407 INTERNATIONAL INC.

Interim Condensed Consolidated Financial Statements

June 30, 2018

407 INTERNATIONAL INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in millions of Canadian dollars)
(Unaudited)

	Notes	As at June 30, 2018	As at December 31, 2017
Assets			
Current assets			
Cash and cash equivalents	17	$ 487.0	$ 763.1
Restricted cash and investments	5	236.2	234.6
Trade receivables and other	8	250.5	221.3
Contract assets		2.3	-
Total current assets		976.0	1,219.0
Non-current assets			
Restricted cash and investments	5	457.2	428.7
Deferred tax assets		38.6	37.7
Intangible assets	7	1,539.4	1,549.6
Property, plant and equipment	6	2,402.7	2,393.0
Total non-current assets		4,437.9	4,409.0
Total assets		$ 5,413.9	$ 5,628.0
Liabilities and equity			
Current liabilities			
Trade and other payables		$ 62.2	$ 85.9
Income tax payable		-	88.2
Amounts due to customers on contracts		-	2.0
Contract liabilities		17.2	-
Accrued interest on long-term debt		77.3	75.7
Obligation under finance leases	12	3.0	3.3
Long-term debt	11	21.9	442.9
Total current liabilities		181.6	698.0
Non-current liabilities			
Obligation under finance leases	12	6.7	7.4
Deferred tax liabilities		510.2	502.4
Long-term debt	11	8,373.2	7,855.1
Total non-current liabilities		8,890.1	8,364.9
Total liabilities		9,071.7	9,062.9
Equity			
Issued capital	9	804.6	804.6
Reserve	10	12.8	13.2
Retained deficit		(4,475.2)	(4,252.7)
Total deficit		(3,657.8)	(3,434.9)
Total liabilities and equity		$ 5,413.9	$ 5,628.0

On behalf of the Board:

(signed)	*(signed)*
DAVID MCFADDEN	MICHAEL BERNASIEWICZ
Director	Director

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

407 INTERNATIONAL INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(in millions of Canadian dollars, except per share amounts)
(Unaudited)

	Notes	Three-month period ended June 30 2018	Three-month period ended June 30 2017	Six-month period ended June 30 2018	Six-month period ended June 30 2017
Revenues	14	$ 362.5	$ 331.0	$ 651.0	$ 591.7
Expenses	15	70.4	66.3	133.6	130.9
Interest expense		121.0	97.4	219.3	178.0
Interest income		(4.6)	(3.2)	(9.5)	(6.5)
Other expense		0.2	0.4	0.5	0.5
Other income		(0.2)	(0.2)	(0.4)	(0.4)
Interest and other expenses	11	116.4	94.4	209.9	171.6
Income before tax		175.7	170.3	307.5	289.2
Current income tax expense		43.3	41.0	75.9	69.6
Deferred income tax expense		3.2	4.7	5.5	7.6
Income tax expense		46.5	45.7	81.4	77.2
Net income		$ 129.2	$ 124.6	$ 226.1	$ 212.0
Net income		129.2	124.6	226.1	212.0
Other comprehensive loss:					
Reclassification to income of gains on cash flow hedges, net	10	(0.2)	(0.2)	(0.4)	(0.4)
Total comprehensive income		$ 129.0	$ 124.4	$ 225.7	$ 211.6
Earnings per share					
Net income per share, basic and diluted		$ 0.167	$ 0.161	$ 0.292	$ 0.274

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

407 INTERNATIONAL INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in millions of Canadian dollars)
(Unaudited)

	Notes	Issued capital	Reserve	Retained deficit	Total deficit
Balance at January 1, 2018		$ 804.6	$ 13.2	$ (4,252.7)	$ (3,434.9)
IFRS 9 adjustment	2, 11	-	-	3.9	3.9
Restated balance at January 1, 2018		$ 804.6	$ 13.2	$ (4,248.8)	$ (3,431.0)
Payment of dividends		-	-	(452.5)	(452.5)
Net income for the period		-	-	226.1	226.1
Other comprehensive loss for the period		-	(0.4)	-	(0.4)
Balance at June 30, 2018		$ 804.6	$ 12.8	$ (4,475.2)	$ (3,657.8)
Balance at January 1, 2017		$ 804.6	$ 13.9	$ (3,877.8)	$ (3,059.3)
Payment of dividends		-	-	(415.0)	(415.0)
Net income for the period		-	-	212.0	212.0
Other comprehensive loss for the period		-	(0.4)	-	(0.4)
Balance at June 30, 2017		$ 804.6	$ 13.5	$ (4,080.8)	$ (3,262.7)

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

407 INTERNATIONAL INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions of Canadian dollars)
(Unaudited)

		Three-month period ended June 30		Six-month period ended June 30	
	Notes	**2018**	**2017**	**2018**	**2017**
Cash flows from operating activities					
Receipts from customers		$ 316.4	$ 298.0	$ 618.0	$ 562.6
Payments to suppliers and employees		(36.3)	(34.4)	(83.8)	(84.6)
Cash generated from operations		280.1	263.6	534.2	478.0
Interest received		5.0	3.0	10.0	5.4
Interest paid		(114.7)	(118.1)	(185.1)	(176.6)
Income tax paid		(38.5)	(19.3)	(164.3)	(27.7)
		131.9	129.2	194.8	279.1
Cash flows from investing activities					
Additions to property, plant and equipment		(24.2)	(18.3)	(53.4)	(33.9)
Advance payment		(0.6)	-	(1.7)	(1.0)
Restricted cash and investments	5	(9.7)	28.7	(30.5)	(16.3)
Non-trade receivables and other		0.6	(0.3)	0.2	0.8
		(33.9)	10.1	(85.4)	(50.4)
Cash flows from financing activities					
Proceeds from issuance of long-term debt		500.0	182.0	500.0	552.8
Debt issue costs		(3.3)	(0.4)	(3.3)	(1.9)
Repayment of long-term debt		(425.2)	(3.1)	(427.8)	(240.5)
Repayment of obligation under finance leases		(0.9)	(1.3)	(1.9)	(2.2)
Dividends paid to shareholders		(226.2)	(207.5)	(452.5)	(415.0)
		(155.6)	(30.3)	(385.5)	(106.8)
(Decrease) Increase in cash and cash equivalents		(57.6)	109.0	(276.1)	121.9
Cash and cash equivalents, beginning of period		544.6	570.5	763.1	557.6
Cash and cash equivalents, end of period		$ 487.0	$ 679.5	$ 487.0	$ 679.5
Supplementary Cash Flow Information					
Net change in financial liabilities	18	78.3	156.8	$ 97.7	$ 316.4

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

1. GENERAL INFORMATION

407 International Inc. (the "Company") is a privately-held company incorporated under the laws of Ontario, Canada and continued under the laws of Canada. The Company's address and principal place of business is 6300 Steeles Avenue West, Woodbridge, Ontario, L4H 1J1, Canada. The principal business of the Company is the ownership of 407 ETR Concession Company Limited ("407 ETR") and, through 407 ETR, the operation, maintenance and management of Highway 407 ETR (the "Highway") along with the construction of extensions and certain deferred interchanges, lane widenings and additional interchanges under the 99-year Highway 407 Concession and Ground Lease Agreement (the "Concession Agreement") with the Province of Ontario (the "Province") dated April 6, 1999. The interim condensed consolidated financial statements of the Company for the three and six month periods ended June 30, 2018 (the "Financial Statements") were approved by the Board of Directors of the Company (the "Board") on July 12, 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance and application of new International Financial Reporting Standards ("IFRS")

The Financial Statements are prepared on a going concern basis and have been presented in millions of Canadian dollars. These Financial Statements have been prepared in accordance with International Accounting Standards 34, *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB").

The Financial Statements have been prepared using the same accounting policies and methods as were used for the Company's consolidated financial statements and the notes thereto for the years ended December 31, 2017 and 2016 (the "2017 Annual Financial Statements"), except for the following new accounting pronouncements which were adopted on January 1, 2018. The Financial Statements should be read in conjunction with the 2017 Annual Financial Statements.

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

Classification and measurement of assets and liabilities

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

(in millions of Canadian dollars, except per share amounts)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Various fees and charges are also included in revenues. Account and other fees are recognized when incurred by the customer, and late payment charges are recognized once the account is delinquent and the late payment charges are applied to the account.

Revenues recognized over a period of time:
Transponder lease fees are recognized over the term of the lease and service fees are recognized as the services are performed for the customer.

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

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

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

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

b) Basis of preparation

The Financial Statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value. Historical cost is based on the fair value of consideration given or received in exchange for assets.

c) Principles of consolidation

The Financial Statements include the accounts of the Company consolidated with those of its wholly-owned subsidiaries, 407 ETR, Canadian Tolling Company International Inc. ("Cantoll") and 9665641 Canada Inc. ("9665641 Inc."). Cantoll was incorporated in December 2001 to assume ownership of an integrated computerized accounting, billing and customer relationship management system and new transponders, and is responsible for the development of its integrated automation systems and the implementation and management of roadside tolling technologies and back-office systems. 9665641 Inc. was incorporated in March 2016 to assist in the implementation of the Company's tax planning strategies. All inter-company transactions, balances, revenues and expenses have been eliminated on consolidation.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

IFRS 16 *Leases ("IFRS 16"):* This standard replaces IAS 17 Leases. This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is that lessees and lessors provide relevant information in a manner that faithfully represents lease transactions and gives a basis for users of financial statements to assess its effect on the financial position, financial performance and cash flows of an entity. The latest date of mandatory implementation of IFRS 16 is January 1, 2019. The Company is currently evaluating the impact on the financial statements.

IFRIC 23 *Uncertainty over income tax treatments ("IFRIC 23"):* This interpretation clarifies how to apply the recognition and measurement requirements of IAS 12 for taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates to determine current or deferred tax asset or liability when there is uncertainty over income tax treatments. The latest date of mandatory implementation of IFRIC 23 is January 1, 2019. The Company is currently evaluating the impact on the financial statements.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENT

The preparation of the Financial Statements in conformity with IFRS requires management of the Company ("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 accompanying notes to the Financial Statements. Judgement is commonly used in determining whether a balance or transaction should be recognized in the consolidated 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.

a) Critical Estimates

Toll revenues are recognized on the date trips are taken on the Highway. Certain exit and entrance transactions which are unbilled remain in queues to create the best match to form a complete trip. The unrated toll revenues in the queue are estimated using certain attributes of recently-rated trips which are then applied to the traffic transactions in the queue.

Contract revenues are recognized using the input method. The Company has reliably estimated the economic benefits associated with contracts and the anticipated contract costs attributable to the contract. Contract revenues have been matched with the contract costs incurred in measuring its progress towards completion, and may involve estimates of future revenues from claims and unapproved change orders, if such additional amounts can be reliably estimated and considered probable that such amounts will be recovered.

Deferred revenue relating to the 407 ETR Rewards Program is estimated for a stand-alone price by multiplying the number of free weekend kilometres offered by the price per kilometre adjusted for expected future redemption. The expense for gas discounts is determined by multiplying the number of litres offered by the estimated cost per litre and expected usage. Expected usage and redemption are estimated based on historical experience.

Depreciation of property, plant and equipment is estimated based on projected Vehicle Kilometres Travelled ("VKTs") and estimated useful lives.

Deferred tax assets arising from the carry forward of unused tax losses and unused tax credits are recognized to the extent that it is probable that future taxable income will be available against which the unused tax losses and unused tax credits can be utilized. Projected taxable income is based on reasonable and prudent operating projections,

4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENT (continued)

assumptions and hypotheses. Taxable income is primarily impacted by traffic volume, toll rates, operating and maintenance expenses, and interest income and interest expense. Based on these projections, the Company anticipates that it will generate sufficient taxable income to utilize existing tax losses and tax credits prior to their expiration dates. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and derecognized to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the assets to be utilized in the future.

Senior Bonds, Series 04-A2 is accounted for as a derivative financial instrument and is measured at its fair value. Given that the market for this financial instrument is not active, fair value is established by using a valuation technique that employs the break-even inflation rate ("BEIR") as a market proxy for future inflation and discounted cash flow analysis. BEIR is highly volatile and may lead to significant non-cash 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 holders of Senior Bonds, Series 04-A2.

Refer to the following notes for further details of other estimates:

Estimate	**Note Reference**
Provision for doubtful accounts	Note 13 (c)

These estimates and associated assumptions are based on past experience and other factors that are considered relevant and are reviewed on an on-going basis. Actual results could differ materially from these estimates.

b) Judgement

The identification of cash-generating units involves judgement. Cash inflows which are generated from customers' use of Highway 407 ETR are classified as a single cash-generating unit, while the cash inflows which are generated from contract work are classified as a separate cash-generating unit.

The Company has only one reportable segment. All non-current assets are located and revenues are generated in Canada.

5. RESTRICTED CASH AND INVESTMENTS

Pursuant to the Company's Master Trust Indenture (the "Indenture"), the Company established the debt service funds, the operating and maintenance and renewal and replacement funds, and debt service reserve funds, all of which are fully funded with Qualified Investments (as defined in the Indenture). The current portion is expected to become unrestricted within the next twelve months.

Pursuant to an agreement to provide tolling, billing and back-office services relating to Highway 407 (the "Tolling Services Contract"), the Company established a Tolling Services Contract segregated funds account which is funded with cash and cash equivalents.

(in millions of Canadian dollars, except per share amounts)

5. RESTRICTED CASH AND INVESTMENTS (continued)

	As at	
	June 30, 2018	**December 31, 2017**
Current		
Debt service funds	$ 75.1	$ 74.9
Operating and maintenance reserve and renewal and replacement funds ("O&M and R&R Funds")	161.1	159.7
	$ 236.2	$ 234.6
Non-current		
Debt service reserve funds	$ 448.2	$ 419.7
Tolling Services Contract segregated funds	9.0	9.0
	$ 457.2	$ 428.7
Total	$ 693.4	$ 663.3

Restricted cash and investments consist of:

	As at	
	June 30, 2018	**December 31, 2017**
Cash	$ 236.0	$ 236.1
Bankers' Acceptances	130.9	105.8
Bank Deposit Notes	21.1	23.3
Federal Notes	28.6	33.7
Floating Rate Notes	178.8	203.2
Treasury Bills	67.4	17.3
Provincial Promissory Notes	30.6	43.9
	$ 693.4	$ 663.3

Cash movements in restricted cash and investments were as follows:

	Three-month period ended June 30		Six-month period ended June 30	
	2018	**2017**	**2018**	**2017**
Contributions to debt service funds	$ 95.5	$ 89.9	$ 188.8	$ 177.1
Interest payments on long-term debt	(113.5)	(115.9)	(181.2)	(170.7)
Repayments of long-term debt	(3.2)	(3.1)	(5.8)	(5.5)
Interest received	3.1	1.8	5.9	3.4
Transfers to cash and cash equivalents	-	(1.4)	(5.0)	(1.4)
Establishment of debt service reserve fund	27.8	-	27.8	13.4
	$ 9.7	$ (28.7)	$ 30.5	$ 16.3

(in millions of Canadian dollars, except per share amounts)

6. PROPERTY, PLANT AND EQUIPMENT

	Toll highway	Toll equipment	Back Office Systems	Transponders	Operations centre	Office equipment	Motor vehicles	Equipment under finance lease	Assets under construction	Total
Cost										
Balance at December 31, 2017	$ 2,565.7	$ 76.0	$ 165.9	$ 35.6	$ 38.8	$ 10.1	$ 6.2	$ 40.2	$ 85.4	$ 3,023.9
Additions	0.6	0.2	0.1	3.1	1.0	0.4	0.1	0.8	45.7	52.0
Retirements	-	-	-	(2.0)	-	-	(0.1)	(0.2)	-	(2.3)
Transfers	24.3	6.3	-	-	6.8	-	-	-	(37.4)	-
Balance at June, 2018	$ 2,590.6	$ 82.5	$ 166.0	$ 36.7	$ 46.6	$ 10.5	$ 6.2	$ 40.8	$ 93.7	$ 3,073.6
Accumulated depreciation										
Balance at December 31, 2017	$ 393.6	$ 41.7	$ 115.7	$ 21.9	$ 16.7	$ 6.6	$ 5.2	$ 29.5	$ -	$ 630.9
Depreciation expense	23.7	3.2	8.9	2.8	0.7	0.6	0.4	2.0	-	42.3
Retirements	-	-	-	(2.0)	-	-	(0.1)	(0.2)	-	(2.3)
Balance at June, 2018	$ 417.3	$ 44.9	$ 124.6	$ 22.7	$ 17.4	$ 7.2	$ 5.5	$ 31.3	$ -	$ 670.9
Carrying amount, December 31, 2017	$ 2,172.1	$ 34.3	$ 50.2	$ 13.7	$ 22.1	$ 3.5	$ 1.0	$ 10.7	$ 85.4	$ 2,393.0
Carrying amount, June 30, 2018	$ 2,173.3	$ 37.6	$ 41.4	$ 14.0	$ 29.2	$ 3.3	$ 0.7	$ 9.5	$ 93.7	$ 2,402.7

During the three and six month periods ended June 30, 2018, capitalized borrowing costs aggregating to $0.5 and $0.8, respectively (2017 - $0.2 and $0.4, respectively) were included as additions to assets under construction. The average interest capitalization rate relating to the borrowing cost was 2.92% for the three and six month periods ended June 30, 2018 (2017 - 1.80%).

Assets under construction mainly include work in progress on major highway construction or improvement projects, back office systems development projects, tolling and roadside equipment and buildings.

7. INTANGIBLE ASSETS

	Concession Rights	Licences	Total
Cost			
Balance at December 31, 2017	$ 1,676.1	$ 10.1	$ 1,686.2
Balance at June 30, 2018	$ 1,676.1	$ 10.1	$ 1,686.2
Accumulated amortization			
Balance at December 31, 2017	$ 127.8	$ 8.8	$ 136.6
Amortization expense	9.6	0.6	10.2
Balance at June 30, 2018	$ 137.4	$ 9.4	$ 146.8
Carrying amount, December 31, 2017	$ 1,548.3	$ 1.3	$ 1,549.6
Carrying amount, June 30, 2018	$ 1,538.7	$ 0.7	$ 1,539.4

(in millions of Canadian dollars, except per share amounts)

8. TRADE RECEIVABLES AND OTHER

	As at	
	June 30, 2018	December 31, 2017
Trade receivables	$ 421.5	$ 396.3
Allowance for doubtful accounts	(195.3)	(194.2)
	226.2	202.1
Prepayments and other receivables	24.3	19.2
	$ 250.5	$ 221.3

Trade receivables are net of certain amounts that were billed to customers but excluded from revenues in accordance with the revenue recognition policy for toll and fee revenues and includes contract receivable invoiced to the customer upon reaching contract milestone.

Prepayments and other receivables includes salt inventory, prepaids, income tax paid in advance, other non-trade related reveivables and an advance payment to supplier.

Movement in Trade Receivables

	Three-month period ended June 30		Six-month period ended June 30	
	2018	2017	2018	2017
Balance, beginning of period	$ 379.7	$ 359.1	$ 396.3	$ 364.3
Revenues (excluding contract)	362.5	327.4	651.0	586.8
Contract billings to customer	-	-	-	4.2
Bad debts written off, net of recoveries	(4.6)	(4.2)	(8.2)	(10.0)
Receipts from customers	(316.4)	(298.0)	(618.0)	(562.6)
Other	0.3	0.6	0.4	2.2
Balance, end of period	$ 421.5	$ 384.9	$ 421.5	$ 384.9

Movement in Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts are as follows:

	Three-month period ended June 30		Six-month period ended June 30	
	2018	2017	2018	2017
Balance, beginning of period	$ 194.7	$ 187.6	$ 194.2	$ 191.3
Provision for doubtful accounts	6.3	5.9	11.6	10.9
Bad debts written off, net of recoveries	(4.6)	(4.2)	(8.2)	(10.0)
Other adjustments	(1.1)	(1.9)	(2.3)	(4.8)
Balance, end of period	$ 195.3	$ 187.4	$ 195.3	$ 187.4

The provision for doubtful accounts has been included in expenses, and is net of any recoveries that were provided for in prior periods.

(in millions of Canadian dollars, except per share amounts)

9. ISSUED CAPITAL

	As at	
	June 30, 2018	December 31, 2017
Share capital	$ 775.0	$ 775.0
Contributed surplus	29.6	29.6
	$ 804.6	$ 804.6
Share capital comprises:		
Authorized - Unlimited		
775,000,003 common shares issued and outstanding ($ nil par value) (2017 - 775,000,003, $ nil par value)	$ 775.0	$ 775.0

Payments of dividends per share were $0.292 and $0.584 for the three and six month periods ended June 30, 2018, respectively (2017 - $0.268 and $0.535, respectively).

10. RESERVE

Cash flow hedging reserve

	Three-month period ended June 30		Six-month period ended June 30	
	2018	2017	2018	2017
Balance, beginning of period	$ 13.0	$ 13.7	$ 13.2	$ 13.9
Other comprehensive loss	(0.2)	(0.2)	(0.4)	(0.4)
Balance, end of period	$ 12.8	$ 13.5	$ 12.8	$ 13.5

The cash flow hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in cash flow hedges, net of unrecognized deferred taxes of $0.1 (2017 - $0.1) and will be reclassified to interest and other expenses over periods of up to 22 years of which approximately $0.8 will be reclassified during the next 12 months.

(in millions of Canadian dollars, except per share amounts)

11. LONG-TERM DEBT

	As at			
	June 30, 2018		December 31, 2017	
Senior Bonds:				
$400.0, Series 99-A2, 6.47%, maturing July 27, 2029	$	392.4	$	392.2
$300.0, Series 99-A3, 6.75%, maturing July 27, 2039		249.3		251.7
$208.3, Series 99-A5, 5.328%, maturing December 1, 2021		298.4		294.0
$208.3, Series 99-A6, 5.328%, maturing December 1, 2026		297.8		294.3
$208.3, Series 99-A7, 5.328%, maturing December 1, 2031		297.4		294.4
$325.0, Series 00-A2, 5.29%, maturing December 1, 2039		368.7		366.4
$340.0, Series 04-A3, 5.96%, maturing December 3, 2035		338.3		338.3
$300.0, Series 10-A2, 4.99%, maturing June 16, 2020		299.6		299.5
$400.0, Series 10-A3, 4.30%, maturing May 26, 2021		399.2		399.1
$350.0, Series 11-A1, 4.45%, maturing November 15, 2041		347.3		347.3
$400.0, Series 12-A1, 4.19%, maturing April 25, 2042		397.1		397.1
$400.0, Series 12-A2, 3.98%, maturing September 11, 2052		395.4		395.3
$200.0, Series 13-A1, 4.68%, maturing October 7, 2053		198.7		198.6
$250.0, Series 14-A1, 3.35%, maturing May 16, 2024		248.8		248.7
$150.0, Series 15-A1, 3.30%, maturing March 27, 2045		148.5		148.5
$500.0, Series 15-A2, 3.83%, maturing May 11, 2046		495.9		495.9
$500.0, Series 16-A1, 3.60%, maturing May 21, 2047		495.9		495.9
$350.0, Series 16-A2, 2.43%, maturing May 4, 2027		348.1		348.0
$250.0, Series 17-A1, 3.43%, maturing June 1, 2033		248.1		248.1
$500.0, Series 17-A2, 3.65%, maturing September 8, 2044		495.8		495.8
$500.0, Series 18-A1, 3.72%, maturing May 11, 2048		496.7		-
Other Senior Bonds:				
$162.3, Series 04-A2, 3.276%, maturing July 27, 2039 (note 13 (a))		197.2		186.6
Senior Bank Credit Facilities		-		422.0
Junior Bonds:				
$165.0, Series 00-B1, 7.125%, maturing July 26, 2040		164.4		164.4
Subordinated Bonds:				
$480.0, Series 06-D1, 5.75%, maturing February 14, 2036		477.4		477.4
$300.0, Series 17-D1, 2.47%, maturing September 8, 2022		298.7		298.5
	$	8,395.1	$	8,298.0
Financial liabilities carried at Fair Value Through Profit or Loss ("FVTPL")				
Other Senior Bonds: Series 04-A2	$	197.2	$	186.6
Financial liabilities carried at amortized cost				
Senior Bonds	$	7,257.4	$	6,749.1
Senior Bank Credit Facilities		-		422.0
Junior Bonds		164.4		164.4
Subordinated Bonds		776.1		775.9
		8,197.9		8,111.4
	$	8,395.1	$	8,298.0
Current	$	21.9	$	442.9
Non-current		8,373.2		7,855.1
	$	8,395.1	$	8,298.0

(in millions of Canadian dollars, except per share amounts)

11. LONG-TERM DEBT (continued)

Interest and Other Expenses

	Three-month period ended June 30		Six-month period ended June 30	
	2018	2017	2018	2017
Interest expense	$ 95.6	$ 89.9	$ 188.1	$ 176.8
Non-cash inflation component of:				
Interest expense RRBs	14.7	8.2	21.4	11.2
Interest expense , Senior Bond, Series 04-A2	3.8	1.3	4.5	0.7
Fair value adjustment, Senior Bond, Series 04-A2	7.4	(1.8)	6.1	(10.3)
Capitalized interest	(0.5)	(0.2)	(0.8)	(0.4)
Total Interest Expense on Long-term debt	121.0	97.4	219.3	178.0
Interest income on financial assets designated as FVTPL	(4.6)	(3.2)	(9.5)	(6.5)
Other expense	0.2	0.4	0.5	0.5
Other income:				
Reclassification of gains and losses on cash flow hedges (note 10)	(0.2)	(0.2)	(0.4)	(0.4)
	$ 116.4	$ 94.4	$ 209.9	$ 171.6

Senior Bonds

On May 9, 2018, the Company issued $500.0 of 3.72% Senior Bonds, Series 18-A1 maturing May 11, 2048.

Real Return Bonds

Upon adoption of IFRS 9 – *Financial Instruments* on January 1, 2018, the Company remeasured the carrying amount of the RRBs Series 99-A5, Series 99-A6 and Series 99-A7. The remeasurement resulted in a reduction to the carrying amount of both the real component and the inflation compensation component of the RRBs, resulting in a reduction to the carrying amount of long-term debt of $5.3.

As at June 30, 2018, the inflation compensation component of all RRBs was $380.8 (2017 - $361.0) which was recorded as additional long-term debt, net of IFRS 9 adjustment.

Senior Bank Credit Facilities

As at June 30, 2018, the Company had drawn $nil (2017 - $422.0) under the credit facilities. On May 14, 2018 the Company repaid the outstanding balance on the credit facilities and, on May 28, 2018, the Company reduced the aggregate amount available to be drawn under the credit facilities to $300.0.

Current Portion of Long-Term Debt

As at June 30, 2018, the current portion of long-term debt of $21.9 includes $5.5 Senior Bonds, Series 99-A3, $9.4 Senior Bonds, Series 00-A2, and $7.0 Senior Bonds, Series 04-A2.

(in millions of Canadian dollars, except per share amounts)

12. OBLIGATIONS UNDER FINANCE LEASES AND OPERATING LEASES

The Company entered into finance leases for the use of snow clearing equipment, computer equipment, and vehicles. The leases expire on various dates, at which time the Company has the right, but not the obligation, to purchase the equipment.

Minimum lease payments for finance leases in the aggregate and for the next five years and thereafter are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Remainder of 2018	$ 3.5	3.8	$ 3.0	3.3
2019	3.0	3.0	2.7	2.7
2020	2.4	2.3	2.2	2.0
2021	1.4	1.9	1.3	1.8
2022 and thereafter	0.5	0.9	0.5	0.9
	10.8	11.9	9.7	10.7
Less future finance charges at rates varying between 0.97% to 6.68%	(1.1)	(1.2)	-	-
Present value of minimum lease payments	$ 9.7	$ 10.7	$ 9.7	$ 10.7

	June 30, 2018	December 31, 2017
Current portion of obligations under finance leases	$ 3.0	$ 3.3
Non-current portion of obligations under finance leases	6.7	7.4
	$ 9.7	$ 10.7

The Company entered into operating leases for the use of office equipment and the rental of premises. Total expense for operating leases for the three and six month periods ended June 30, 2018 was $0.1 and $0.2, respectively (2017 - $0.1 and $0.2, respectively).

As at June 30, 2018, payments under operating lease agreements for the next five years and thereafter are as follows:

Year:	Remainder of 2018	2019	2020	2021	2022 & thereafter
Amount:	0.3	0.3	0.1	-	-

13. FINANCIAL INSTRUMENTS

a) Fair Value of Financial Instruments

Current financial assets and liabilities

Financial assets and liabilities classified as current are amounts that are expected to be settled within one year. The carrying amounts approximate fair value because of the short-term nature of these instruments.

Non-current restricted cash and investments

The Company compares and uses publicly-available quotations provided by major Canadian financial institutions to determine the fair values. The carrying amounts approximate fair values.

Long-term debt

The fair value of the long-term debt (including the current portion) as at June 30, 2018 was $9,527.9 (2017 - $9,520.5) determined using publicly-available quotations provided by a major Canadian financial institution, except for Senior Bonds, Series 04-A2, which was determined by using a valuation technique.

Senior Bonds, Series 04-A2

Senior Bonds, Series 04-A2 is a derivative financial instrument and is reported at fair value. The fair value of Senior Bonds, Series 04-A2 as at June 30, 2018 was $197.2 (2017 - $186.6) which was determined by using a valuation technique which estimated future inflation of 1.8% (2017 – 1.7%) based on the BEIR and applied a nominal discount rate of 3.4% (2017 – 3.4%). During the six-month period ended June 30, 2018, the fair value of Senior Bonds, Series 04-A2 increased by $2.9 (2017 – increased by $1.3) due to the change in the Company's corporate spread. As at June 30, 2018, a 10 basis points decrease in the nominal discount rate would increase the fair value of Senior Bonds, Series 04-A2 by approximately $2.3 (2017 - $2.2).

(in millions of Canadian dollars, except per share amounts)

13. FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The following table summarizes the fair value hierarchy under which financial instruments are valued.

Level 1 of the fair value hierarchy includes unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 includes inputs for the asset or liability that are not based on observable market data.

	Assets Measured at Fair Value					
	As at June 30, 2018			As at December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets measured at FVTPL						
Cash and cash equivalents	$ 487.0	$ -	$ -	$ 763.1	$ -	$ -
Restricted cash and investments	693.4	-	-	663.3	-	-
	$ 1,180.4	$ -	$ -	$ 1,426.4	$ -	$ -
Total fair value			$ 1,180.4			$ 1,426.4

	Liabilities Measured at Fair Value					
	As at June 30, 2018			As at December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial liabilities measured at FVTPL						
Senior Bonds, Series 04-A2	$ -	$ 197.2	$ -	$ -	$ 186.6	$ -
	$ -	$ 197.2	$ -	$ -	$ 186.6	$ -
Total fair value			$ 197.2			$ 186.6

13. FINANCIAL INSTRUMENTS (continued)

b) Capital Risk Management

The Company defines its capital as follows:

1. Long-term debt, including the current portion; and
2. Cash and cash equivalents.

The Company's objectives when managing capital are to:

1. Maintain a capital structure and an appropriate credit rating that provides financing options to the Company when a financing or a refinancing need arises to ensure access to capital, on commercially reasonable terms, without exceeding its debt capacity or resulting in a downgrade to the credit ratings of the existing indebtedness;
2. Maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments and dividend payments;
3. Satisfy covenants set out in the Indenture and the indentures supplemental thereto (the "Supplemental Indentures"); and
4. Deploy capital to provide an appropriate investment return to its shareholders.

The Company's financial strategy is designed and formulated to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue additional debt, issue debt to replace existing debt with similar or different characteristics, and adjust the amount of dividends paid to shareholders. The Company's financing and refinancing decisions are made on a specific transaction basis and depend upon such factors as the Company's needs, and market and economic conditions at the time of the transaction.

Under the terms of the Indenture and Supplemental Indentures, the Company may not incur additional indebtedness that would result in a downgrade to the credit ratings of certain of its existing indebtedness. The Company may only make interest payments relating to subordinated debt and dividend payments to shareholders upon the satisfaction of certain financial covenants. The Board reviews the level of dividends paid to the Company's shareholders. The Company was in compliance with all its financial covenants as at December 31, 2017 and June 30, 2018.

There were no changes in the Company's approach to capital management during the six-month period ended June 30, 2018.

(in millions of Canadian dollars, except per share amounts)

13. FINANCIAL INSTRUMENTS (continued)

c) Risks Arising from Financial Instruments

Credit risk

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

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

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

Trade receivables and other are aged as follows:

	As at June 30, 2018	As at December 31, 2017
Unbilled	$ 101.1	$ 74.0
0-60 days	82.3	80.0
61-90 days	9.5	8.6
91-120 days	5.6	6.8
121-150 days	6.1	7.1
151+ days	21.6	25.6
Sub total [1]	226.2	202.1
Other [2]	24.3	19.2
	$ 250.5	$ 221.3

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

In accordance with the revenue recognition policy, toll revenues are recognized on the date trips are taken on Highway 407 ETR. Tolls and other charges are recorded in trade receivables as "Unbilled" until invoiced.

13. FINANCIAL INSTRUMENTS (continued)

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

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

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

An increase of 1 percent in the weighted-average provision rate would have increased the provision for doubtful accounts by approximately $3.6 and $6.5 (2017 - $3.3 and $5.9) and decreased equity by approximately $2.7 and $4.8 (2017 - $2.4 and $4.3) for the three and six month periods ended June 30, 2018, respectively.

The Company is exposed to credit risk with respect to contract receivables in the event of non-payment by customers. The Company manages this risk by dealing with reputable customers with good credit ratings.

Interest rate risk

As at June 30, 2018, all long-term debt is fixed rate debt (except for the inflation-linked bonds as described below); therefore, changes in interest rates do not impact interest payments on its current bonds but may impact the fair value of such long-term debt.

The Company also manages this risk by investing its cash and cash equivalents and restricted cash and investments in debt instruments with credit ratings equal to or higher than those required by the Indenture. A decrease of 25 basis points in interest rates would have decreased interest income by approximately $0.7 and $1.6 (2017 - $0.8 and $1.5) and equity by approximately $0.5 and $1.1 (2017 - $0.6 and $1.1) for the three and six month periods ended June 30, 2018, respectively.

(in millions of Canadian dollars, except per share amounts)

13. FINANCIAL INSTRUMENTS (continued)

Inflation risk

The Company is exposed to inflation risk as interest expense and debt service payments relating to Senior Bonds, Series 99-A5, Series 99-A6, Series 99-A7, Series 00-A2 and Series 04-A2 (collectively, the "RRBs") are linked to the Consumer Price Index (the "CPI"). An increase of 50 basis points in the CPI would have increased interest expense by approximately $8.6 (2017 - $8.6), decreased equity by approximately $6.3 (2017 - $6.3) and increased debt service payments by approximately $0.3 and $0.4 (2017 - $0.3 and $0.5) for the three and six month periods ended June 30, 2018, respectively. BEIR is highly volatile and may lead to significant changes in the fair value of Senior Bonds, Series 04-A2 that may not be representative of actual inflation paid or to be paid to the Senior Bonds, Series 04-A2 noteholders. An increase of 10 basis points in the BEIR would have increased interest expense by approximately $5.9 (2017 - $6.2) and decreased equity by approximately $4.3 (2017 - $4.5) for the three and six month periods ended June 30, 2018, respectively. A decrease of 10 basis points in the BEIR would have reduced interest expense by approximately $5.9 (2017 - $6.1) and increased equity by approximately $4.3 (2017 - $4.5) for the three and six month periods ended June 30, 2018, respectively. This inflation risk is partially mitigated by the Company's right to increase toll rates.

d) Liquidity Risk

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

The following are the commitments, contractual maturities and related interest obligations as at June 30, 2018:

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Beyond 5 years
Trade and other payables	$ 62.2	$ -	$ -	$ -	$ -	$ -
Contract liabilities	17.2					
Obligation under finance leases	3.0	2.7	2.2	1.3	0.5	-
Interest payments on finance leases	0.5	0.3	0.2	0.1	-	-
Long-term debt	15.1	316.0	416.9	317.0	19.0	6,372.9
Derivative financial liability	7.0	7.0	7.0	7.0	7.0	115.7
Interest payments on long-term debt	353.3	352.4	336.2	309.9	297.1	4,352.7
	$ 458.3	$ 678.4	$ 762.5	$ 635.3	$ 323.6	$ 10,841.3

(in millions of Canadian dollars, except per share amounts)

14. REVENUES

	Three-month period ended June 30		Six-month period ended June 30	
	2018	2017	2018	2017
Revenues				
Tolling	$ 340.4	$ 307.2	$ 607.8	$ 548.3
Fee	22.1	20.2	43.2	38.5
Contract	-	3.6	-	4.9
	$ 362.5	$ 331.0	$ 651.0	$ 591.7
Timing of revenue recognition				
At a point in time				
Tolling	$ 340.4	$ 307.2	$ 607.8	$ 548.3
Fee	11.3	9.6	21.6	18.3
	$ 351.7	$ 316.8	$ 629.4	$ 566.6
Over time				
Fee	$ 10.8	$ 10.6	$ 21.6	$ 20.2
Contract	-	3.6	-	4.9
	$ 10.8	$ 14.2	$ 21.6	$ 25.1
Total	$ 362.5	$ 331.0	$ 651.0	$ 591.7

15. EXPENSES

	Three-month period ended June 30		Six-month period ended June 30	
	2018	2017	2018	2017
Systems operations	$ 10.7	$ 5.5	$ 18.5	$ 10.9
Customer operations	20.1	19.3	38.7	36.5
Highway operations	6.0	6.3	17.5	17.3
General and administration	6.8	5.7	6.4	11.4
Contract	-	3.0	-	3.9
Operating expenses	43.6	39.8	81.1	80.0
Depreciation and amortization	26.8	26.5	52.5	50.9
	$ 70.4	$ 66.3	$ 133.6	$ 130.9

Systems operations expenses include staff salaries and other costs for developing, operating and maintaining the Company's tolling system, office computer network and integrated automation systems.

Customer operations expenses include costs to operate the customer service centre and service existing customer relationships as well as general inquiries. These costs include the call centre, customer service centre, account management, transponder distribution, billing, customer address system access fees, ombudsman services, collection of overdue accounts, provision for customer litigation and the provision for doubtful accounts.

Highway operations expenses include costs of operating activities such as maintenance of the major elements of the highway systems including roadway surfaces, bridges, culverts, drainage and lighting systems, together with seasonal maintenance, highway patrol operations, road safety enforcement and police enforcement.

15. EXPENSES (continued)

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

Contract expenses include costs for work performed in completing contract obligations with customers.

Depreciation and amortization expenses reflect the expense of property, plant and equipment and intangible assets over their respective useful lives. Substantially all of the depreciation and amortization expenses relate to highway operations and systems operations assets.

Total expenses include employee salary and benefits of $9.9 and $20.4 (2017 - $9.5 and $19.0), of which $0.4 and $0.8 (2017 - $0.4 and $0.8) relate to short-term benefits of key management personnel for the three and six month periods ended June 30, 2018, respectively. 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.

16. COMMITMENTS AND CONTINGENCIES

Claims and Contingencies

From time to time, in the ordinary course of business, the Company is a defendant or party to a number of pending or threatened legal actions and proceedings. It is not possible to determine the ultimate outcome of such matters; however, based on all currently available information, Management believes that liabilities, if any, arising from pending litigation will not have a material adverse effect on the financial position or results of operations of the Company.

Litigation

Class Action Regarding Bankruptcy and Consumer Proposals

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

A settlement was reached with class counsel at a mediation concluded in August 2016, and approved at a settlement hearing before the Ontario Superior Court on November 15, 2016. The settlement provided for a voluntary settlement payment by 407 ETR of $8.0 on an all-inclusive basis and was subject to an opt-out process which concluded in March 2017. The settlement amounts were distributed to eligible class members, net of proposed class counsel fees of $2.9 (inclusive of disbursements and taxes) and class administration fees of $0.6.

(in millions of Canadian dollars, except per share amounts)

16. COMMITMENTS AND CONTINGENCIES (continued)

The settlement also included refinements to 407 ETR's business practices for bankruptcies and consumer proposals. The amount available per eligible class member has been determined by eligibility and compensation criteria applied by class counsel, with accountability to the court. The distribution of settlement funds has been undertaken by class counsel. A final report is expected to be filed by the class counsel with the court in 2018.

17. CASH AND CASH EQUIVALENTS

	As at	
	June 30, 2018	December 31, 2017
Cash and cash equivalents consist of:		
Cash	$ 324.8	$ 364.7
Guaranteed Investment Certificates	51.6	51.5
Government Treasury Bills	28.3	123.8
Provincial Promissory Notes	82.3	223.1
	$ 487.0	$ 763.1

Pursuant to the Indenture, the Company maintains a minimum cash balance of $10.0 to fund working capital requirements. This amount is included as Cash and cash equivalents.

(in millions of Canadian dollars, except per share amounts)

18. SUPPLEMENTARY CASH FLOW INFORMATION

Net increase/(decrease) in financial liabilities:

	Three-month period ended June 30		Six-month period ended June 30	
	2018	2017	2018	2017
Long-term debt	$ 98.2	$ 187.2	$ 97.1	$ 313.2
Obligation under finance leases	0.1	(1.1)	(1.0)	3.8
Accrued interest on long-term debt	(20.0)	(29.3)	1.6	(0.6)
	$ 78.3	$ 156.8	$ 97.7	$ 316.4

Cash and non-cash movements in financial liabilities:

	Three-month period ended June 30		Six-month period ended June 30	
	2018	2017	2018	2017
Cash movements:				
Proceeds from issuance of long-term debt	$ 500.0	$ 182.0	$ 500.0	$ 552.8
Repayment of long-term debt	(425.2)	(3.1)	(427.8)	(240.5)
Interest paid	(114.7)	(118.1)	(185.1)	(176.6)
Debt issue costs paid	(3.3)	(0.7)	(3.3)	(1.9)
Repayment of obligations under finance lease	(0.9)	(1.3)	(1.9)	(2.2)
	$ (44.1)	$ 58.8	$ (118.1)	$ 131.6
Non-cash movements:				
Interest expense on long-term debt	$ 95.6	$ 89.9	$ 188.1	$ 177.0
Interest expense - RRBs	14.7	8.2	21.4	11.2
Interest expense - Senior Bonds, Series 04-A2	3.8	1.3	4.5	0.7
Fair value adjustment - Senior Bonds, Series 04-A2	7.4	(1.8)	6.1	(10.3)
Remeasurement of RRBs - IFRS 9	-	-	(5.3)	-
Increase in accrued financing charges	-	0.3	-	0.3
Finance lease additions	0.9	0.1	1.0	5.9
	$ 122.4	$ 98.0	$ 215.8	$ 184.8
Total net change	$ 78.3	$ 156.8	$ 97.7	$ 316.4

(in millions of Canadian dollars, except per share amounts)

19. RELATED PARTY TRANSACTIONS

The following are the shareholders of the Company as at June 30, 2018:

- 4352238 Canada Inc., a wholly-owned subsidiary of Cintra Global Holding Limited ("Cintra")
- MICI Inc., a subsidiary of Canada Pension Plan Investment Board ("CPPIB")
- SNC-Lavalin Highway Holdings Inc., a wholly-owned subsidiary of SNC-Lavalin Group Inc.
- 7577702 Canada Inc., a subsidiary of CPPIB

The Company entered into the following transactions with related parties:

Related Party	Relationship	Classification in the Financial Statements	Nature of transaction with the related party	Three-month period ended June 30 2018	Three-month period ended June 30 2017	Six-month period ended June 30 2018	Six-month period ended June 30 2017
SNC-Lavalin Inc.	Parent of shareholder	Property, plant and equipment	Payment for design costs	$ 0.2	$ 0.2	$ 0.3	$ 0.2
SNC-Lavalin Inc.	Parent of shareholder	Operating expenses	Payment for administration costs	$ -	$ 0.1	$ -	$ 0.1
Cintra	Parent of shareholder	Operating expenses	Payment for administration costs	$ 0.2	$ 0.2	$ 0.4	$ 0.4
Blackbird Infrastructure Group	Subsidiary of some parents	Operating expenses	Reimbursement of administration costs	$ (0.1)	$ (0.1)	$ (0.2)	$ (0.2)

The transactions with related parties were measured at the exchange amounts, which is the consideration agreed to by the parties.

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

Related Party	Relationship	Classification in the Financial Statements	As at June 30, 2018	As at December 31, 2017
Cintra	Parent of shareholder	Trade and other payables	$ 0.6	$ 0.4
Cintra	Parent of shareholder	Trade and other receivables	$ (0.1)	$ (0.1)
Blackbird Infrastructure Group	Subsidiary of some parents	Trade and other receivables	$ (0.1)	$ (0.2)

The following are the wholly-owned subsidiaries of the Company as at June 30, 2018:

- 407 ETR
- Cantoll
- 9665641 Inc.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

20. GUARANTEES

In the normal course of business, the Company, including certain of its subsidiaries, enters into agreements that may involve providing certain guarantees or indemnifications to third parties and others. These include, but are not limited to:

a) Director/officer indemnification agreements

The Company entered into indemnification agreements with current and former directors and officers to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit, or any judicial, administrative, or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of the indemnification agreements prevents Management from making a reasonable estimate of the maximum potential amount the Company could be required to pay counterparties. The Company has purchased directors' and officers' liability insurance.

b) Other indemnification agreements

The Company provides indemnification agreements to counterparties in transactions such as purchase contracts, service agreements, design-build agreements, and licensing agreements. These indemnification agreements require the Company to compensate the counterparties for costs incurred as a result of litigation claims that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based on the contract. The nature of the indemnification agreements prevents Management from making a reasonable estimate of the maximum potential amount the Company may be required to pay to counterparties because such limits are not set out in the agreements with these counterparties. Management attempts to limit its liability in respect of indemnifications provided to third parties in its contractual agreements.

21. SEASONAL NATURE OF THE BUSINESS

The Company's results for the three and six month periods ended June 30, 2018 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in traffic volumes. The Company has historically experienced a higher volume of travellers on the Highway during the third quarter as a result of leisure and recreational travellers, while the winter months in the first and fourth quarters generally result in lower trip volumes. Operating expenses remain relatively steady throughout the year. The Company's interest expense on the RRBs and Senior Bond, Series 04-A2 is calculated based on changes in the CPI; as such, interest expense in respect of these bonds will fluctuate due to the volatility and seasonal nature of the CPI.

22. PRIOR YEAR COMPARATIVES

Certain prior year comparisons have been reclassified to conform with current year presentation.