Bonds, Series 04-A2. These increases were partially offset by the decrease in the non-cash inflation compensation component on the Real Return Bonds and the reclassification of the next principal component of certain bonds that will become payable within the next 12 month, from non-current liabilities to current liabilities.

The Company's share capital and contributed surplus remained unchanged as at March 31, 2025 at \$775.0 million (775,000,003 common shares issued and outstanding) and \$29.6 million, respectively, compared to December 31, 2024. No dividends were paid to shareholders in the first quarters of 2025 and 2024.

LIQUIDITY AND CAPITAL RESOURCES

	Three months ended March 31		
	2025	2024	Change
Cash flows from operating activities			
Receipts from customers	\$ 437.8	\$ 312.6	\$ 125.2
Payments to suppliers and employees	(52.0)	(54.0)	2.0
Cash generated from operations	385.8	258.6	127.2
Interest received	12.9	13.4	(0.5)
Interest paid	(117.3)	(117.2)	(0.1)
Income tax refund/(paid)	(113.3)	(49.0)	(64.3)
	168.1	105.8	62.3
Cash flows from investing activities			
Additions to property, plant and equipment	(9.1)	(11.2)	2.1
Additions to intangible assets	-	(0.9)	0.9
Advance payment	-	(3.1)	3.1
Restricted cash and investments	(360.9)	(5.7)	(355.2)
Non-trade receivables and other	2.2	2.0	0.2
	(367.8)	(18.9)	(348.9)
Cash flows from financing activities			
Proceeds from long-term debt and credit facility	349.5	-	349.5
Debt issue costs	(1.8)	-	(1.8)
Repayment of long-term debt and credit facility	(4.1)	(3.9)	(0.2)
Repayment of lease obligations	(2.4)	(3.4)	1.0
	341.2	(7.3)	348.5
Increase in cash and cash equivalents	141.5	79.6	61.9
Cash and cash equivalents, beginning of period	352.3	410.4	(58.1)
Cash and cash equivalents, end of period	493.8	490.0	3.8

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

CASH FLOWS GENERATED FROM OPERATING ACTIVITIES

Cash flows generated from operating activities increased in the first quarter of 2025 compared to the same period in 2024, mainly due to higher cash receipts resulting from higher operating revenues and timing of cash receipts from customers and lower cash payments for operating expenses mainly due to timing of payments partially offset by higher operating expenses. These cash inflows were partially offset by higher corporate income tax payments mainly due to higher earnings before taxes and payment on prior year income taxes. In addition, interest income received from investments and cash balances was lower due to lower interest yield on investments and cash balances.

CASH FLOWS USED IN INVESTING ACTIVITIES

Cash flows used in investing activities increased during the first quarter of 2025 compared to the same period in 2024. Increase in restricted cash and investments in the first quarter of 2025 were higher compared to the same

period in 2024 mainly due to establishment of a refunding bond fund to repay Senior Bonds, Series 20-A2 in May 2025 from the proceeds of the issuance of Senior Bonds, Series 25-A1 on March 7, 2025, establishment of a debt service reserve fund relating to the issuance of Senior Bonds, Series 25-A1, higher contributions to the Company's debt service fund resulting from the issuances of Senior Bonds, Series 24-A1 and Senior Bonds, Series 24-A2 in the prior year and higher interest income received from debt service reserve balances and investments. These increases were partially offset by higher repayment of long-term amortizing bonds. Additions to property, plant and equipment and intangibles during the first quarter of 2025 were lower compared to the same periods in 2024, due to the completion of IT digital enhancements to replace inflexible and unsupported platforms and applications with cloud-based and scalable solutions and back-office refurbishment projects in the prior year. Decreases in non-trade receivables in the first quarter of 2025 were higher compared to the same period in the prior year mainly due to changes in third party account balances.

CASH FLOWS USED IN FINANCING ACTIVITIES

Cash flows generated from financing activities in the first quarter of 2025 were higher compared to the cash flows used in the same period in 2024. During the first quarter of 2025, the Company issued Senior Bonds, Series 25-A1 to refinance Senior Bonds, Series 20-A2.

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 Computershare Advantage Trust 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 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 March 31, 2025 and December 31, 2024, the Company had not drawn any amounts under the Syndicated Credit Facility.

LONG-TERM DEBT

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

DERIVATIVE FINANCIAL INSTRUMENT

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

EARNINGS COVERAGE

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

	Twelve month period ended March 31			
	2025	2024	Change	
Income before income tax expenses and interest expense on long-term debt	1,479.6	1,285.9	164.7	14.7%
Interest expense on long-term debt	511.5	484.3	13.3	2.8%
Earnings Coverage	968.1	801.6	151.4	23.3%
Earnings Coverage Ratio	2.89X	2.66x		

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

OVERVIEW OF CURRENT OPERATIONS

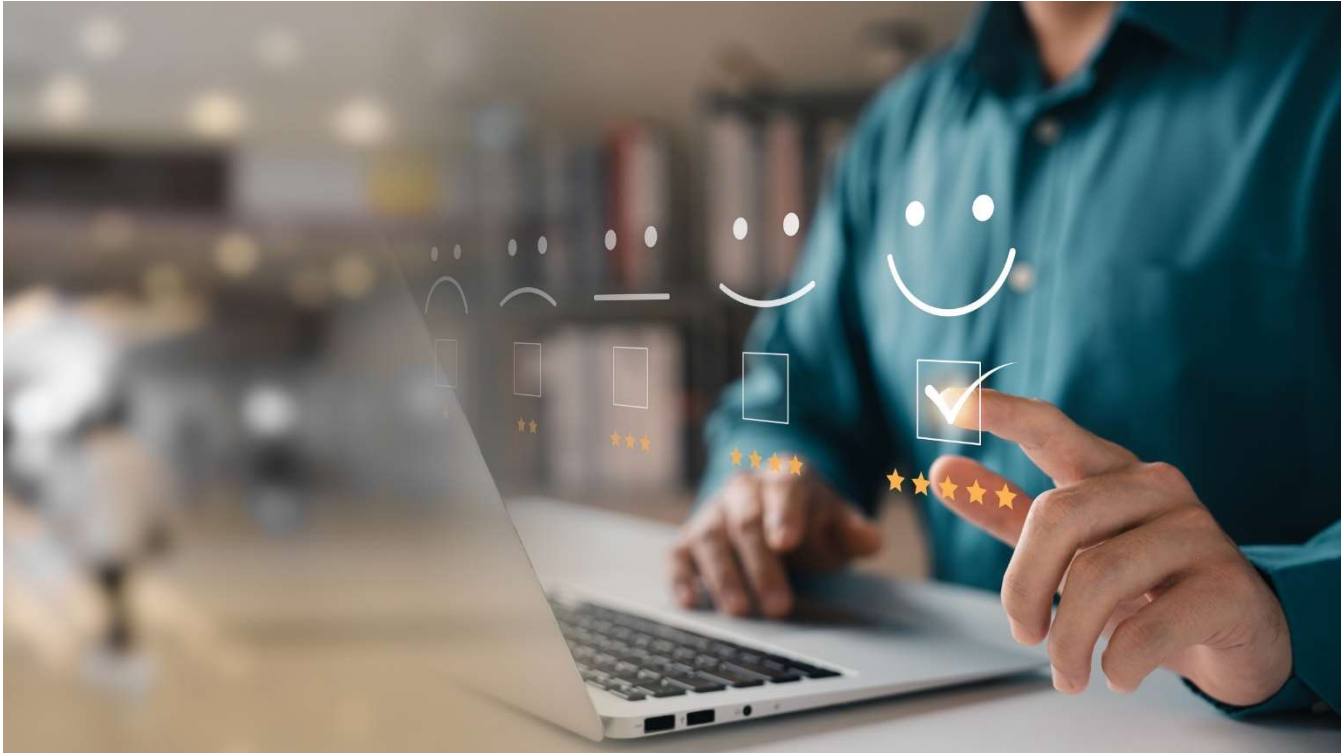
CONSTRUCTION



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 to continue to provide customers with fast, safe and reliable travel.



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. Towards this end, the Company implemented a new ERP system in 2024 covering billing and invoicing capabilities and the accounts receivables processes. The Company completed enhancements to its CRM solution and updated the web and mobile platforms in the first quarter of 2025. Currently, the Company is working on initiatives that promote customer satisfaction and reduce congestion in the corridor during workday peak hours.



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. Over 77% of the Company's customers are currently set up with paperless billing, which helps to facilitate better account management and lower costs.

The Company's customer service representatives answer calls while the digital support specialists facilitate the live artificial intelligence (AI) chatbot conversations with customers and the general public. Digital contacts through the first quarter of 2025 have increased over the same period in 2024 with a 36% increase of conversations now managed by the AI chatbot alone compared to 2024.

The collective agreement with Union of Canada (**Unifor**), which represents 98 full-time and part-time customer service and video exception processing employees, expired on February 1, 2025. A new three-year collective agreement was reached and ratified by union members in March 2025. The new agreement runs for three years, expiring on February 1, 2028.



The Company is a proud sponsor of Toronto and Region Conservation Authority and provided \$100,000 in the first quarter. The funding helps support the popular Sugarbush Maple Syrup Festival, and an ongoing phytoremediation study to research how native plants can help remove salts from soil, including the effects of roadside application. The festival ran from March 8 to April 6 at Kortright Centre for Conservation and Bruce's Mill Conservation Park. Attendees learned about the cultural and historical significance of maple syrup production, its Indigenous origins, and the importance of supporting local producers and sustainable practices.

Additionally, 407 ETR supported the Little Native Hockey League tournament for the second consecutive year. Held in Markham, the event welcomed over 270 teams and more than 4,000 Indigenous athletes. As a diamond sponsor, 407 ETR has committed a \$30,000 donation and provided \$150,000 in in-kind travel for athletes and their families.



The Company believes that transparency and accountability to its investors and stakeholders regarding environmental, social and governance (ESG) commitments are critically important.

The Company continues to monitor the evolving ESG reporting landscape, including the International Financial Reporting Standards Sustainability Disclosure Standards, the Canadian Sustainability Standards Board's first proposed Canadian Sustainability Disclosure Standards, and applicable disclosure laws and guidelines. The Company's current reporting frameworks establishes a strong foundation for any new reporting requirements as they emerge.

In 2023, the Company 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 Liquidity and Capital Resources – Financial Instruments and Other Instruments - **Syndicated Credit Facility** above for further details. In 2024, the Company lowered its absolute Scope 1 and Scope 2 GHG emissions by 19% against its 2018 baseline.

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

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](https://www.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 March 31, 2025, the Company had \$403.6 million (2024 - \$329.5 million) in trade receivables net of revenue reserves that were greater than 90 days past due against which the Company has recorded an allowance for expected credit losses of \$238.2 million (2024 - \$201.3 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 several 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 \$4.1 million (2024 - \$3.3 million) and decreased net income by approximately \$3.0 million (2024 - \$2.4 million) for the three-month period ended March 31, 2025.

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 March 31, 2025:

	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	\$ 82.9	\$ -	\$ -	\$ -	\$ -	\$ -
Contract liabilities	15.1	-	-	-	-	-
Lease obligations	2.0	0.5	0.4	0.3	0.2	-
Interest payments on lease obligations	0.1	0.1	0.1	-	-	-
Long-term debt	375.1	738.5	378.1	29.8	731.5	9,048.9
Derivative financial liability	13.9	13.9	13.9	13.9	13.9	132.5
Interest payments on long-term debt	476.9	472.2	446.7	425.2	410.5	5,494.0
	\$966.0	\$1,225.2	\$839.2	\$469.2	\$1,156.1	\$14,675.4

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.

On March 5, 2025, the Company issued \$350.0 million of 4.45% Senior Bonds, Series 25-A1 to repay Senior Bonds, Series 20-A2 on May 22, 2025.

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 March 31, 2025, 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 (2024 - \$0.8 million) and net income by approximately \$0.7 million (2024 - \$0.6 million) for the first quarter of 2025.

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 \$7.5 million (2024 - \$7.5 million), decreased net income by approximately \$5.5 million (2024 - \$5.5 million) and increased debt service payments by approximately \$nil (2024 - \$nil) for the first quarter of 2025. BEIR is highly volatile and may lead to significant changes in the fair value of Senior Bonds, Series 04-A2 that may not be representative of actual inflation paid or to be paid to the Senior Bonds, Series 04-A2 bondholders. An increase of 10 basis points in the BEIR would have increased interest expense by approximately \$3.4 million (2024 - \$3.5 million) and decreased net income by approximately \$2.5 million (2024 - \$2.6 million) for the first quarter of 2025. A decrease of 10 basis points in the BEIR would have reduced interest expense by approximately \$3.4 million (2024 - \$3.5 million) and increased net income by approximately \$2.5 million (2024 - \$2.6 million) for the first quarter of 2025.

ACCOUNTING MATTERS

ACCOUNTING POLICIES

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

FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 18 replaces IAS 1, Presentation of Financial Statements (IAS 1), carrying forward many of the requirements in IAS 1 unchanged and complementing them with new requirements, including specified categories and defined subtotals in the statement of profit or loss. IFRS 18 is required to be applied retrospectively for annual reporting periods beginning on or after January 1, 2027, with earlier application permitted. The Company is currently assessing the impact of adoption of this standard.

IFRS 7 AND IFRS 9 AMENDMENTS TO THE CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS WHICH AMENDED IFRS 9 FINANCIAL INSTRUMENTS AND IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES (AMENDMENTS TO IFRS 9 AND IFRS 7)

In May 2024, the IASB issued Amendments to IFRS 9 and IFRS 7 which will be effective for annual reporting periods beginning on or after January 1, 2026. The Amendments to IFRS 9 and IFRS 7 clarify the requirements related to the date of recognition and derecognition of financial assets and financial liabilities, with an exception for derecognition of financial liabilities settled via an electronic transfer, clarify the requirements for assessing contractual cash flow characteristics of financial assets and clarify the characteristics of non-recourse loans and contractually linked instruments. The Company is currently assessing the impact of adoption of 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 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 first quarter of 2025 the Company paid \$0.2 million (2024 - \$0.2 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 \$0.2 million (2024 - \$0.3 million) and included in current liabilities as at March 31, 2025.

Total operating expenses include employee salary and benefits of \$0.5 million (2024 - \$0.4 million) related to short-term benefits of key management personnel for the first quarter of 2025. Key management personnel of the Company include the President and Chief Executive Officer and the Chief Financial Officer. Short-term benefits of key management personnel include wages, annual incentives and other benefits. The Company does not provide

for share-based payments or other long-term benefits but does provide post-employment benefits and termination benefits.

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 2025 is positive with revenue growth driven by higher traffic volumes and higher toll and fee rates. The Company is focused on driving traffic growth, particularly during workday peak hours, while managing expenses, maintaining a high level of customer satisfaction and achieving efficiencies throughout the organization. As a result, 2025 earnings before income tax expense and interest expense are expected to be higher than 2024.