COGECO COMMUNICATIONS

SHAREHOLDERS' REPORT

Three and nine-month periods ended May 31, 2018

FINANCIAL HIGHLIGHTS

	Three-months ended					Nine-months ended				
	May 31, 2018	May 31, 2017	Change	Change in constant currency (1)	Foreign exchange impact (2)	May 31, 2018	May 31, 2017	Change	Change in constant currency (1)	Foreign exchange impact (2)
(in thousands of dollars, except percentages, per share data and the number of shares)	$	$	%	%	$	$	$	%	%	$
Operations										
Revenue	637,129	565,158	12.7	15.0	(12,802)	1,789,692	1,675,123	6.8	8.9	(34,602)
Adjusted EBITDA[(1)]	287,305	254,233	13.0	15.2	(5,474)	802,870	757,775	6.0	7.7	(13,552)
Adjusted EBITDA margin[(1)]	45.1%	45.0%				44.9%	45.2%			
Integration, restructuring and acquisition costs[(3)]	2,260	—	—			18,651	—	—		
Profit for the period	64,538	76,203	(15.3)			282,770	227,890	24.1		
Profit for the period attributable to the owners of the Corporation	61,260	76,203	(19.6)			276,616	227,890	21.4		
Cash flow										
Cash flow from operating activities	187,200	241,689	(22.5)			407,981	610,700	(33.2)		
Acquisitions of property, plant and equipment, intangible and other assets[(4)]	111,960	100,202	11.7	15.2	(3,423)	335,382	282,895	18.6	22.5	(11,288)
Free cash flow[(1)]	108,463	104,728	3.6	3.4	183	274,780	322,894	(14.9)	(15.9)	3,367
Financial condition[(5)]										
Cash and cash equivalents						62,818	211,185	(70.3)		
Short-term investments						—	54,000	(100.0)		
Total assets						7,042,259	5,348,380	31.7		
Indebtedness[(6)]						3,917,964	2,598,058	50.8		
Equity attributable to owners of the Corporation						1,915,781	1,599,267	19.8		
Capital intensity[(1)]	17.6%	17.7%				18.7%	16.9%			
Per Share Data[(7)]										
Earnings per share										
Basic	1.24	1.55	(20.0)			5.61	4.63	21.2		
Diluted	1.23	1.54	(20.1)			5.56	4.60	20.9		
Dividends	0.475	0.43	10.5			1.425	1.29	10.5		
Weighted average number of multiple and subordinate voting shares outstanding	49,303,877	49,230,481	0.1			49,292,705	49,188,494	0.2		

(1) The indicated terms do not have standardized definitions prescribed by the International Financial Reporting Standards ("IFRS") and, therefore, may not be comparable to similar measures presented by other companies. For more details, please consult the "Non-IFRS financial measures" section of the MD&A.

(2) Key performance indicators presented on a constant currency basis are obtained by translating financial results of the current periods denominated in US dollars and GBP currency at the foreign exchange rates of the comparable periods of the prior year. For the three and the nine-months periods ending May 31, 2017, the average foreign exchange rates used for translation were 1.3479 USD/CDN and 1.7036 GBP/CDN and 1.3318 USD/CDN and 1.6744 GBP/CDN, respectively.

(3) For the three and nine-month periods ended May 31, 2018, integration, restructuring and acquisition costs were related to the MetroCast acquisition completed on January 4, 2018.

(4) For the three and nine-month periods ended May 31, 2018, acquisitions of property, plant and equipment, intangible and other assets in constant currency amounted to $115.4 million and $346.7 million, respectively.

(5) At May 31, 2018 and August 31, 2017.

(6) Indebtedness is defined as the aggregate of bank indebtedness, balance due on a business combination and principal on long-term debt.

(7) Per multiple and subordinate voting share.

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

Three and nine-month periods ended May 31, 2018

1. FORWARD-LOOKING STATEMENTS

Certain statements contained in this Management's Discussion and Analysis ("MD&A") may constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to Cogeco Communications Inc.'s ("Cogeco Communications" or the "Corporation") future outlook and anticipated events, business, operations, financial performance, financial condition or results and, in some cases, can be identified by terminology such as "may"; "will"; "should"; "expect"; "plan"; "anticipate"; "believe"; "intend"; "estimate"; "predict"; "potential"; "continue"; "foresee", "ensure" or other similar expressions concerning matters that are not historical facts. Particularly, statements regarding the Corporation's financial guidelines, future operating results and economic performance, objectives and strategies are forward-looking statements. These statements are based on certain factors and assumptions including expected growth, results of operations, performance and business prospects and opportunities, which Cogeco Communications believes are reasonable as of the current date. Refer in particular to the "Corporate Objectives and Strategies" section of the Corporation's 2017 annual MD&A and the "Fiscal 2018 revised financial guidelines" section of the first quarter of fiscal 2018 MD&A for a discussion of certain key economic, market and operational assumptions we have made in preparing forward-looking statements. While Management considers these assumptions to be reasonable based on information currently available to the Corporation, they may prove to be incorrect. Forward-looking information is also subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what Cogeco Communications currently expects. These factors include risks such as competitive risks, business risks, regulatory risks, technology risks, financial risks, economic conditions, ownership risks, human-caused and natural threats to our network, infrastructure and systems and litigation risks, many of which are beyond the Corporation's control. For more exhaustive information on these risks and uncertainties, the reader should refer to the "Uncertainties and Main Risk Factors" section of the Corporation's 2017 annual MD&A and the present MD&A. These factors are not intended to represent a complete list of the factors that could affect Cogeco Communications and future events and results may vary significantly from what Management currently foresees. The reader should not place undue importance on forward-looking information contained in this MD&A which represent Cogeco Communications' expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made) and are subject to change after such date. While Management may elect to do so, the Corporation is under no obligation (and expressly disclaims any such obligation) and does not undertake to update or alter this information at any particular time, whether as a result of new information, future events or otherwise, except as required by law.

All amounts are stated in Canadian dollars unless otherwise indicated. This report should be read in conjunction with the Corporation's condensed interim consolidated financial statements and the notes thereto for the three and nine-month periods ended May 31, 2018 prepared in accordance with the International Financial Reporting Standards ("IFRS") and the MD&A included in the Corporation's 2017 Annual Report.

2. CORPORATE OBJECTIVES AND STRATEGIES

Cogeco Communications Inc.'s ("Cogeco Communication" or the "Corporation") mission is to create powerful connections for its customers and foster genuine connections with its customers. As our customers are at the core of everything we do, we continuously seek to innovate our processes, operations, services and products while efficiently managing capital utilization to secure future growth. We are also dedicated to optimizing profitability and consequently increasing shareholder value. To achieve these objectives, we are pursuing the following strategies:

Canadian broadband services	American broadband services	Business information and communications technology ("Business ICT services")
Delivering organic growth by introducing value added services for residential customers and by growing our business customer base	Leveraging Internet superiority and bundle sales	Focusing on sustainable revenue growth
Optimizing the return on investments by delivering our services more efficiently	Accelerating business services growth by moving upmarket	Optimizing the use of current assets in order to optimize cash flows
Investing in our people	Strategically extending the network to new service areas	Strengthening internal processes and systems to improve operational efficiency and optimize infrastructure
	Acquiring assets with identifiable growth opportunities	Promoting our brand supported by a people centric culture

The Corporation measures its performance, with regard to these objectives by monitoring revenue, adjusted EBITDA(1), free cash flow(1) and capital intensity(1) on a constant currency basis(1).

2.1 KEY PERFORMANCE INDICATORS

REVENUE

For the nine-month period ended May 31, 2018, revenue increased by $114.6 million, or 6.8%, to reach $1.79 billion compared to $1.68 billion for the same period of fiscal 2017 mainly driven by growths of 24.0% in the American broadband services and of 0.8% in the Canadian broadband services segments, partly offset by a decrease of 4.6% in the Business ICT services segment. In constant currency, revenue increased by 8.9% mainly driven by growths of 30.4% in the American broadband services and of 0.8% in the Canadian broadband services segments, partly offset by a decrease of 2.9% in the Business ICT services segment. The increase in the American broadband services segment is mainly due to the acquisition on January 4, 2018 of substantially all the assets of Harron Communications, L.P. cable systems operating under the MetroCast brand name ("MetroCast").

ADJUSTED EBITDA

For the nine-month period ended May 31, 2018, adjusted EBITDA increased by $45.1 million, or 6.0%, to reach $802.9 million compared to $757.8 million for the same period of fiscal 2017. In constant currency, adjusted EBITDA increased by 7.7% resulting essentially from an increase in the American broadband services segment and stable adjusted EBITDA in the Canadian broadband services segment, partly offset by a decrease in the Business ICT services segment.

FREE CASH FLOW

For the nine-month period ended May 31, 2018, free cash flow decreased by $48.1 million, or 14.9% to reach $274.8 million compared to $322.9 million for the same period of the prior year. In constant currency, the free cash flow decreased by 15.9% as a result of the increase in acquisitions of property, plant and equipment, intangible and other assets combined with $18.7 million primarily in acquisition costs as well as additional financial expense mostly related to the MetroCast acquisition. The decrease was partly offset by the improvement of adjusted EBITDA and the decrease in current income taxes expense.

CAPITAL INTENSITY AND ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE AND OTHER ASSETS

During the nine-month period ended May 31, 2018, the acquisitions of property, plant and equipment, intangible and other assets amounted to $335.4 million and revenue to $1.79 billion for a capital intensity ratio of 18.7% compared to 16.9% in the same period of the prior year resulting from capital expenditures growth exceeding revenue growth. On a constant currency basis, the acquisitions of property, plant and equipment, intangible and other assets amounted to $346.7 million.

(1) The indicated terms do not have standardized definitions prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other companies. For more details, please consult the "Non-IFRS financial measures" section of the MD&A.

In the Canadian broadband services segment, the acquisitions of property, plant and equipment, intangible and other assets amounted to $152.5 million compared to $154.6 million for the same period of fiscal 2017. On a constant currency basis, capital expenditures amounted to $155.9 million.

In the American broadband services segment, the acquisitions of property, plant and equipment, intangible and other assets amounted to $145.1 million compared to $99.4 million for the same period of fiscal 2017. On a constant currency basis, capital expenditures amounted to $152.4 million mainly due to greater investments to extend the network in some of the areas we serve, including an expansion in Florida, the acquisition of property, plant and equipment related to the recent acquisition of MetroCast and the acquisition of several dark fibres throughout south Florida from FiberLight, LLC for a consideration of $21.2 million (US$16.8 million) during the second quarter of fiscal 2018.

In the Business ICT services segment, the acquisitions of property, plant and equipment, intangible and other assets amounted to $37.8 million compared to $28.9 million for the same period of fiscal 2017. On a constant currency basis, capital expenditures amounted to $38.4 million and resulted from the purchase of additional equipment to serve customers, the ongoing implementation of a new order management and billing platform as well as the timing of certain initiatives.

For further details on the Corporation's capital expenditures please refer to the "Cash flow analysis" section.

3. BUSINESS DEVELOPMENTS AND OTHER

In June 2018, the Corporation announced that its subsidiary, Cogeco Connexion, acquired 10 Spectrum licenses of 2500 MHz in non-metropolitan areas of Ontario, from Kian Telecom, for $8 million. The transfer was approved by Innovation, Science & Economic Development ("ISED") Canada on June 21, 2018. In May 2018, Cogeco Connexion, was also the successful bidder on 23 Spectrum licenses of 2500 MHz and 2300 MHz, primarily in its Ontario and Québec wireline footprints, in the auction for residual Spectrum licenses organized by ISED Canada for a total price of $24.3 million. Both transactions were completed in June 2018 and the cost of these Spectrum licenses will be recorded in the fourth quarter of fiscal 2018 and will not be included in the non-IFRS definition of free cash flow and capital intensity.

The purchase of these licenses provides an option to offer wireless services to complement our current service offering to customers within our traditional footprint and grow our share of our customers' telecommunications spending. Our objective is to offer wireless services on the basis that it be a profitable business, investing prudently within our strategic priorities and financial means. We believe that the model most likely to be achievable while satisfying our profitability requirements will be a hybrid model consisting of segments relying on the mobile virtual network operator model, as well as some segments where Cogeco Communications would be a facilities-based operator.

4. OPERATING AND FINANCIAL RESULTS

4.1 OPERATING RESULTS

	Three-months ended				
	May 31, 2018 (1)	May 31, 2017	Change	Change in constant currency (2)	Foreign exchange impact (2)
(in thousands of dollars, except percentages)	$	$	%	%	$
Revenue	637,129	565,158	12.7	15.0	(12,802)
Operating expenses	345,497	306,132	12.9	15.3	(7,328)
Management fees – Cogeco Inc.	4,327	4,793	(9.7)	(9.7)	—
Adjusted EBITDA	287,305	254,233	13.0	15.2	(5,474)
Adjusted EBITDA margin	45.1%	45.0%			

(1) For the three-month period ended May 31, 2018, the average foreign exchange rates used for translation were 1.2846 USD/CDN and 1.7776 GPB/CDN.

(2) Fiscal 2018 actuals are translated at the average foreign exchange rates of the comparable period of fiscal 2017 which were 1.3479 USD/CDN and 1.7036 GBP/CDN.

	Nine-months ended				
	May 31, 2018 (1)	May 31, 2017	Change	Change in constant currency (2)	Foreign exchange impact (2)
(in thousands of dollars, except percentages)	$	$	%	%	$
Revenue	1,789,692	1,675,123	6.8	8.9	(34,602)
Operating expenses	972,657	903,062	7.7	10.0	(21,050)
Management fees – Cogeco Inc.	14,165	14,286	(0.8)	(0.8)	—
Adjusted EBITDA	802,870	757,775	6.0	7.7	(13,552)
Adjusted EBITDA margin	44.9%	45.2%			

(1) For the nine-month period ended May 31, 2018, the average foreign exchange rates used for translation were 1.2664 USD/CDN and 1.7234 GPB/CDN.

(2) Fiscal 2018 actuals are translated at the average foreign exchange rates of the comparable period of fiscal 2017 which were 1.3318 USD/CDN and 1.6744 GBP/CDN.

REVENUE

Fiscal 2018 third-quarter revenue amounted to $637.1 million, an increase of $72.0 million, or 12.7%, compared to the same period of the prior year driven by the growth of 44.1% in the American broadband services segment and stable revenue in the Canadian broadband services segment, partly offset by a decrease of 1.3% in the Business ICT services segments. In constant currency, revenue increased by 15.0% driven by growth of 51.2% in the American broadband services segment combined with stable revenue in both the Canadian broadband services and Business ICT services segments.

For the first nine months of fiscal 2018, revenue amounted to $1.79 billion, an increase of $114.6 million, or 6.8%, compared to the same period of the prior year driven by growths of 24.0% in the American broadband services and of 0.8% in the Canadian broadband services segments, partly offset by a decrease of 4.6% in the Business ICT services segment. In constant currency, revenue increased by 8.9% driven by growths of 30.4% in the American broadband services and of 0.8% in the Canadian broadband services segments, partly offset by the decrease of 2.9% in the Business ICT services segment.

For further details on the Corporation’s revenue, please refer to the “Segmented operating results” section.

OPERATING EXPENSES

Fiscal 2018 third-quarter operating expenses amounted to $345.5 million, an increase of $39.4 million, or 12.9% (15.3% in constant currency), compared to the the same period of the prior year mainly from additional costs in the American broadband services segment due to the MetroCast acquisition and in the Canadian broadband services segment, partly offset by stable operating expenses in the Business ICT services segment.

For the first nine months of fiscal 2018, operating expenses amounted to $972.7 million, an increase of $69.6 million, or 7.7% (10.0% in constant currency), compared to the same period of the prior year mainly from additional costs in the American broadband services segment due to the MetroCast acquisition and in the Canadian broadband services segment, partly offset by a decrease in the Business ICT services segment.

For further details on the Corporation’s operating expenses, please refer to the “Segmented operating results” section.

MANAGEMENT FEES

For the three and nine-month periods ended May 31, 2018, management fees paid to Cogeco Inc. amounted to $4.3 million and $14.2 million, respectively, compared to $4.8 million and $14.3 million for the same periods of fiscal 2017. For further details on the Corporation's management fees, please refer to the “Related party transactions” section.

ADJUSTED EBITDA

Fiscal 2018 third-quarter adjusted EBITDA increased by $33.1 million, or 13.0%, to reach $287.3 million. In constant currency, adjusted EBITDA increased by 15.2% resulting essentially from an increase in the American broadband services segment as a result of the MetroCast acquisition completed in the second quarter of fiscal 2018, partly offset by decreases in the Canadian broadband services and Business ICT services segments.

For the first nine months of fiscal 2018, adjusted EBITDA increased by $45.1 million, or 6.0%, to reach $802.9 million. In constant currency, adjusted EBITDA increased by 7.7% mainly as a result of an increase in the American broadband services segment as a result of the MetroCast acquisition completed in the second quarter of fiscal 2018 and stable adjusted EBITDA in the Canadian broadband services segment, partly offset by a decrease in the Business ICT services segment.

For further details on the Corporation’s adjusted EBITDA, please refer to the “Segmented operating results” section.

4.2 FIXED CHARGES

	Three-months ended			Nine-months ended		
	May 31, 2018	May 31, 2017	Change	May 31, 2018	May 31, 2017	Change
(in thousands of dollars, except percentages)	$	$	%	$	$	%
Depreciation and amortization	141,498	119,597	18.3	388,378	357,926	8.5
Financial expense	59,955	31,792	88.6	136,990	96,357	42.2

For the three and nine-month periods ended May 31, 2018, depreciation and amortization expense increased by $21.9 million, or 18.3%, to reach $141.5 million and by $30.5 million, or 8.5%, to reach $388.4 million compared to the same periods of the prior year mostly as a result of the MetroCast acquisition, partly offset by the depreciation of the US dollar against the Canadian dollar compared to the same periods of the prior year.

For the three and nine-month periods ended May 31, 2018, financial expense increased by $28.2 million, or 88.6%, to reach $60.0 million, and by $40.6 million, or 42.2%, to reach $137.0 million compared to the same periods of the prior year mainly as follows:

- higher level of Indebtedness and higher interest rates on the First Lien Credit Facilities following the MetroCast acquisition;
- early reimbursement of the Term Loan A-2, A-3 and B facilities during the second quarter of fiscal 2018 which resulted in the write-off of the unamortized deferred transaction costs of $7.3 million; and
- early reimbursement of the US$400 million Senior Unsecured Notes during the third quarter of fiscal 2018 which resulted in a $6.2 million redemption premium and the write-off of the unamortized deferred transaction costs of $2.5 million; partly offset by
- the depreciation of the US dollar against the Canadian dollar compared to the same periods of the prior year.

4.3 INCOME TAXES

For the three-month period ended May 31, 2018, income taxes amounted to $19.1 million, representing a decrease of $7.6 million, or 28.5%, compared to $26.6 million for the same period of the prior year mainly attributable to the effect of the federal rate reduction in the United States and the decrease in profit before income taxes resulting from an increase in financial expense related to the MetroCast acquisition completed in the second quarter of fiscal 2018 and the depreciation of the US dollar against the Canadian dollar compared to the same period of the prior year.

For the nine-month period ended May 31, 2018, income taxes recovery amounted to $23.9 million, representing a decrease of $99.5 million compared to an expense of $75.6 million for the same period of the prior year. The variation is mainly attributable to the effect of the federal rate reduction in the United States on the net deferred tax liabilities, the decrease in profit before income taxes resulting from non-recurring costs related to the MetroCast acquisition, the revaluation of deferred tax assets in the Business ICT services segment and the depreciation of the US dollar against the Canadian dollar compared to the same period of the prior year.

On December 22, 2017, the US Federal administration enacted the Tax Cuts and Jobs Act (the "Act"). The tax reform reduces the general federal corporate tax rate from 35% to 21% starting after 2017 which reduced net deferred tax liabilities by approximately $89 million (US$70 million) for the nine-month period ended May 31, 2018. In addition, the Act calls for other changes such as interest deductibility limitations, full deduction of acquisitions of tangible assets, net operating losses limitations as well as base erosion anti-avoidance, which together with tax rate reductions, will have an overall favorable impact on the income tax expense in the future.

On March 26, 2015, in its 2015 budget, the Quebec government announced that the corporate tax rate would be gradually reduced by 0.1% per year from 11.9% in 2017 to 11.5% in 2020. These rate reductions were substantively enacted on November 15, 2016 and have reduced the deferred tax liabilities and the deferred income taxes by approximately $1.7 million for the nine months of fiscal 2017.

4.4 PROFIT FOR THE PERIOD

For the three-month period ended May 31, 2018, profit for the period amounted to $64.5 million, of which $61.3 million, or $1.24 per share, was attributable to the owners of the Corporation compared to $76.2 million, or $1.55 per share, for the same period of fiscal 2017 resulting mainly from the increases in depreciation and amortization and financial expense, partly offset by the improvement of adjusted EBITDA and a decrease of income taxes.

For the nine-month period ended May 31, 2018, profit for the period amounted to $282.8 million, of which $276.6 million, or $5.61 per share, was attributable to the owners of the Corporation compared to $227.9 million, or $4.63 per share, for the same period of fiscal 2017. The increase is mainly due to the $89 million (US$70 million) reduction in deferred income taxes related to the recent US tax reform and the improvement of adjusted EBITDA, partly offset by increases in depreciation and amortization, integration, restructuring and acquisition costs and financial expense.

The non-controlling interest represents a participation of 21% in Atlantic Broadband's results. The profit for the period attributable to non-controlling interest amounted to $3.3 million and $6.2 million, respectively, for the third quarter and first nine months of fiscal 2018 compared to nil for the same periods of the prior year.

5. RELATED PARTY TRANSACTIONS

Cogeco Communications is a subsidiary of Cogeco Inc. ("Cogeco"), which holds 31.7% of the Corporation's equity shares, representing 82.2% of the Corporation's voting shares.

Cogeco provides executive, administrative, financial and strategic planning services and other services to the Corporation under a Management Services Agreement. Under the Agreement, management fees are payable on a monthly basis, representing 0.75% of the consolidated revenue of the Corporation. In addition, the Corporation reimburses Cogeco's out-of-pocket expenses incurred with respect to services provided to the Corporation under the Agreement. Provision is made for future adjustment upon the request of either Cogeco or the Corporation should the level of management fees no longer align with the costs, time and resources committed by Cogeco. As contemplated by this provision and following the MetroCast acquisition completed on January 4, 2018, the management fees payable on a monthly basis charged to the Corporation were reviewed and reduced from 0.85% to 0.75% of the consolidated revenue of the Corporation, effective on January 4, 2018.

No direct remuneration is payable to Cogeco's executive officers by the Corporation. However, during the first nine months of fiscal 2018, the Corporation granted 126,425 (81,350 in 2017) stock options, did not grant any (nil in 2017) incentive share units ("ISUs") and granted 19,025 (12,150 in 2017) performance share units ("PSUs") to these executive officers as executive officers of Cogeco Communications. During the three and nine-month periods ended May 31, 2018, the Corporation charged Cogeco $240,000 and $635,000 ($163,000 and $465,000 in 2017), nil and $1,000 ($2,000 and $37,000 in 2017) and $254,000 and $736,000 ($177,000 and $483,000 in 2017), respectively, with regards to the Corporation's stock options, ISUs and PSUs granted to these executive officers.

There were no other material related party transactions during the periods covered.

6. CASH FLOW ANALYSIS

	Three-months ended			Nine-months ended		
	May 31, 2018	May 31, 2017	Change	May 31, 2018	May 31, 2017	Change
(in thousands of dollars, except percentages)	$	$	%	$	$	%
Cash flow from operating activities	187,200	241,689	(22.5)	407,981	610,700	(33.2)
Cash flow from investing activities	(72,470)	(100,212)	(27.7)	(2,036,707)	(275,242)	—
Cash flow from financing activities	(226,200)	(85,498)	—	1,478,263	(296,600)	—
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	638	253	—	2,096	923	—
Net change in cash and cash equivalents	(110,832)	56,232	—	(148,367)	39,781	—
Cash and cash equivalents, beginning of the period	173,650	45,835	—	211,185	62,286	—
Cash and cash equivalents, end of the period	62,818	102,067	(38.5)	62,818	102,067	(38.5)

6.1 OPERATING ACTIVITIES

Fiscal 2018 third-quarter cash flow from operating activities reached $187.2 million, representing a decrease of $54.5 million, or 22.5%, compared to the same period of the prior year mainly as a result of the following:

- the decrease of $54.8 million in changes in non-cash operating activities primarily due to changes in working capital;
- the increase of $16.5 million in income taxes paid; and
- the increase of $14.5 million in financial expense paid; partly offset by
- the improvement of $33.1 million in adjusted EBITDA.

For the first nine months of fiscal 2018, cash flow from operating activities reached $408.0 million, representing a decrease of $202.7 million, or 33.2%, compared to the same period of the prior year mainly as a result of the following:

- the increase of $144.7 million in income taxes paid mainly as a result of the payment of income tax installments of $85.5 million which were deferred from fiscal 2017 to the first quarter of fiscal 2018 pursuant to a corporate structure reorganization of the Canadian broadband services segment's subsidiaries in fiscal 2017;
- the decrease of $58.9 million in changes in non-cash operating activities primarily due to changes in working capital;
- the increase of $25.5 million in financial expense paid; and
- $18.7 million primarily in acquisition costs related to the MetroCast acquisition; partly offset by
- the improvement of $45.1 million in adjusted EBITDA.

6.2 INVESTING ACTIVITIES

For the three-month period ended May 31, 2018, investing activities reached $72.5 million, representing a decrease of $27.7 million, or 27.7% compared to the same period of the prior year mainly due to the $34.0 million redemption of short-term investments, partly offset by the increase of $11.8 million in acquisitions of property, plant and equipment, intangible and other assets.

For the nine-month period ended May 31, 2018, investing activities reached $2.04 billion compared to $275.2 million for the same period of the prior year mainly due to the $1.76 billion (US$1.40 billion) MetroCast acquisition in the second quarter of fiscal 2018. The remainder of the variation is explained by the increase of $52.5 million in acquisitions of property, plant and equipment, intangible and other assets, partly offset by the $54.0 million redemption of short-term investments.

BUSINESS COMBINATION IN FISCAL 2018

On January 4, 2018, the Corporation's subsidiary, Atlantic Broadband, completed the acquisition of substantially all of the assets of Harron Communications, L.P. cable systems operating under the MetroCast brand name ("MetroCast"). This acquisition extends Atlantic Broadband's footprint across 11 states on the East Coast of the United States from Maine to Florida. The transaction valued at US$1.4 billion was subject to post closing adjustments. This acquisition was financed through a combination of US$1.7 billion under a new Senior Secured Term Loan B, whereby US$583 million was used to refinance the existing First Lien Credit Facilities, and US$40.4 million drawn under a new US$150 million Senior Secured Revolving Credit facility, combined with a US$315 million equity investment by Caisse de dépôt et placement du Québec (“CDPQ”) in Atlantic Broadband’s holding company, representing 21% of Atlantic Broadband.

The acquisition was accounted for using the purchase method and was subject to post closing adjustments. During the three-month period ended May 31, 2018, adjustments were made to the working capital resulting in a reduction of the purchase price of $5.2 million (US$4.2 million). The preliminary allocation of the purchase price of this acquisition is as follows:

	Preliminary May 31, 2018 $
Purchase price	
Consideration paid at closing	1,762,163
Working capital adjustments	(5,222)
	1,756,941
Net assets acquired	
Cash and cash equivalents	6
Trade and other receivables	5,075
Prepaid expenses and other	1,989
Property, plant and equipment	297,156
Intangible assets	874,553
Goodwill	583,209
Trade and other payables assumed	(5,047)
	1,756,941

ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE AND OTHER ASSETS

The acquisitions of property, plant and equipment, intangible and other assets as well as the capital intensity per operating segment are as follows:

	Three-months ended			
	May 31, 2018	May 31, 2017	Change	May 31, 2018 in constant currency (1)
(in thousands of dollars, except percentages)	$	$	%	$
Canadian broadband services	**52,151**	57,298	(9.0)	53,200
Capital intensity	**15.8%**	17.4%		
American broadband services	**47,069**	32,259	45.9	49,366
Capital intensity	**19.8%**	19.5%		
Business ICT services	**12,740**	10,645	19.7	12,817
Capital intensity	**17.9%**	14.8%		
Consolidated	**111,960**	100,202	11.7	115,383
Capital intensity	**17.6%**	17.7%		

(1) Fiscal 2018 actuals are translated at the average foreign exchange rates of the comparable period of fiscal 2017 which were 1.3479 USD/CDN and 1.7036 GBP/CDN.

	Nine-months ended			
	May 31, 2018	May 31, 2017	Change	May 31, 2018 in constant currency (1)
(in thousands of dollars, except percentages)	$	$	%	$
Canadian broadband services	**152,486**	154,581	(1.4)	155,861
Capital intensity	**15.6%**	15.9%		
American broadband services	**145,109**	99,369	46.0	152,416
Capital intensity	**24.1%**	20.5%		
Business ICT services	**37,787**	28,945	30.5	38,393
Capital intensity	**17.9%**	13.1%		
Consolidated	**335,382**	282,895	18.6	346,670
Capital intensity	**18.7%**	16.9%		

(1) Fiscal 2018 actuals are translated at the average foreign exchange rates of the comparable period of fiscal 2017 which were 1.3318 USD/CDN and 1.6744 GBP/CDN.

For the three and nine-month periods ended May 31, 2018, acquisitions of property, plant and equipment, intangible and other assets amounted to $112.0 million and $335.4 million, respectively, representing increases of $11.8 million and $52.5 million, or 11.7% and 18.6% compared to the same periods of fiscal 2017. On a constant currency basis, capital expenditures amounted to $115.4 million and $346.7 million, respectively. The increase for the third-quarter of fiscal 2018 is explained by higher capital expenditures in the American broadband services segment, partly offset by lower capital expenditures in the Canadian broadband services segment. The increase for the first nine months is mainly due to higher capital expenditures in the American broadband and the Business ICT services segments.

For the nine-month period ended May 31, 2018, capital intensity reached 18.7% compared to 16.9% mainly as a result of capital expenditures growth exceeding revenue growth.

For further details on the Corporation's acquisitions of property, plant and equipment, intangible and other assets, please refer to the "Segmented operating and financial results" section.

6.3 FREE CASH FLOW AND FINANCING ACTIVITIES

FREE CASH FLOW

Fiscal 2018 third-quarter free cash flow amounted to $108.5 million, an increase of $3.7 million, or 3.6% (3.4% in constant currency), compared to $104.7 million for the same period of the prior year mainly due to the following:

- the improvement of $33.1 million in adjusted EBITDA; and
- the decrease of $9.9 million in current income taxes expense; partly offset by
- the increase of $28.2 million in financial expense resulting from the MetroCast acquisition and write-off of the unamortized deferred transaction costs and a redemption premium pertaining to the early reimbursement of the Senior Unsecured Notes; and
- the increase of $11.8 million in acquisitions of property, plant and equipment, intangible and other assets resulting mostly from the MetroCast acquisition.

For the first nine months of fiscal 2018, free cash flow amounted to $274.8 million, a decrease of $48.1 million, or 14.9% (15.9% in constant currency) compared to $322.9 million for the same period of the prior year mainly due to the following:

- the increase of $52.5 million in acquisitions of property, plant and equipment, intangible and other assets resulting mostly from the acquisition of several dark fibres from FiberLight, LLC and the MetroCast acquisition;
- the increase of $40.6 million in financial expense resulting from the MetroCast acquisition, write-off of the unamortized deferred transaction costs pertaining to the early reimbursement of certain debts and a redemption premium related to the early reimbursement of the Senior Unsecured Notes;
- $18.7 million primarily in acquisition costs related to the MetroCast acquisition; partly offset by
- the improvement of $45.1 million in adjusted EBITDA; and
- the decrease of $8.9 million in current income taxes expense.

FINANCING ACTIVITIES

For the three and nine-month periods ended May 31, 2018, the change in cash flows arising from financing activities is mainly explained as follows:

	Three-months ended			Nine-months ended			
	May 31, 2018	May 31, 2017	Change	May 31, 2018	May 31, 2017	Change	Explanations
(in thousands of dollars)	$	$	$	$	$	$	
Increase (decrease) in bank indebtedness	11,484	(2,043)	13,527	12,061	(748)	12,809	Related to the timing of payments made to suppliers.
Repayment of intercompany note payable - Cogeco Inc.	—	(40,000)	40,000	—	(40,000)	40,000	
Net increase (decrease) under the revolving facilities	397,002	(20,326)	417,328	397,910	(173,323)	571,233	US$307 million revolving loan was drawn under the Term Revolving Facility following the early reimbursement of the US$400 million Senior Unsecured Notes in the third quarter of fiscal 2018 and drawing of US$40.4 million on the US$150 million Senior Secured Revolving Credit Facility on January 4, 2018 to finance the MetroCast acquisition. Repayments of the revolving facilities in fiscal 2017 as a result of generated free cash flow.
Issuance of long-term debt, net of discounts and transaction costs	—	—	—	2,082,408	—	2,082,408	Issuance of a US$1.7 billion Senior Secured Term Loan B on January 4, 2018 to finance the MetroCast acquisition.
Repayment of long-term debt	(611,440)	(1,601)	(609,839)	(1,323,496)	(19,444)	(1,304,052)	Repayment of long-term debt including the early reimbursement of the US$400 million Senior Unsecured Notes and repayment at maturity of the Senior Unsecured Debenture in the third quarter of fiscal 2018.
Repayment of balance due on a business combination	—	(837)	837	(118)	(837)	719	
	(202,954)	(64,807)	(138,147)	1,168,765	(234,352)	1,403,117	

DIVIDENDS

During the third quarter of fiscal 2018, a quarterly eligible dividend of $0.475 per share was paid to the holders of multiple and subordinate voting shares, for a total paid of $23.4 million compared to a quarterly eligible dividend of $0.43 per share paid, for a total paid of $21.2 million in the third quarter of fiscal 2017. Dividend payments in the first nine months totaled $1.425 per share, or $70.3 million, compared to $1.29 per share, or $63.5 million, in the prior year.

6.4 DIVIDEND DECLARATION

At its July 11, 2018 meeting, the Board of Directors of Cogeco Communications declared a quarterly eligible dividend of $0.475 per share for multiple voting and subordinate voting shares, payable on August 8, 2018 to shareholders of record on July 25, 2018. The declaration, amount and date of any future dividend will continue to be considered and approved by the Board of Directors of the Corporation based upon the Corporation's financial condition, results of operations, capital requirements and such other factors as the Board of Directors, at its sole discretion, deems relevant. There is therefore no assurance that dividends will be declared, and if declared, the amount and frequency may vary.

7. SEGMENTED OPERATING AND FINANCIAL RESULTS

The Corporation reports its operating results in three operating segments: Canadian broadband services, American broadband services and Business ICT services. The reporting structure reflects how the Corporation manages its business activities to make decisions about resources to be allocated to the segment and to assess its performance.

7.1 CANADIAN BROADBAND SERVICES

OPERATING AND FINANCIAL RESULTS

	Three-months ended				
	May 31, 2018 (1)	May 31, 2017	Change	Change in constant currency (2)	Foreign exchange impact (2)
(in thousands of dollars, except percentages)	$	$	%	%	$
Revenue	329,067	328,976	—	—	—
Operating expenses	157,905	154,853	2.0	2.2	(331)
Adjusted EBITDA	171,162	174,123	(1.7)	(1.9)	331
Adjusted EBITDA margin	52.0%	52.9%			
Acquisitions of property, plant and equipment, intangible and other assets(3)	52,151	57,298	(9.0)	(7.2)	(1,049)
Capital intensity	15.8%	17.4%			

(1) For the three-month period ended May 31, 2018, the average foreign exchange rate used for translation was 1.2846 USD/CDN.

(2) Fiscal 2018 actuals are translated at the average foreign exchange rate of the comparable period of fiscal 2017 which was 1.3479 USD/CDN.

(3) For the three-month period ended May 31, 2018, acquisitions of property, plant and equipment, intangible and other assets in constant currency amounted to $53.2 million.

	Nine-months ended				
	May 31, 2018 (1)	May 31, 2017	Change	Change in constant currency (2)	Foreign exchange impact (2)
(in thousands of dollars, except percentages)	$	$	%	%	$
Revenue	979,859	971,601	0.8	0.8	—
Operating expenses	469,178	462,724	1.4	1.7	(1,356)
Adjusted EBITDA	510,681	508,877	0.4	0.1	1,356
Adjusted EBITDA margin	52.1%	52.4%			
Acquisitions of property, plant and equipment, intangible and other assets(3)	152,486	154,581	(1.4)	0.8	(3,375)
Capital intensity	15.6%	15.9%			

(1) For the nine-month period ended May 31, 2018, the average foreign exchange rate used for translation was 1.2664 USD/CDN.

(2) Fiscal 2018 actuals are translated at the average foreign exchange rate of the comparable period of fiscal 2017 which was 1.3318 USD/CDN.

(3) For the nine-month period ended May 31, 2018, acquisitions of property, plant and equipment, intangible and other assets in constant currency amounted to $155.9 million.

REVENUE

For the three-month period ended May 31, 2018, revenue remained stable at $329.1 million compared to $329.0 million for the same period of the prior year mainly due to rate increases implemented in the first quarter of fiscal 2018 combined with the movement of customers to higher value offerings, offset by promotional pricing provided to customers, a decline in primary services units and last year's $2.1 million non-recurring revenue related to settlements with suppliers recognized in the third quarter of fiscal 2017. Excluding last year's non-recurring revenue of $2.1 million, fiscal 2018 third-quarter revenue in constant currency would have increased by 0.7%.

For the nine-month period ended May 31, 2018, revenue increased by $8.3 million, or 0.8%, to reach $979.9 million compared to the same period of the prior year. The increase is mainly due to rate increases combined with the movement of customers to higher value offerings, and the continued growth in Internet service customers, partly offset by promotional pricing provided to customers, a decline in video and telephony services customers and last year's $2.1 million non-recurring revenue related to settlements with suppliers recognized in the third quarter of fiscal 2017. Excluding prior year's non-recurring revenue of $2.1 million, fiscal 2018 first nine-month period revenue in constant currency would have increased by 1.1%.

OPERATING EXPENSES

For the three-month period ended May 31, 2018, operating expenses increased by $3.1 million, or 2.0%, to reach $157.9 million compared to the same period of the prior year. On a constant currency basis, operating expenses increased by 2.2% . For the nine-month period ended May 31, 2018, operating expenses increased by $6.5 million, or 1.4%, to reach $469.2 million compared to the same period of the prior year. On a constant currency basis, operating expenses increased by 1.7%. The increase for both periods is mainly attributable to higher headcount mostly related to customer service, partly offset by lower programming costs and a shift in product mix to higher margin Internet services from video services. In addition, the increase for the first nine months was also attributable to additional costs related to the implementation of a new customer management system.

ADJUSTED EBITDA

For the three-month period ended May 31, 2018, adjusted EBITDA decreased by $3.0 million, or 1.7% (1.9% in constant currency) to reach $171.2 million compared to the same period of the prior year mainly as a result of stable revenue and higher operating expenses. Excluding last year's non-recurring revenue of $2.1 million, adjusted EBITDA on a constant currency basis would have remained essentially the same.

For the nine-month period ended May 31, 2018, adjusted EBITDA increased by $1.8 million, or 0.4% (0.1% in constant currency) to reach $510.7 million compared to the same period of the prior year mainly as a result of operating expenses growth exceeding revenue growth. Excluding last year's non-recurring revenue of $2.1 million, adjusted EBITDA on a constant currency basis would have remained essentially the same.

CAPITAL INTENSITY AND ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE AND OTHER ASSETS

Fiscal 2018 third-quarter acquisitions of property, plant and equipment, intangible and other assets amounted to $52.2 million, representing a decrease of $5.1 million, or 9.0%, compared to the same period of the prior year. On a constant currency basis, acquisitions of property, plant and equipment decreased by 7.2% compared to the same period of the prior year mainly due from lower capital expenditures related to the implementation of a new Customer Management system during the third quarter of fiscal 2018 and the timing of certain initiatives.

Fiscal 2018 first nine months acquisitions of property, plant and equipment, intangible and other assets amounted to $152.5 million, representing a decrease of $2.1 million, or 1.4%, compared to $154.6 million the prior year. On a constant currency basis, acquisitions of property, plant and equipment amounted to $155.9 million.

For the nine-month period ended May 31, 2018, capital intensity reached 15.6% compared to 15.9% for the same period of fiscal 2017 mainly as a result of revenue growth combined with lower capital expenditures.

CUSTOMER STATISTICS

		Net additions (losses) Three-months ended		Net additions (losses) Nine-months ended		% of penetration[(1)(3)]	
	May 31, 2018	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017 [(2)]	May 31, 2018	May 31, 2017
Primary service units[(1)]	1,901,037	(13,141)	(7,602)	(20,031)	11,589		
Internet service customers	787,007	693	5,198	17,138	29,841	45.0	44.3
Video service customers	699,554	(9,030)	(8,274)	(21,082)	(11,061)	40.0	42.3
Telephony service customers[(1)]	414,476	(4,804)	(4,526)	(16,087)	(7,191)	23.7	25.3

(1) In the second quarter of fiscal 2018, telephony service customers have been adjusted upwards retroactively as a result of a change in reporting business customers and consequently, primary service units and penetration rates prior to that period have also been adjusted.

(2) Excludes 2,247 primary service units (808 Internet services and 1,439 video services) from a business combination completed in the first quarter of fiscal 2017.

(3) As a percentage of homes passed.

During the three-month period ended May 31, 2018, the Canadian broadband services segment implemented a new advanced Customer Management system, replacing 22 legacy systems. During the migration period to the new system, marketing and sales initiatives were slowed down on purpose and new services activation were delayed and consequently, primary services units were negatively impacted during the third quarter of fiscal 2018. In addition, as the new Customer Management system relies on different information to account for primary service units, a final reconciliation of primary service units to the legacy systems is currently underway and adjustments, if any, which management would expect to be minor, will be disclosed in the fourth quarter of fiscal 2018.

Variations of each services are also explained as follows:

INTERNET

For the three and nine-month periods ended May 31, 2018, Internet service customers net additions stood at 693 and 17,138, respectively, compared to 5,198 and 29,841 for the same periods of the prior year. The lower net additions for both periods are mainly due to lower marketing and sales initiatives concurrent with the implementation of the new Customer Management system, competitive offers in the industry combined with a higher churn following the end of promotional activity. Internet service customers net additions stemmed from the ongoing interest in high speed offerings and in TiVo's digital advanced video services which requires an Internet subscription, the increased demand from Internet resellers and from the business sector as well as the sustained interest in bundle offers.

VIDEO

For the three and nine-month periods ended May 31, 2018, video service customers net losses stood at 9,030 and 21,082, respectively, compared to 8,274 and 11,061 for the same periods of the prior year. The higher net losses for both periods is mainly due to lower marketing and sales initiatives concurrent with the implementation of a new Customer Management system, highly competitive offers in the industry, a changing video consumption environment and higher churn following the end of higher promotional activity, partly offset by our customers' ongoing interest in video product offering, including TiVo's digital advanced video services, as well as bundles with fast Internet offerings.

TELEPHONY

For the three and nine-month periods ended May 31, 2018, telephony service customers net losses amounted to 4,804 and 16,087, respectively, compared to 4,526 and 7,191 for the same periods of the prior year. The telephony service customer losses are mainly due to lower marketing and sales initiatives concurrent with the implementation of a new Customer Management system and the increasing mobile penetration in North America and various unlimited offers launched by mobile operators causing some customers to cancel their landline telephony services for mobile telephony services only.

DISTRIBUTION OF CUSTOMERS

At May 31, 2018, 71% (72% in 2017) of the Canadian broadband services customers subscribed to two or more services. The distribution of customers by number of services for the Canadian broadband services were: 29% who subscribe to one service (28% in 2017), 39% to two services (39% in 2017) and 32% to three services (33% in 2017).

7.2 AMERICAN BROADBAND SERVICES

OPERATING AND FINANCIAL RESULTS

	Three-months ended				
	May 31, 2018 (1)	May 31, 2017	Change	Change in constant currency (2)	Foreign exchange impact (2)
(in thousands of dollars, except percentages)	$	$	%	%	$
Revenue	**237,950**	165,136	44.1	51.2	(11,744)
Operating expenses	**131,382**	97,370	34.9	41.6	(6,468)
Adjusted EBITDA	**106,568**	67,766	57.3	65.0	(5,276)
Adjusted EBITDA margin	**44.8%**	41.0%			
Acquisitions of property, plant and equipment, intangible and other assets(3)	**47,069**	32,259	45.9	53.0	(2,297)
Capital intensity	**19.8%**	19.5%			

(1) For the three-month period ended May 31, 2018, the average foreign exchange rate used for translation was 1.2846 USD/CDN.

(2) Fiscal 2018 actuals are translated at the average foreign exchange rate of the comparable period of fiscal 2017 which was 1.3479 USD/CDN.

(3) For the three-month period ended May 31, 2018, acquisitions of property, plant and equipment, intangible and other assets in constant currency amounted to $49.4 million.

	Nine-months ended				
	May 31, 2018 (1)	May 31, 2017	Change	Change in constant currency (2)	Foreign exchange impact (2)
(in thousands of dollars, except percentages)	$	$	%	%	$
Revenue	**601,584**	485,011	24.0	30.4	(30,891)
Operating expenses	**341,151**	279,710	22.0	28.2	(17,573)
Adjusted EBITDA	**260,433**	205,301	26.9	33.3	(13,318)
Adjusted EBITDA margin	**43.3%**	42.3%			
Acquisitions of property, plant and equipment, intangible and other assets[3]	**145,109**	99,369	46.0	53.4	(7,307)
Capital intensity	**24.1%**	20.5%			

(1) For the nine-month period ended May 31, 2018, the average foreign exchange rate used for translation was 1.2664 USD/CDN.

(2) Fiscal 2018 actuals are translated at the average foreign exchange rate of the comparable period of fiscal 2017 which was 1.3318 USD/CDN.

(3) For the nine-month period ended May 31, 2018, acquisitions of property, plant and equipment, intangible and other assets in constant currency amounted to $152.4 million.

REVENUE

For the three and nine-month periods ended May 31, 2018, revenue increased by $72.8 million and $116.6 million, or 44.1% and 24.0%, to reach $238.0 million and $601.6 million, respectively, compared to the same periods of the prior year. On a constant currency basis, revenue increased by 51.2% and 30.4%, respectively, mainly as a result of the MetroCast acquisition completed in the second quarter of fiscal 2018. The increase for both periods was also attributable to organic growth from rate increases implemented in September 2017, the continued growth in Internet and telephony services customers, partly offset by a slight decrease in video service customers. Excluding the MetroCast acquisition, revenue in constant currency increased by 4.1% for the third quarter of fiscal 2018.

OPERATING EXPENSES

For the three and nine-month periods ended May 31, 2018, operating expenses increased by $34.0 million and $61.4 million, or 34.9% and 22.0%, to reach $131.4 million and $341.2 million, respectively, compared to the same periods of the prior year. On a constant currency basis, operating expenses increased by 41.6% and 28.2%, respectively, mainly as a result of the MetroCast acquisition completed in the second quarter of fiscal 2018 and programming rate increases. In addition, the increase in operating expense for the first nine-month was also attributable to additional costs such as employee and outsourced services compensation costs and marketing expenses to support the continued expansion in Florida and for the business sector as well as non-recurring costs of $3.1 million (US$2.5 million) related to hurricane Irma.

ADJUSTED EBITDA

For the three and nine-month periods ended May 31, 2018, adjusted EBITDA increased by $38.8 million and $55.1 million, or 57.3% and 26.9%, to reach $106.6 million and $260.4 million, respectively, compared to the same periods of the prior year. On a constant currency basis, adjusted EBITDA increased by 65.0% and 33.3%, respectively, mainly as a result of the MetroCast acquisition. Excluding the MetroCast acquisition, adjusted EBITDA in constant currency increased by 3.2% for the third quarter of fiscal 2018.

CAPITAL INTENSITY AND ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE AND OTHER ASSETS

For the three and nine-month periods ended May 31, 2018, acquisitions of property, plant and equipment, intangible and other assets amounted to $47.1 million and $145.1 million, respectively, representing increases of $14.8 million and $45.7 million, or 45.9% and 46.0%, compared to the same periods of the prior year. On a constant currency basis, acquisitions of property, plant and equipment, intangible and other assets increased by 53.0% and 53.4%, respectively, compared to the same periods of the prior year mainly due to greater investments to extend the network in some of the areas we serve, including an expansion in Florida and the acquisitions of property, plant and equipment related to the recent acquisition of MetroCast. Moreover, the increase in the first nine months were also due to the acquisition of several dark fibres throughout south Florida from FiberLight, LLC for a consideration of $21.2 million (US$16.8 million) during the second quarter of fiscal 2018.

For the nine month period ended May 31, 2018, capital intensity reached 24.1% compared to 20.5% for the same period of fiscal 2017 mainly as a result of capital expenditures growth exceeding revenue growth.

CUSTOMER STATISTICS

		Net additions (losses) Three-months ended		Net additions (losses) Nine-months ended		% of penetration(1)(3)	
	May 31, 2018	May 31, 2018	May 31, 2017	May 31, 2018 (2)	May 31, 2017	May 31, 2018	May 31, 2017
Primary service units(1)	881,668	7,578	6,251	17,454	15,373		
Internet service customers	420,255	7,368	5,969	16,724	16,672	51.1	45.7
Video service customers	320,298	(1,019)	(1,703)	(3,714)	(6,313)	38.9	40.1
Telephony service customers(1)	141,115	1,229	1,985	4,444	5,014	17.2	17.2

(1) In the second quarter of fiscal 2018, telephony service customers have been adjusted upwards retroactively as a result of a change in reporting business customers and consequently, primary service units and penetration rates prior to that period have also been adjusted.

(2) Excludes 251,379 primary service units (130,404 Internet services, 87,873 video services and 33,102 telephony services) from the acquisition of MetroCast completed in the second quarter of fiscal 2018.

(3) As a percentage of homes passed.

INTERNET

For the three and nine-month periods ended May 31, 2018, Internet service customers net additions stood at 7,368 and 16,724, respectively, compared to 5,969 and 16,672 for the same periods of the prior year. The net additions for both periods stemmed from our customers' ongoing interest in high speed offerings, growth in both the residential and business sectors and the sustained interest in bundle offers combined with additional connects from the Florida expansion during the second quarter of fiscal 2018 and additional customers from the MetroCast acquisition.

VIDEO

For the three and nine-month periods ended May 31, 2018, video service customers net losses stood at 1,019 and 3,714, respectively, compared to 1,703 and 6,313 for the same periods of the prior year. The improvement for both periods resulted mainly from our customers' ongoing interest in TiVo's digital advanced video services combined with additional connects from the Florida expansion during the second quarter of fiscal 2018 and a larger customer base resulting from the MetroCast acquisition, partly offset by competitive offers in the industry and a changing video consumption environment.

TELEPHONY

For the three and nine-month periods ended May 31, 2018, telephony service customers net additions stood at 1,229 and 4,444, respectively, compared to 1,985 and 5,014 for the same periods of the prior year mainly as a result of the continued growth in the business sector.

DISTRIBUTION OF CUSTOMERS

At May 31, 2018, 50% (55% in 2017) of the American broadband services customers subscribed to two or more services. The distribution of customers by number of services for the American broadband services were: 50% (45% in 2017) who subscribe to one service, 31% (35% in 2017) to two services and 19% (20% in 2017) to three services. The variation compared to the prior year is mainly due to MetroCast which has a higher proportion of customers with one and two services.

7.3 BUSINESS ICT SERVICES

OPERATING AND FINANCIAL RESULTS

	Three-months ended				
	May 31, 2018 (1)	May 31, 2017	Change	Change in constant currency (2)	Foreign exchange impact (2)
(in thousands of dollars, except percentages)	$	$	%	%	$
Revenue	70,922	71,857	(1.3)	0.2	(1,058)
Operating expenses	50,233	50,068	0.3	1.4	(522)
Adjusted EBITDA	20,689	21,789	(5.0)	(2.6)	(536)
Adjusted EBITDA margin	29.2%	30.3%			
Acquisitions of property, plant and equipment, intangible and other assets(3)	12,740	10,645	19.7	20.4	(77)
Capital intensity	17.9%	14.8%			

(1) For the three-month period ended May 31, 2018, the average foreign exchange rates used for translation were 1.2846 USD/CDN and 1.7776 GPB/CDN.

(2) Fiscal 2018 actuals are translated at the average foreign exchange rates of the comparable period of fiscal 2017 which were 1.3479 USD/CDN and 1.7036 GBP/CDN.

(3) For the three-month period ended May 31, 2018, acquisitions of property, plant and equipment, intangible and other assets in constant currency amounted to $12.8 million.

	Nine-months ended				
	May 31, 2018 (1)	May 31, 2017	Change	Change in constant currency (2)	Foreign exchange impact (2)
(in thousands of dollars, except percentages)	$	$	%	%	$
Revenue	210,974	221,177	(4.6)	(2.9)	(3,711)
Operating expenses	148,221	151,596	(2.2)	(0.9)	(2,083)
Adjusted EBITDA	62,753	69,581	(9.8)	(7.5)	(1,628)
Adjusted EBITDA margin	29.7%	31.5%			
Acquisitions of property, plant and equipment, intangible and other assets(3)	37,787	28,945	30.5	32.6	(606)
Capital intensity	17.9%	13.1%			

(1) For the nine-month period ended May 31, 2018, the average foreign exchange rates used for translation were 1.2664 USD/CDN and 1.7234 GPB/CDN.

(2) Fiscal 2018 actuals are translated at the average foreign exchange rates of the comparable period of fiscal 2017 which were 1.3318 USD/CDN and 1.6744 GBP/CDN.

(3) For the nine-month period ended May 31, 2018, acquisitions of property, plant and equipment, intangible and other assets in constant currency amounted to $38.4 million.

REVENUE

For the three-month period ended May 31, 2018, revenue decreased by $0.9 million, or 1.3%, to reach $70.9 million compared to the same period of fiscal 2017. On a constant currency basis, revenue remained stable primarily due to higher churn and competitive pricing pressures on the hosting and network connectivity services, offset by growth in both colocation and cloud services revenue.

For the nine-month period ended May 31, 2018, revenue decreased by $10.2 million, or 4.6%, to reach $211.0 million compared to the same period of fiscal 2017. On a constant currency basis, revenue decreased by 2.9% primarily due to higher churn and competitive pricing pressures on the hosting and network connectivity services combined with last year's $2 million non-recurring revenue related to an Indefeasible rights of use ("IRU") agreement concluded in the second quarter of fiscal 2017. Excluding last year's non-recurring revenue of $2 million, fiscal 2018 first nine-month period revenue in constant currency would have decreased by 2.0%.

OPERATING EXPENSES

For the three-month period ended May 31, 2018, operating expenses remained essentially the same at $50.2 million compared to $50.1 million for the same period of the prior year. On a constant currency basis, operating expenses increased by 1.4% mainly due to higher facilities costs, partly offset by lower marketing and network infrastructure costs due to the timing of certain initiatives.

For the nine-month period ended May 31, 2018, operating expenses decreased by $3.4 million, or 2.2%, to reach $148.2 million compared to the same period of the prior year. On a constant currency basis, operating expenses remained essentially the same mainly due to lower software licenses and fees paid to third parties as a result of lower revenue as well as lower marketing and network infrastructure costs due to the timing of certain initiatives, partly offset by last year's $1.8 million gain on disposal of property, plant and equipment recognized as a reduction of operating expenses in the first quarter of fiscal 2017. Excluding last year's non-recurring gain of $1.8 million on disposal of property, plant and equipment, fiscal 2018 operating expenses for the first nine-month period in constant currency would have decreased by 2.0%.

ADJUSTED EBITDA

For the three-month period ended May 31, 2018, adjusted EBITDA decreased by $1.1 million, or 5.0%, to reach $20.7 million. On a constant currency basis, adjusted EBITDA decreased by 2.6% due to stable revenue and higher operating expenses.

For the nine-month period ended May 31, 2018, adjusted EBITDA decreased by $6.8 million, or 9.8%, to reach $62.8 million. On a constant currency basis, adjusted EBITDA decreased by 7.5% mainly due to declining revenue and non-recurring items. Excluding last year's non-recurring revenue of $2 million and non-recurring gain of $1.8 million described above, fiscal 2018 first nine-month periods adjusted EBITDA in constant currency would have decreased by 2.1%.

CAPITAL INTENSITY AND ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE AND OTHER ASSETS

Fiscal 2018 third-quarter acquisitions of property, plant and equipment, intangible and other assets amounted to $12.7 million, representing an increase of $2.1 million, or 19.7%. On a constant currency basis, acquisitions of property, plant and equipment increased by 20.4% compared to the same period of the prior year mainly from the purchase of additional equipment to serve customers.

Fiscal 2018 third-quarter and first nine months acquisitions of property, plant and equipment, intangible and other assets amounted to $37.8 million, representing an increase of $8.8 million, or 30.5%. On a constant currency basis, acquisitions of property, plant and equipment increased by 32.6% compared to the same period of the prior year resulting from the purchase of additional equipment to serve customers, the ongoing implementation of a new order management and billing platform as well as the timing of certain initiatives.

For the nine-month period ended May 31, 2018, capital intensity reached 17.9% compared to 13.1% for the same period of the prior year as a result of declining revenue combined with an increase in acquisitions of property, plant and equipment, intangible and other assets.

8. FINANCIAL POSITION

8.1 WORKING CAPITAL

As part of the usual conduct of its business, Cogeco Communications maintains a working capital deficiency due to a low level of trade and other receivables since a large proportion of the Corporation's customers pay before their services are rendered, while trade and other payables are usually paid after products are delivered or services are rendered, enabling the Corporation to use the resulting cash and cash equivalents to reduce Indebtedness.

The variations are as follows:

	May 31, 2018	August 31, 2017	Change	Explanations
(in thousands of dollars)	$	$	$	
Current assets				
Cash and cash equivalents	62,818	211,185	(148,367)	Please refer to the "Cash flow analysis" section.
Short-term investments	—	54,000	(54,000)	$20.0 million of short-term investments matured in October 2017 and $34 million matured in May 2018.
Trade and other receivables	92,616	90,387	2,229	Non significant.
Income taxes receivable	22,776	4,210	18,566	Mostly related to income tax installments made during the first quarter of fiscal 2018 in the Canadian broadband services segment.
Prepaid expenses and other	34,489	20,763	13,726	Increase in prepayments for annual maintenance agreements.
Derivative financial instruments	74	98	(24)	Non significant.
	212,773	380,643	(167,870)	
Current liabilities				
Bank indebtedness	15,862	3,801	12,061	Timing of payments made to suppliers.
Trade and other payables	232,155	316,762	(84,607)	Timing of payments made to suppliers.
Provisions	25,278	23,010	2,268	Non significant.
Income tax liabilities	30,212	103,649	(73,437)	Timing of payments of income taxes related to the deferral to the first quarter of fiscal 2018 of income tax installments pursuant to a corporate structure reorganization of the Canadian broadband services segment subsidiaries in fiscal 2017, partly offset by payments of income taxes during the third quarter of fiscal 2018.
Deferred and prepaid revenue	66,996	85,005	(18,009)	Mostly related to the change in the billing cycles as a result of the implementation of a new Customer Management system during the third quarter of fiscal 2018 in the Canadian broadband services segment.
Balance due on a business combination	—	118	(118)	Non significant.
Derivative financial instruments	—	192	(192)	Non significant.
Current portion of long-term debt	76,988	131,915	(54,927)	Mostly related to the repayments of the Senior Unsecured Debenture maturing in March 2018, partly offset by the $55 million Senior Secured Notes Series B maturing in October 2018 and the appreciation of the US dollar against the Canadian dollar.
	447,491	664,452	(216,961)	
Working capital deficiency	(234,718)	(283,809)	49,091	

8.2 OTHER SIGNIFICANT CHANGES

(in thousands of dollars)	May 31, 2018 $	August 31, 2017 $	Change $	Explanations
Non-current assets				
Property, plant and equipment	2,262,483	1,947,239	315,244	Mostly related to the MetroCast acquisition in the second quarter of fiscal 2018 combined with capital expenditures exceeding depreciation expense and the appreciation of the US dollar and the British Pound against the Canadian dollar.
Intangible assets	2,866,957	1,978,302	888,655	Mostly related to the MetroCast acquisition in the second quarter of fiscal 2018 combined with the appreciation of the US dollar and the British Pound against the Canadian dollar, partly offset by amortization expense.
Goodwill	1,652,742	1,023,424	629,318	Related to the MetroCast acquisition combined with the appreciation of the US dollar and the British Pound against the Canadian dollar.
Non-current liabilities				
Long-term debt	3,772,927	2,444,518	1,328,409	Issuance of a US$1.7 billion Senior Secured Term Loan B and drawing of US$40.4 million on the US$150 million Senior Secured Revolving Credit Facility on January 4, 2018 to finance the MetroCast acquisition combined with the appreciation of the US dollar against the Canadian dollar, partly offset by the repayments of Term Loan A-2, Term Loan A-3 and Term Loan B Facilities in the second quarter of fiscal 2018 as well as the early reimbursement of the US$400 million Senior Unsecured Notes in the third quarter of fiscal 2018.
Deferred tax liabilities	532,826	603,747	(70,921)	Mostly related to the US tax reform combined with the appreciation of the US dollar against the Canadian dollar.
Shareholders' equity				
Equity attributable to non-controlling interest	330,427	—	330,427	Equity investment of US$315 million made by CDPQ in Atlantic Broadband's holding company for the MetroCast acquisition, representing 21% of Atlantic Broadband.

8.3 OUTSTANDING SHARE DATA

A description of Cogeco Communications' share data at June 30, 2018 is presented in the table below. Additional details are provided in Note 10 of the consolidated financial statements.

(in thousands of dollars, except number of shares/options)	Number of shares/options	Amount $
Common shares		
Multiple voting shares	15,691,100	98,346
Subordinate voting shares	33,872,674	937,151
Options to purchase subordinate voting shares		
Outstanding options	820,833	
Exercisable options	277,928	

8.4 FINANCING

In the normal course of business, Cogeco Communications has incurred financial obligations, primarily in the form of long-term debt, operating and finance leases and guarantees. Cogeco Communications' obligations, as reported in the 2017 Annual Report, have not materially changed since August 31, 2017 except as follows.

In May 2018, the Corporation proceeded to the early reimbursement of its US$400 million Senior Unsecured Notes and drew a US$307 million revolving loan under its Term Revolving Facility.

On January 4, 2018, in connection with the financing of the MetroCast acquisition, a new $2.1 billion (US$1.7 billion) Senior Secured Term Loan B maturing January 2025, and a $188 million (US$150 million) Senior Secured Revolving facility maturing January 2023 were entered into by two of Cogeco Communications' US subsidiaries, whereby $733 million (US$583 million) was used to reimburse the pre-existing Term Loan A-2, A-3, B and Revolving Facility.

On December 11, 2017, the Corporation extended its $800 million Term Revolving Facility maturity date by an additional year until January 24, 2023.

Since October 2017, a US subsidiary of Cogeco Communications has entered into eight forward starting interest rate swap agreements on a notional amount totalling US$1.1 billion of its LIBOR based loans. These agreements have the effect of converting the floating US LIBOR base rate into fixed rates ranging from 2.017% to 2.262% for maturities between January 31, 2021 and November 30, 2024, under the US$1.7 billion Senior Secured Term Loan B.

At May 31, 2018, the Corporation had used $441.4 million of its $800 million Term Revolving Facility for a remaining availability of $358.6 million. In addition, two subsidiaries related to Atlantic Broadband benefit from a Revolving Facility of $194.2 million (US$150 million), of which $16.2 million (US$12.5 million) was used at May 31, 2018 for a remaining availability of $178.0 million (US$137.5 million).

8.5 COMMITMENT

On December 30, 2017, the Corporation's subsidiary, Atlantic Broadband, signed an Asset Purchase Agreement ("APA") with FiberLight, LLC to acquire all of its fibre network and corresponding assets owned on the East Coast of south Florida for a consideration of US$34 million, which is subject to regulatory approvals and customary closing adjustments.

8.6 CREDIT RATINGS

The table below shows Cogeco Communications' and Atlantic Broadband's credit ratings:

At May 31, 2018	S&P	DBRS	Fitch	Moody's
Cogeco Communications				
Senior Secured Notes and Debentures	BBB-	BBB (low)	BBB-	NR
Senior Unsecured Notes	BB-	BB	BB+	NR
Atlantic Broadband				
First Liens Credit Facilities	BB-	NR	NR	B1

NR : Not rated

Pursuant to the closing of the MetroCast acquisition on January 4, 2018, the credit ratings for Cogeco Communications remained unchanged while the credit ratings on Atlantic Broadband's First Lien Credit Facilities were downgraded to B1 and BB- by Moody's and S&P, respectively, due to the additional financial leverage at Atlantic Broadband resulting from the acquisition.

8.7 FINANCIAL MANAGEMENT

Interest rate risk

The Corporation is exposed to interest rate risk on its floating interest rate instruments. Interest rate fluctuations will have an effect on the repayment of these instruments. At May 31, 2018, all of the Corporation's long-term debt was at fixed rate, except for the amounts drawn under the Term Revolving Facility and First Lien Credit Facilities which are subject to floating interest rates.

To reduce the risk on the floating interest rate instruments, the Corporation's US subsidiary entered into interest rate swap agreements. The following table shows the interest rate swaps outstanding at May 31, 2018:

Type of hedge	Notional amount	Receive interest rate	Pay interest rate	Maturity	Hedged item
Cash flow	US$1.175 billion	US Libor base rate	0.987% - 2.262%	July 2019 - November 2024	Senior Secured Term Loan B

The sensitivity of the Corporation's annual financial expense to an increase of 1% in the interest rate applicable to the unhedged portion of these facilities would represent an increase of approximately $11.2 million based on the outstanding debt at May 31, 2018.

Foreign exchange risk

The Corporation is exposed to foreign exchange risk with respect to the interest associated with its long-term debt denominated in US dollars. The impact of an increase of 10% in the exchange rate of the US dollar into Canadian dollars would increase financial expense by approximately $13.3 million based on the outstanding debt at May 31, 2018.

The Corporation faces exposure to foreign exchange risk related to its forecasted purchase commitments of property, plant and equipment denominated in US dollars. In order to mitigate such risk, the Corporation entered into foreign currency forward contracts and designated them as a cash-flow hedge for accounting purposes. The following table shows the forward contracts outstanding at May 31, 2018:

Type of hedge	Notional amount	Maturity	Exchange rate	Hedged item
Cash flow	US$7.5 million	June 2018	1.2848	Purchase commitments of property, plant and equipment

Furthermore, the Corporation's net investments in foreign operations are exposed to market risk attributable to fluctuations in foreign currency exchange rates, primarily changes in the values of the Canadian dollar versus the US dollar and British Pound. The risk related to the US dollar aggregate investments is mitigated since the major part was borrowed in US dollars.

The following table shows the net investments in foreign operations outstanding at May 31, 2018:

Type of hedge	Notional amount of debt	Aggregate investments	Hedged item
Net investments	US$697 million	US$957.5 million	Net investments in foreign operations in US dollar
N/A	£—	£25.5 million	N/A

The exchange rates used to convert the US dollar currency and British Pound currency into Canadian dollars for the statement of financial position accounts at May 31, 2018 was $1.2948 ($1.2536 at August 31, 2017) per US dollar and $1.7222 ($1.6161 at August 31, 2017) per British Pound. A 10% decrease in the exchange rates of the US dollar and British Pound into Canadian dollars would decrease other comprehensive income by approximately $38.1 million.

8.8 FOREIGN CURRENCY

For the three and nine-month periods ended May 31, 2018, the average rates prevailing used to convert the operating results of the American broadband services and a portion of the Business ICT services segments were as follows:

	Three-months ended				Nine-months ended			
	May 31, 2018	May 31, 2017	Change	Change	May 31, 2018	May 31, 2017	Change	Change
	$	$	$	%	$	$	$	%
US dollar vs Canadian dollar	1.2846	1.3479	(0.06)	(4.7)	1.2664	1.3318	(0.07)	(4.9)
British Pound vs Canadian dollar	1.7776	1.7036	0.07	4.3	1.7234	1.6744	0.05	2.9

The following table highlights in Canadian dollars, the impact of a $0.07 appreciation of the Canadian dollar against the US dollar and a $0.05 depreciation of the Canadian dollar against the British Pound on Cogeco Communications' segmented and consolidated operating results for the nine-month period ended May 31, 2018:

	Canadian broadband services	American broadband services	Business ICT services	Consolidated (1)
Nine months ended May 31, 2018	Exchange rate impact	Exchange rate impact	Exchange rate impact	Exchange rate impact
(in thousands of dollars)	$	$	$	$
Revenue	—	(30,891)	(3,711)	(34,602)
Operating expenses	(1,356)	(17,573)	(2,083)	(21,050)
Management fees - Cogeco Inc.				—
Adjusted EBITDA	1,356	(13,318)	(1,628)	(13,552)
Acquisitions of property, plant and equipment, intangible and other assets	(3,375)	(7,307)	(606)	(11,288)
Free cash flow				3,367

(1) The consolidated results do not correspond to the addition of the operating segment's results as inter-segment eliminations and other are not presented.

9. FISCAL 2019 PRELIMINARY FINANCIAL GUIDELINES

The following section contains forward-looking statements concerning the business outlook for Cogeco Communications. For a description of risk factors that could cause actual results to differ materially from what Cogeco Communications expects, please refer to the "Uncertainties and main risk factors" section of the present MD&A and of the Corporation's 2017 annual MD&A.

The Corporation presents its financial guidelines on a constant currency basis and believes this presentation enables an improved understanding of the Corporation's underlying financial performance, undistorted by the effects of changes in foreign exchange rates. Measures on a constant currency basis are considered non-IFRS measures and do not have any standardized meaning prescribed by IFRS and therefore, may not be comparable to similar measures presented by other companies.

On a constant currency and consolidated basis, Cogeco Communications expects fiscal 2019 revenue to grow between 6% and 8% mainly as a result of the full year impact of the MetroCast acquisition in the American broadband services segment compared to eight months for fiscal 2018. In addition, growth in the American broadband services segment should also stem from growth of primary service units from the continued expansion in Florida as well as from MetroCast growth in the residential sector combined with the impact of rate increases in most services. In the Canadian broadband services segment, revenue growth should stem primarily from the business sector as a result of the increasing demand for Internet services. Revenue should also stem from the impact of rate increases in most services. In the Business ICT services segment, revenue should benefit from growth in colocation and hosting services, partly offset by a decrease in network connectivity services as a result of competitive pricing pressures.

On a constant currency and consolidated basis, fiscal 2019 adjusted EBITDA should grow between 8% and 10% due to the full year impact of the MetroCast acquisition and from revenue growth exceeding operating expenses as result of cost reduction initiatives in the Canadian broadband services segment, partly offset by higher operating expenses in the American broadband services and Business ICT services segments.

The capital intensity ratio should remain stable. In the Business ICT services segment, higher capital expenditures are expected due to strategic investments amounting to approximately $30 million in its existing Kirkland data centre facility to build a third pod to serve customer needs. Additional capital expenditures in the Canadian broadband services segment should result mainly from digital transformation initiatives and investments in network infrastructure in order to extend the network in new areas as well as to improve the capacity of the Internet platform in some of the areas we serve. In the American broadband services segment, capital expenditures should remain essentially the same. Fiscal 2019 expected capital expenditures include investments to upgrade our network to 1 Gigabit Internet services to approximately 60% of our Canadian broadband footprint and 85% of our American broadband footprint.

Free cash flow on a constant currency and consolidated basis should increase between 18% and 25% mainly due to the growth of adjusted EBITDA, partly offset by an increase in capital expenditures.

The following table outlines fiscal 2019 preliminary financial guidelines ranges on a consolidated basis:

	Preliminary projections (prior to the adoption of IFRS 15)(1) Fiscal 2019(2)
(in millions of dollars, except percentages)	$
Financial guidelines	
Revenue(3)	Increase of 6% to 8%
Adjusted EBITDA(3)	Increase of 8% to 10%
Acquisitions of property, plant and equipment, intangible and other assets(4)	$550 to $570
Capital intensity	21% to 22%
Free cash flow(5)	Increase of 18% to 25%

(1) Fiscal 2019 preliminary financial guidelines presented as percentages reflect increases over projections for fiscal 2018 prior to the adoption of IFRS 15, *Revenue from contracts with customers.*

(2) Fiscal 2019 financial guidelines are based on fiscal 2018 estimated USD/CDN exchange rate of 1.26 USD/CDN and 1.70 GBP/CDN.

(3) The impact of integrating MetroCast operating results for a full year, together with fibre asset purchases announced in December 2017, represent approximately 4% of revenue growth and 5% of adjusted EBITDA growth.

(4) The definition of acquisitions of property, plant and equipment, intangible and other assets excludes purchases of Spectrum licenses.

(5) Free cash flow expected growth excludes purchases of Spectrum licenses as they are not part of the definition of acquisitions of property, plant and equipment, intangible and other assets. In addition, the assumed current income tax effective rate is approximatively 19%.

10. CONTROLS AND PROCEDURES

Internal control over financial reporting ("ICFR") is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The President and Chief Executive Officer (“CEO”) and the Senior Vice President and Chief Financial Officer (“CFO”), together with Management, are responsible for establishing and maintaining adequate disclosure controls and procedures ("DC&P") and ICFR, as defined in National Instrument 52-109. Cogeco Communications’ internal control framework is based on the criteria published in the updated version released in May 2013 of the report *Internal Control Integrated Framework* issued by the *Committee of Sponsoring Organizations of the Treadway Commission*.

The CEO and CFO, supported by Management, evaluated the design of the Corporation's DC&P and ICFR at May 31, 2018, and concluded that they are adequate. Furthermore, no significant changes to the internal controls over financial reporting occurred during the three and nine-month periods ended May 31, 2018.

11. UNCERTAINTIES AND MAIN RISK FACTORS

A detailed description of the uncertainties and main risk factors faced by Cogeco Communications can be found in the 2017 Annual Report, available at www.sedar.com and corpo.cogeco.com. The following update should be read together with the uncertainties and main risk factors described in the 2017 Annual Report, which are hereby incorporated by reference.

Legislative reviews

The Government of Canada announced, on June 5, 2018, a joint review of the broadcasting and telecommunications suite of legislation, namely the *Telecommunications Act,* the *Broadcasting Act* and *Radiocommunication Act*. This review will be led by a panel comprising seven external experts in the telecommunications and broadcast industry. As a first step of the review, the panel is expected to report to the Government with recommendations by January 31, 2020.

Recent regulatory proceedings and decisions in Canada

In its April 2018 mid-year report, the Commission for Complaints for Telecom-Television Services found that complaints against telecommunications providers had increased compared to the previous year. As a result, in June 2018, the Government directed the Canadian Radio-television and Telecommunications Commission ("CRTC") to investigate and report on the sales practices used by Canadian telecommunications companies. The report resulting from the inquiry must include potential solutions to ensure Canadian consumers are adequately protected and treated fairly. The CRTC will be required to complete its inquiry and report by February 28, 2019.

On May 10, 2018, the Competition Bureau initiated a consultation on the competitive dynamics of the Canadian broadband market. The Competition Bureau expects to publish a final report with its conclusions and recommendations in Spring 2019.

Following a direction from the Governor-in-Council to reconsider certain elements of a 2017 decision on wholesale roaming services, the CRTC rendered a decision on March 22, 2018 which marked the launch of a public consultation regarding low-cost data-only wireless plans and reaffirmed an upcoming policy review of the wholesale wireless framework to be started within the next year.

Changes in the above-mentioned laws and policies or in the regulatory framework may affect the Corporation's existing business activities or future prospects.

12. ACCOUNTING POLICIES

12.1 NEW ACCOUNTING STANDARDS

A number of new standards, interpretations and amendments to existing standards were issued by the *International Accounting Standards Board* ("IASB") that are mandatory but not yet effective for the three and nine-month periods ended May 31, 2018 and have not been applied in preparing the condensed interim consolidated financial statements. These standards are described under the "Future accounting developments in Canada" section in the Corporation's 2017 Annual Report available on the SEDAR website at www.sedar.com or on the Corporation's website at corpo.cogeco.com.

12.2 CHANGES IN CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There has been no significant change in Cogeco Communications' critical accounting policies and estimates since August 31, 2017. A description of the Corporation's policies and estimates can be found in the 2017 Annual Report, available on the SEDAR website at www.sedar.com or on the Corporation's website at corpo.cogeco.com.

13. NON-IFRS FINANCIAL MEASURES

This section describes non-IFRS financial measures used by Cogeco Communications throughout this MD&A. These financial measures are reviewed in assessing the performance of the Corporation and used in the decision-making process with regards to our business units. Reconciliations between "free cash flow", "adjusted EBITDA", "adjusted EBITDA margin" and "capital intensity" and the most comparable IFRS financial measures are also provided. These financial measures do not have standard definitions prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other companies.

This MD&A also makes reference to key performance indicators on a constant currency basis, including revenue, "adjusted EBITDA", acquisitions of property, plant and equipment, intangible and other assets and "free cash flow". Measures on a constant currency basis are considered non-IFRS measures and do not have any standardized meaning prescribed by IFRS and therefore, may not be comparable to similarly measures presented by other companies.

Non-IFRS measure	Application	Calculation	Most comparable IFRS measures
Free cash flow	Management and investors use free cash flow to measure Cogeco Communications' ability to repay debt, distribute capital to its shareholders and finance its growth.	Free cash flow: - Cash flow from operating activities add: - Amortization of deferred transaction costs and discounts on long-term debt; - Changes in non-cash operating activities; - Income taxes paid; and - Financial expense paid deduct: - Current income taxes; - Financial expense; - Acquisition of property, plant and equipment; and - Acquisition of intangible and other assets(1).	Cash flow from operating activities
Adjusted EBITDA and adjusted EBITDA margin	Adjusted EBITDA and adjusted EBITDA margin are key measures commonly reported and used in the telecommunications industry, as they allow comparisons between companies that have different capital structures and are more current measures since they exclude the impact of historical investments in assets. Adjusted EBITDA is one of the key metrics employed by the financial community to value a business and its financial strength. Adjusted EBITDA for Cogeco Communications' business units is equal to the segment profit (loss) reported in note 2 of the Condensed Interim Consolidated Financial Statements.	Adjusted EBITDA: - Profit for the period add: - Income taxes; - Financial expense; - Depreciation and amortization; and - Integration, restructuring and acquisition costs.	Profit for the period
		Adjusted EBITDA margin: - Adjusted EBITDA divided by: - Revenue	No comparable IFRS measure
Constant currency basis	Revenue, adjusted EBITDA, acquisitions of property, plant and equipment, intangible and other assets and free cash flow are measures presented on a constant currency basis to enable an improved understanding of the Corporation's underlying financial performance, undistorted by the effects of changes in foreign exchange rates.	Constant currency basis are obtained by translating financial results from the current periods denominated in US dollars and GBP currency at the foreign exchange rates of the comparable periods of the prior year. For the three and the nine-months periods ended May 31, 2017, the average foreign exchange rates used for translation were 1.3479 USD/CDN and 1.7036 GBP/CDN and 1.3318 USD/CDN and 1.6744 GBP/CDN, respectively.	No comparable IFRS measure
Capital intensity	Capital intensity is used by Cogeco Communications' management and investors to assess the Corporation's investment in capital expenditures in order to support a certain level of revenue.	Capital intensity: - Acquisition of property, plant and equipment; and - Acquisition of intangible and other assets(1) divided by: - Revenue	No comparable IFRS measure

(1) The definition of acquisitions of intangible and other assets excludes purchases of Spectrum licenses and therefore, Spectrum licenses are not included in the calculation of free cash flow and capital intensity.

13.1 FREE CASH FLOW RECONCILIATION

	Three-months ended		Nine-months ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
(in thousands of dollars)	$	$	$	$
Cash flow from operating activities	187,200	241,689	407,981	610,700
Amortization of deferred transaction costs and discounts on long-term debt	4,812	2,235	16,468	6,633
Changes in non-cash operating activities	25,861	(28,891)	102,042	43,180
Income taxes paid	17,012	562	150,303	5,651
Current income taxes	(11,639)	(21,529)	(58,381)	(67,244)
Financial expense paid	57,132	42,656	128,739	103,226
Financial expense	(59,955)	(31,792)	(136,990)	(96,357)
Acquisition of property, plant and equipment	(107,254)	(95,447)	(320,865)	(268,552)
Acquisition of intangible and other assets	(4,706)	(4,755)	(14,517)	(14,343)
Free cash flow	108,463	104,728	274,780	322,894

13.2 ADJUSTED EBITDA AND ADJUSTED EBITDA MARGIN RECONCILIATION

	Three-months ended		Nine-months ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
(in thousands of dollars, except percentages)	$	$	$	$
Profit for the period	64,538	76,203	282,770	227,890
Income taxes	19,054	26,641	(23,919)	75,602
Financial expense	59,955	31,792	136,990	96,357
Depreciation and amortization	141,498	119,597	388,378	357,926
Integration, restructuring and acquisition costs	2,260	—	18,651	—
Adjusted EBITDA	287,305	254,233	802,870	757,775
Revenue	637,129	565,158	1,789,692	1,675,123
Adjusted EBITDA margin	45.1%	45.0%	44.9%	45.2%

13.3 CAPITAL INTENSITY RECONCILIATION

	Three-months ended		Nine-months ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
(in thousands of dollars, except percentages)	$	$	$	$
Acquisition of property, plant and equipment	107,254	95,447	320,865	268,552
Acquisition of intangible and other assets	4,706	4,755	14,517	14,343
Total acquisitions of property, plant and equipment, intangible and other assets	111,960	100,202	335,382	282,895
Revenue	637,129	565,158	1,789,692	1,675,123
Capital intensity	17.6%	17.7%	18.7%	16.9%

14. SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION

Three-months ended	May 31,		February 28,		November 30,		August 31,	
(in thousands of dollars, except percentages and per share data)	2018	2017	2018	2017	2017	2016	2017	2016
	$	$	$	$	$	$	$	$
Revenue	637,129	565,158	598,938	560,875	553,625	549,090	551,728	544,056
Adjusted EBITDA	287,305	254,233	268,083	253,839	247,482	249,703	247,195	247,810
Adjusted EBITDA margin	45.1%	45.0%	44.8%	45.3%	44.7%	45.5%	44.8%	45.5%
Integration, restructuring and acquisition costs	2,260	—	15,999	—	392	—	3,191	1,326
Claims and litigations	—	—	—	—	—	—	—	292
Profit for the period	64,538	76,203	141,763	76,663	76,469	75,024	71,335	74,581
Profit for the period attributable to the owners of the Corporation	61,260	76,203	138,887	76,663	76,469	75,024	71,335	74,581
Cash flow from operating activities	187,200	241,689	214,514	245,550	6,267	123,461	345,957	261,623
Acquisitions of property, plant and equipment, intangible and other assets	111,960	100,202	127,264	86,199	96,158	96,494	145,162	110,017
Free cash flow	108,463	104,728	64,017	116,787	100,133	101,379	50,841	81,594
Capital intensity	17.6%	17.7%	21.2%	15.4%	17.4%	17.6%	26.3%	20.2%
Earnings per share(1)								
Basic	1.24	1.55	2.82	1.56	1.55	1.53	1.45	1.52
Diluted	1.23	1.54	2.79	1.55	1.54	1.52	1.44	1.52
Dividends per share	0.475	0.43	0.475	0.43	0.475	0.43	0.43	0.39
Weighted average number of multiple and subordinate voting shares outstanding	49,303,877	49,230,481	49,285,885	49,190,249	49,288,155	49,144,311	49,250,857	49,111,998

(1) Per multiple and subordinate voting share.

14.1 SEASONAL VARIATIONS

Cogeco Communications' operating results are not generally subject to material seasonal fluctuations except as follows. In the Canadian and American broadband services segments, the number of Internet and video services customers are generally lower in the second half of the fiscal year as a result of a decrease in economic activity due to the beginning of the vacation period, the end of the television season, and students leaving their campuses at the end of the school year. Cogeco Communications offers its services in several university and college towns such as Kingston, Windsor, St.Catharines, Hamilton, Peterborough, Trois-Rivières and Rimouski in Canada and in Pennsylvania, and to a lesser extent in South Carolina, eastern Connecticut, Maryland and Delaware in the United States. In the American broadband services segment, the Miami and New Hampshire/Maine areas are also subject to seasonal fluctuations due to the winter and summer seasons.

15. ADDITIONAL INFORMATION

This MD&A was prepared on July 11, 2018. Additional information relating to the Corporation, including its Annual Report and Annual Information Form, is available on the SEDAR website at www.sedar.com or on the Corporation's website at corpo.cogeco.com.

/s/ Jan Peeters
Jan Peeters
Chairman of the Board

/s/ Louis Audet
Louis Audet
President and Chief Executive Officer

Cogeco Communications Inc.
Montréal, Québec
July 11, 2018

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine-month periods ended May 31, 2018

COGECO COMMUNICATIONS INC.
INTERIM CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
(unaudited)

		Three months ended May 31,		Nine months ended May 31,	
	Notes	**2018**	2017	**2018**	2017
(In thousands of Canadian dollars, except per share data)		**$**	$	**$**	$
Revenue	*2*	**637,129**	565,158	**1,789,692**	1,675,123
Operating expenses	*4*	**345,497**	306,132	**972,657**	903,062
Management fees – Cogeco Inc.	*15*	**4,327**	4,793	**14,165**	14,286
Integration, restructuring and acquisition costs	*2*	**2,260**	—	**18,651**	—
Depreciation and amortization	*5*	**141,498**	119,597	**388,378**	357,926
Financial expense	*6*	**59,955**	31,792	**136,990**	96,357
Income taxes	*7*	**19,054**	26,641	**(23,919)**	75,602
Profit for the period		**64,538**	76,203	**282,770**	227,890
Profit for the period attributable to:					
Owners of the Corporation		**61,260**	76,203	**276,616**	227,890
Non-controlling interest		**3,278**	—	**6,154**	—
		64,538	76,203	**282,770**	227,890
Earnings per share					
Basic	*8*	**1.24**	1.55	**5.61**	4.63
Diluted	*8*	**1.23**	1.54	**5.56**	4.60

COGECO COMMUNICATIONS INC.
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three months ended May 31,		Nine months ended May 31,	
	2018	2017	**2018**	2017
(In thousands of Canadian dollars)	**$**	$	**$**	$
Profit for the period	**64,538**	76,203	**282,770**	227,890
Other comprehensive income				
Items to be subsequently reclassified to profit or loss				
Cash flow hedging adjustments				
Net change in fair value of hedging derivative financial instruments	**3,164**	(146)	**32,104**	1,459
Related income taxes	**(923)**	39	**(8,465)**	(368)
	2,241	(107)	**23,639**	1,091
Foreign currency translation adjustments				
Net foreign currency translation differences on net investments in foreign operations	**16,040**	14,278	**50,503**	21,464
Net changes on translation of long-term debt designated as hedges of net investments in foreign operations	**(8,616)**	(10,067)	**(29,882)**	(16,342)
Related income taxes	**8**	(155)	**377**	(406)
	7,432	4,056	**20,998**	4,716
	9,673	3,949	**44,637**	5,807
Items not to be subsequently reclassified to profit or loss				
Defined benefit plans actuarial adjustments				
Remeasurement of net defined benefit liability	**(297)**	(1,663)	**1,897**	6,364
Related income taxes	**78**	441	**(503)**	(1,686)
	(219)	(1,222)	**1,394**	4,678
Other comprehensive income for the period	**9,454**	2,727	**46,031**	10,485
Comprehensive income for the period	**73,992**	78,930	**328,801**	238,375

Comprehensive income for the period attributable to:				
Owners of the Corporation	**67,169**	78,930	**312,293**	238,375
Non-controlling interest	**6,823**	—	**16,508**	—
	73,992	78,930	**328,801**	238,375

COGECO COMMUNICATIONS INC.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited)

	Equity attributable to the owners of the Corporation					
	Share capital	Share-based payment reserve	Accumulated other comprehensive income	Retained earnings	Equity attributable to non-controlling interest	Total shareholders' equity
(In thousands of Canadian dollars)	$	$	$	$	$	$
	(Note 10)		*(Note 11)*			
Balance at August 31, 2016	1,008,467	13,328	84,627	273,493	—	1,379,915
Profit for the period	—	—	—	227,890	—	227,890
Other comprehensive income for the period	—	—	5,807	4,678	—	10,485
Comprehensive income for the period	—	—	5,807	232,568	—	238,375
Issuance of subordinate voting shares under the Stock Option Plan	5,111	—	—	—	—	5,111
Share-based payment	—	3,612	—	—	—	3,612
Share-based payment previously recorded in share-based payment reserve for options exercised	1,078	(1,078)	—	—	—	—
Dividends (Note 10 C))	—	—	—	(63,483)	—	(63,483)
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	(3,436)	—	—	—	—	(3,436)
Distribution to employees of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	4,056	(3,859)	—	(197)	—	—
Total contributions by (distributions to) shareholders	6,809	(1,325)	—	(63,680)	—	(58,196)
Balance at May 31, 2017	1,015,276	12,003	90,434	442,381	—	1,560,094
Balance at August 31, 2017	**1,017,636**	**13,086**	**76,635**	**491,910**	**—**	**1,599,267**
Profit for the period	**—**	**—**	**—**	**276,616**	**6,154**	**282,770**
Other comprehensive income for the period	**—**	**—**	**34,283**	**1,394**	**10,354**	**46,031**
Comprehensive income for the period	**—**	**—**	**34,283**	**278,010**	**16,508**	**328,801**
Issuance of subordinate voting shares under the Stock Option Plan	**3,388**	**—**	**—**	**—**	**—**	**3,388**
Share-based payment	**—**	**5,474**	**—**	**—**	**—**	**5,474**
Share-based payment previously recorded in share-based payment reserve for options exercised	**573**	**(573)**	**—**	**—**	**—**	**—**
Dividends (Note 10 C))	**—**	**—**	**—**	**(70,277)**	**—**	**(70,277)**
Effect of changes in ownership of a subsidiary on non-controlling interest	**—**	**—**	**—**	**74,988**	**(74,988)**	**—**
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	**(9,352)**	**—**	**—**	**—**	**—**	**(9,352)**
Distribution to employees of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	**4,772**	**(4,636)**	**—**	**(136)**	**—**	**—**
Issuance of common shares by a subsidiary to non-controlling interest, net of transaction costs	**—**	**—**	**—**	**—**	**388,907**	**388,907**
Total contributions by (distributions to) shareholders	**(619)**	**265**	**—**	**4,575**	**313,919**	**318,140**
Balance at May 31, 2018	**1,017,017**	**13,351**	**110,918**	**774,495**	**330,427**	**2,246,208**

COGECO COMMUNICATIONS INC.
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(unaudited)

(In thousands of Canadian dollars)	*Notes*	May 31, 2018 $	August 31, 2017 $
Assets			
Current			
Cash and cash equivalents	*12 B)*	62,818	211,185
Short-term investments		—	54,000
Trade and other receivables		92,616	90,387
Income taxes receivable		22,776	4,210
Prepaid expenses and other		34,489	20,763
Derivative financial instruments		74	98
		212,773	380,643
Non-current			
Other assets		8,169	7,095
Property, plant and equipment		2,262,483	1,947,239
Intangible assets		2,866,957	1,978,302
Goodwill		1,652,742	1,023,424
Derivative financial instruments		32,695	759
Pension plan assets		1,138	—
Deferred tax assets		5,302	10,918
		7,042,259	5,348,380
Liabilities and Shareholders' equity			
Liabilities			
Current			
Bank indebtedness		15,862	3,801
Trade and other payables		232,155	316,762
Provisions		25,278	23,010
Income tax liabilities		30,212	103,649
Deferred and prepaid revenue		66,996	85,005
Balance due on a business combination		—	118
Derivative financial instruments		—	192
Current portion of long-term debt	*9*	76,988	131,915
		447,491	664,452
Non-current			
Long-term debt	*9*	3,772,927	2,444,518
Deferred and prepaid revenue and other liabilities		40,114	31,462
Pension plan liabilities and accrued employee benefits		2,693	4,934
Deferred tax liabilities		532,826	603,747
		4,796,051	3,749,113
Shareholders' equity			
Share capital	*10 B)*	1,017,017	1,017,636
Share-based payment reserve		13,351	13,086
Accumulated other comprehensive income	*11*	110,918	76,635
Retained earnings		774,495	491,910
		1,915,781	1,599,267
Equity attributable to non-controlling interest		330,427	—
		2,246,208	1,599,267
		7,042,259	5,348,380

COGECO COMMUNICATIONS INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

		Three months ended May 31,		Nine months ended May 31,	
	Notes	2018	2017	2018	2017
(In thousands of Canadian dollars)		$	$	$	$
Cash flow from operating activities					
Profit for the period		64,538	76,203	282,770	227,890
Adjustments for:					
Depreciation and amortization	5	141,498	119,597	388,378	357,926
Financial expense	6	59,955	31,792	136,990	96,357
Income taxes	7	19,054	26,641	(23,919)	75,602
Share-based payment	10 D)	1,970	1,775	4,716	4,511
Loss on disposals and write-offs of property, plant and equipment		436	1,557	908	1,067
Defined benefit plans contributions, net of expense		(246)	(1,549)	(778)	(596)
		287,205	256,016	789,065	762,757
Changes in non-cash operating activities	12 A)	(25,861)	28,891	(102,042)	(43,180)
Financial expense paid		(57,132)	(42,656)	(128,739)	(103,226)
Income taxes paid		(17,012)	(562)	(150,303)	(5,651)
		187,200	241,689	407,981	610,700
Cash flow from investing activities					
Acquisition of property, plant and equipment		(107,254)	(95,447)	(320,865)	(268,552)
Acquisition of intangible and other assets		(4,706)	(4,755)	(14,517)	(14,343)
Redemption of short-term investments		34,000	—	54,000	—
Business combination, net of cash and cash equivalents acquired	3	5,222	—	(1,756,935)	(804)
Proceeds on disposals of property, plant and equipment		268	—	1,610	8,467
Other		—	(10)	—	(10)
		(72,470)	(100,212)	(2,036,707)	(275,242)
Cash flow from financing activities					
Increase (decrease) in bank indebtedness		11,484	(2,043)	12,061	(748)
Repayment of intercompany note payable - Cogeco inc.		—	(40,000)	—	(40,000)
Net increase (decrease) under the revolving facilities		397,002	(20,326)	397,910	(173,323)
Issuance of long-term debt, net of discounts and transaction costs		—	—	2,082,408	—
Repayments of long-term debt		(611,440)	(1,601)	(1,323,496)	(19,444)
Repayment of balance due on a business combination		—	(837)	(118)	(837)
Increase in deferred transaction costs		—	—	(3,168)	(440)
Issuance of subordinate voting shares	10 B)	313	479	3,388	5,111
Issuance of common shares by a subsidiary to non-controlling interest, net of transaction costs paid		(140)	—	388,907	—
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	10 B)	—	—	(9,352)	(3,436)
Dividends paid on multiple voting shares	10 C)	(7,453)	(6,748)	(22,360)	(20,242)
Dividends paid on subordinate voting shares	10 C)	(15,966)	(14,422)	(47,917)	(43,241)
		(226,200)	(85,498)	1,478,263	(296,600)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		638	253	2,096	923
Net change in cash and cash equivalents		(110,832)	56,232	(148,367)	39,781
Cash and cash equivalents, beginning of the period		173,650	45,835	211,185	62,286
Cash and cash equivalents, end of the period		62,818	102,067	62,818	102,067

NATURE OF OPERATIONS

Cogeco Communications Inc. ("Cogeco Communications" or the "Corporation") is a communications corporation operating in Canada under the Cogeco Connexion name in Québec and Ontario, and in the United States under the Atlantic Broadband name in 11 states along the East Coast, from Maine to Florida. Cogeco Communications provides its residential and business customers with Internet, video and telephony services through its two-way broadband fibre networks. Through its subsidiary Cogeco Peer 1, Cogeco Communications provides its business customers with a suite of information technology services (colocation, network connectivity, hosting, cloud and managed services), through its 16 data centres, extensive FastFiber Network® and more than 50 points of presence in North America and Europe.

During fiscal 2017, the Corporation announced that its subsidiary, Atlantic Broadband had entered into a definitive agreement with Harron Communications, L.P. to purchase all of its cable systems operating under the MetroCast brand name (“MetroCast”). The transaction was completed on January 4, 2018.

The Corporation is a subsidiary of Cogeco Inc. ("Cogeco"), which holds 31.7% of the Corporation’s equity shares, representing 82.2% of the votes attached to the Corporation’s voting shares. Cogeco Communications is a Canadian public corporation whose subordinate voting shares are listed on the Toronto Stock Exchange ("TSX") under the trading symbol "CCA".

The Corporation's registered office is located at 5 Place Ville Marie, Suite 1700, Montréal, Québec, H3B 0B3.

1. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 *Interim Financial Reporting* and do not include all the information required for annual financial statements. Certain information and footnote disclosure included in annual financial statements were omitted or condensed where such information is not considered material to the understanding of the Corporation’s interim financial information. As such, these condensed interim consolidated financial statements should be read in conjunction with the Corporation’s 2017 annual consolidated financial statements.

These condensed interim consolidated financial statements have been prepared with the accounting policies the Corporation adopted in its 2017 annual consolidated financial statements. The accounting policies have been applied consistently to all periods presented in the condensed interim consolidated financial statements unless otherwise indicated.

The condensed interim consolidated financial statements have been prepared on a going concern basis using historical cost, except for financial instruments and derivative financial instruments, cash-settled share-based payment arrangements and pension plan assets, which are measured at fair value, and for the defined benefit obligation and provisions, which are measured at present value.

Financial information is presented in Canadian dollars, which is the functional currency of the Corporation.

The results of operations for the interim period are not necessarily indicative of the results of operations for the full year. The Corporation does not expect seasonality to be a material factor in quarterly results except that in the Canadian and American broadband services segments, the number of customers in the Internet and video services are generally lower in the second half of the fiscal year as a result of a decrease in economic activity due to the beginning of the vacation period, the end of the television season, and students leaving their campuses at the end of the school year. Cogeco Communications offers its services in several university and college towns such as Kingston, Windsor, St. Catharines, Hamilton, Peterborough, Trois-Rivières and Rimouski in Canada and in Pennsylvania, and to a lesser extent in South Carolina, eastern Connecticut, Maryland and Delaware in the United States. In the American broadband services segment, the Miami and New Hampshire/ Maine areas are also subject to seasonal fluctuations.

The condensed interim consolidated financial statements were approved by the Board of Directors of the Corporation at its meeting held on July 11, 2018.

(amounts in tables are in thousands of Canadian dollars, except number of shares and per share data)

2. OPERATING SEGMENTS

The Corporation's segment profit (loss) is reported in three operating segments: Canadian broadband services, American broadband services and Business information and communications technology ("Business ICT") services. The reporting structure reflects how the Corporation manages its business activities to make decisions about resources to be allocated to the segments and to assess their performance.

The Canadian and American broadband services segments provide a wide range of Internet, video and telephony services primarily to residential customers and also provide business services to small and medium sized businesses across their coverage areas. The Canadian broadband services activities are carried out by Cogeco Connexion in the Provinces of Québec and Ontario and the American broadband services activities are carried out by Atlantic Broadband in 11 states along the East Coast, from Maine to Florida.

The Business ICT services segment provides colocation, network connectivity, hosting, cloud and an extensive portfolio of managed services primarily in Canada, the United States and Europe to small, medium and large enterprises around the globe. Cogeco Peer 1 provides these services in key vertical markets including: online retail, financial services, technology, public sector, education, health care, media and online gaming. The primary activities of the Business ICT services segment are carried out by Cogeco Peer 1 across Canada (British Columbia, Ontario and Québec), the United States (California, Texas, Virginia, Florida, New-York and Georgia) and Europe (London, Southampton and Portsmouth, United Kingdom and France). Cogeco Peer 1 has more than 50 points of presence, including in Germany, the Netherlands and Mexico.

The Corporation and its chief operating decision maker assess the performance of each operating segment based on its segment profit (loss), which is equal to revenue less operating expenses. The other expenses, except for management fees, financial expense and income taxes, are reported by segment solely for external reporting purposes. Management fees, financial expense and income taxes are managed on a consolidated basis and, accordingly, are not reflected in segmented results. The Inter-segment eliminations and other, eliminate any intercompany transactions included in each segment's operating results and include head office activities. Transactions between operating segments are measured at the amounts agreed to between the parties.

					Three months ended May 31, 2018
	Canadian broadband services	American broadband services	Business ICT services	Inter-segment eliminations and other	Consolidated
	$	$	$	$	$
Revenue [(1)]	329,067	237,950	70,922	(810)	637,129
Operating expenses	157,905	131,382	50,233	5,977	345,497
Management fees – Cogeco Inc.	—	—	—	4,327	4,327
Segment profit (loss)	171,162	106,568	20,689	(11,114)	287,305
Integration, restructuring and acquisition costs [(2)]	—	2,260	—	—	2,260
Depreciation and amortization	61,243	54,049	26,130	76	141,498
Financial expense					59,955
Income taxes					19,054
Profit for the period					64,538
Acquisition of property, plant and equipment	49,981	45,425	11,848	—	107,254
Acquisition of intangible and other assets	2,170	1,644	892	—	4,706

(1) Revenue by geographic market includes $371,435 in Canada, $257,391 in the United States and $8,303 in Europe.
(2) Comprised of acquisition and integration costs in connection with the MetroCast acquisition completed on January 4, 2018 (see Note 3).

(amounts in tables are in thousands of Canadian dollars, except number of shares and per share data)

	Three months ended May 31, 2017				
	Canadian broadband services	American broadband services	Business ICT services	Inter-segment eliminations and other	Consolidated
	$	$	$	$	$
Revenue [(1)]	328,976	165,136	71,857	(811)	565,158
Operating expenses	154,853	97,370	50,068	3,841	306,132
Management fees – Cogeco Inc.	—	—	—	4,793	4,793
Segment profit (loss)	174,123	67,766	21,789	(9,445)	254,233
Depreciation and amortization	57,781	35,791	25,948	77	119,597
Financial expense					31,792
Income taxes					26,641
Profit for the period					76,203
Acquisition of property, plant and equipment	54,785	30,994	9,668	—	95,447
Acquisition of intangible and other assets	2,513	1,265	977	—	4,755

(1) Revenue by geographic market includes $370,624 in Canada, $186,802 in the United States and $7,732 in Europe.

	Nine months ended May 31, 2018				
	Canadian broadband services	American broadband services	Business ICT services	Inter-segment eliminations and other	Consolidated
	$	$	$	$	$
Revenue [(1)]	979,859	601,584	210,974	(2,725)	1,789,692
Operating expenses	469,178	341,151	148,221	14,107	972,657
Management fees – Cogeco Inc.	—	—	—	14,165	14,165
Segment profit (loss)	510,681	260,433	62,753	(30,997)	802,870
Integration, restructuring and acquisition costs [(2)]	—	18,651	—	—	18,651
Depreciation and amortization	177,352	134,204	76,595	227	388,378
Financial expense					136,990
Income taxes					(23,919)
Profit for the period					282,770
Property, plant and equipment	1,085,675	805,883	370,699	226	2,262,483
Intangible assets	989,220	1,808,439	69,298	—	2,866,957
Goodwill	4,662	1,377,149	270,931	—	1,652,742
Acquisition of property, plant and equipment	145,522	140,954	34,389	—	320,865
Acquisition of intangible and other assets	6,964	4,155	3,398	—	14,517

(1) Revenue by geographic market includes $1,105,780 in Canada, $659,971 in the United States and $23,941 in Europe.
(2) Comprised of acquisition and integration costs in connection with the MetroCast acquisition completed on January 4, 2018 (see Note 3).

(amounts in tables are in thousands of Canadian dollars, except number of shares and per share data)

	Canadian broadband services	American broadband services	Business ICT services	Inter-segment eliminations and other	Consolidated
					Nine months ended May 31, 2017
	$	$	$	$	$
Revenue [(1)]	971,601	485,011	221,177	(2,666)	1,675,123
Operating expenses	462,724	279,710	151,596	9,032	903,062
Management fees – Cogeco Inc.	—	—	—	14,286	14,286
Segment profit (loss)	508,877	205,301	69,581	(25,984)	757,775
Depreciation and amortization	174,812	103,534	79,353	227	357,926
Financial expense					96,357
Income taxes					75,602
Profit for the period					227,890
Property, plant and equipment [(2)]	1,110,926	443,257	392,603	453	1,947,239
Intangible assets [(2)]	990,600	905,805	81,897	—	1,978,302
Goodwill [(2)]	4,662	749,982	268,780	—	1,023,424
Acquisition of property, plant and equipment	146,735	95,770	26,047	—	268,552
Acquisition of intangible and other assets	7,846	3,599	2,898	—	14,343

(1) Revenue by geographic market includes $1,100,391 in Canada, $550,960 in the United States and $23,772 in Europe.

(2) At August 31, 2017.

The following tables set out certain geographic market information at May 31, 2018 and August 31, 2017:

	Canada	**United States**	**Europe**	**Total**
				At May 31, 2018
	$	**$**	**$**	**$**
Property, plant and equipment	**1,387,937**	**845,895**	**28,651**	**2,262,483**
Intangible assets	**1,036,633**	**1,827,974**	**2,350**	**2,866,957**
Goodwill	**221,867**	**1,416,038**	**14,837**	**1,652,742**

	Canada	United States	Europe	Total
				At August 31, 2017
	$	$	$	$
Property, plant and equipment	1,426,089	490,820	30,330	1,947,239
Intangible assets	1,044,991	929,565	3,746	1,978,302
Goodwill	221,867	787,633	13,924	1,023,424

(amounts in tables are in thousands of Canadian dollars, except number of shares and per share data)

3. BUSINESS COMBINATION

MetroCast business combination

On January 4, 2018, the Corporation's subsidiary, Atlantic Broadband, completed the acquisition of substantially all of the assets of Harron Communications, L.P. cable systems operating under the MetroCast brand name ("MetroCast"). This acquisition extends Atlantic Broadband's footprint across 11 states on the East Coast of the United States from Maine to Florida. The transaction valued at US$1.4 billion was subject to post closing adjustments. This acquisition was financed through a combination of US$1.7 billion under a new Senior Secured Term Loan B, whereby US$583 million was used to refinance the existing First Lien Credit Facilities, and US$40.4 million drawn under a new US$150 million Senior Secured Revolving Credit facility, combined with a US$315 million equity investment by Caisse de dépôt et placement du Québec (“CDPQ”) in Atlantic Broadband’s holding company, representing 21% of Atlantic Broadband.

The acquisition was accounted for using the purchase method and was subject to post closing adjustments. During the three-month period ended May 31, 2018, adjustments were made to the working capital resulting in a reduction of the purchase price of $5.2 million (US$4.2 million). The preliminary allocation of the purchase price of this acquisition is as follows:

	Preliminary May 31, 2018 $
Purchase price	
Consideration paid at closing	1,762,163
Working capital adjustments	(5,222)
	1,756,941
Net assets acquired	
Cash and cash equivalents	6
Trade and other receivables	5,075
Prepaid expenses and other	1,989
Property, plant and equipment	297,156
Intangible assets	874,553
Goodwill	583,209
Trade and other payables assumed	(5,047)
	1,756,941

The amount of goodwill, which is expected to be deductible for tax purposes, is mainly attributable to revenue and adjusted EBITDA growth considering residential and business growth opportunities, to the expected benefits from the corporate tax structure and to the strength of MetroCast assembled workforce.

In connection with this acquisition, the Corporation incurred acquisition-related costs of $21.8 million, of which $18.7 million were recognized in the current year ($3.2 million in 2017), as "Integration, restructuring and acquisition costs" in the Corporation's consolidated statement of profit and loss.

During the three and nine-month periods ended May 31, 2018, the Corporation recognized $74.5 million and $122 million of revenue, and $19.4 million and $32.5 million of profit related to the additional operations generated by the acquisition of MetroCast which excludes acquisition and integration costs and financial expense, net of the related income tax effect. The MetroCast revenue, operating expenses and depreciation and amortization are recognized in the American broadband services operating segment.

Had the business combination been effective at September 1, 2017, the consolidated revenue of the Corporation would have been $1.885 billion, and the profit would have been $284.3 million for the nine-month period ended May 31, 2018. Management considers these “pro-forma” numbers to represent an approximate measure of the performance of the combined group and to provide a reference point for comparison in future periods. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on September 1, 2017.

(amounts in tables are in thousands of Canadian dollars, except number of shares and per share data)

4. OPERATING EXPENSES

	Three months ended May 31,		Nine months ended May 31,	
	2018	2017	2018	2017
	$	$	$	$
Salaries, employee benefits and outsourced services	101,888	90,765	289,143	268,959
Service delivery costs (1)	186,287	167,441	524,923	496,410
Customer related costs (2)	20,059	15,994	56,456	49,940
Other external purchases (3)	37,263	31,932	102,135	87,753
	345,497	306,132	972,657	903,062

(1) Include cost of equipment sold, content and programming costs, payments to other carriers, data centre expenses, franchise fees and network costs.
(2) Include advertising and marketing expenses, selling costs, billing expenses, bad debts and collection expenses.
(3) Include office building expenses, professional service fees, Canadian Radio-television and Telecommunications Commission ("CRTC") fees, losses and gains on disposals and write-offs of property, plant and equipment, and other administrative expenses.

5. DEPRECIATION AND AMORTIZATION

	Three months ended May 31,		Nine months ended May 31,	
	2018	2017	2018	2017
	$	$	$	$
Depreciation of property, plant and equipment	117,774	103,881	328,914	311,205
Amortization of intangible assets	23,724	15,716	59,464	46,721
	141,498	119,597	388,378	357,926

6. FINANCIAL EXPENSE

	Three months ended May 31,		Nine months ended May 31,	
	2018	2017	2018	2017
	$	$	$	$
Interest on long-term debt (1)	55,964	31,251	133,553	93,704
Net foreign exchange gains	(2,167)	(723)	(3,621)	(912)
Amortization of deferred transaction costs	438	641	1,443	1,887
Capitalized borrowing costs (2)	(338)	(738)	(1,912)	(2,097)
Other	6,058	1,361	7,527	3,775
	59,955	31,792	136,990	96,357

(1) In connection with the early reimbursement of the US$400 million Senior Unsecured Notes, an amount of $2.5 million of unamortized deferred transaction costs and a redemption premium of $6.2 million were charged to financial expense in May 2018. In connection with the MetroCast acquisition, an amount of $7.3 million was charged to financial expense, representing the unamortized deferred transaction costs pertaining to the early reimbursement of the Term Loan A-2, A-3 and B facilities in January 2018.

(2) For the three and nine-month periods ended May 31, 2018 and 2017, the weighted average interest rate used in the capitalization of borrowing costs was 4.5%.

(amounts in tables are in thousands of Canadian dollars, except number of shares and per share data)

7. INCOME TAXES

	Three months ended May 31,		Nine months ended May 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Current	**11,639**	21,529	**58,381**	67,244
Deferred	**7,415**	5,112	**(82,300)**	8,358
	19,054	26,641	**(23,919)**	75,602

The following table provides the reconciliation between income tax expense at the Canadian statutory federal and provincial income tax rates and the consolidated income tax expense:

	Three months ended May 31,		Nine months ended May 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Profit before income taxes	**83,592**	102,844	**258,851**	303,492
Combined Canadian income tax rate	**26.5%**	26.5%	**26.5%**	26.5%
Income taxes at combined Canadian income tax rate	**22,151**	27,254	**68,595**	80,426
Adjustment for losses or profit subject to lower or higher tax rates	**919**	2,857	**397**	8,346
Revaluation of deferred tax assets	**(699)**	(293)	**8,858**	(29)
Impact on deferred taxes as a result of changes in substantively enacted tax rates (1)	**—**	—	**(89,056)**	(1,714)
Impact on income taxes arising from non-deductible expenses and non-taxable profit	**2,264**	(6)	**2,089**	89
Tax impacts related to foreign operations	**(6,898)**	(4,327)	**(16,322)**	(12,762)
Other	**1,317**	1,156	**1,520**	1,246
Income taxes at effective income tax rate	**19,054**	26,641	**(23,919)**	75,602

(1) On December 22, 2017, the US Federal administration enacted the Tax Cuts and Jobs Act (the "Act"). The tax reform reduced the general federal corporate tax rate from 35% to 21% starting after 2017. As a result, deferred income taxes and net deferred tax liabilities have been reduced by approximately $89 million (US$70 million). In addition, the Act calls for other changes such as interest deductibility limitations, full deduction of acquisitions of tangible assets, net operating losses limitations as well as base erosion anti-avoidance.

8. EARNINGS PER SHARE

The following table provides the reconciliation between basic and diluted earnings per share:

	Three months ended May 31,		Nine months ended May 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Profit for the period attributable to the owners of the Corporation	**61,260**	76,203	**276,616**	227,890
Weighted average number of multiple and subordinate voting shares outstanding	**49,303,877**	49,230,481	**49,292,705**	49,188,494
Effect of dilutive stock options (1)	**113,908**	176,273	**181,739**	141,753
Effect of dilutive incentive share units	**107,626**	104,035	**108,056**	114,349
Effect of dilutive performance share units	**133,900**	115,817	**134,447**	110,251
Weighted average number of diluted multiple and subordinate voting shares outstanding	**49,659,311**	49,626,606	**49,716,947**	49,554,847
Earnings per share				
Basic	**1.24**	1.55	**5.61**	4.63
Diluted	**1.23**	1.54	**5.56**	4.60

(1) For the three and nine-month periods ended May 31, 2018, 261,125 and 255,850 stock options (2,475 and 6,375 in 2017) were excluded from the calculation of diluted earnings per share due to the exercise price of the options being greater than the average share price of the subordinate voting shares.

(amounts in tables are in thousands of Canadian dollars, except number of shares and per share data)

9. LONG-TERM DEBT

	Maturity	Interest rate		May 31, 2018	August 31, 2017
		%		$	$
Corporation					
Term Revolving Facility (1)					
Canadian Revolving Facility					
Revolving loan	January 2023	3.90	(2)	30,000	—
Revolving loan – US$307 million (3)	January 2023	3.40	(2)	397,504	—
Senior Secured Notes					
Series A – US$25 million	September 2024	4.14		32,269	31,229
Series B - US$150 million	September 2026	4.29		193,555	187,325
Senior Secured Notes Series B	October 2018	7.60		54,976	54,922
Senior Secured Notes - US$215 million	June 2025	4.30		277,380	268,432
Senior Secured Debentures Series 2	November 2020	5.15		199,496	199,354
Senior Secured Debentures Series 3	February 2022	4.93		199,206	199,061
Senior Secured Debentures Series 4	May 2023	4.18		298,306	298,078
Senior Unsecured Debenture	—	—		—	99,979
Senior Unsecured Notes – US$400 million (3)	—	—		—	498,141
Subsidiaries					
First Lien Credit Facilities (5)					
Senior Secured Term Loan B Facility - US$1.7 billion	January 2025	4.36	(2) (4)	2,153,757	—
Senior Secured Revolving Facility - US$10.4 million	January 2023	4.36	(2)	13,466	—
Term Loan A-2 Facility – US$94.4 million at August 31, 2017	—	—		—	117,397
Term Loan A-3 Facility - US$118.4 million at August 31, 2017	—	—		—	147,073
Term Loan B Facility – US$355.4 million at August 31, 2017	—	—		—	439,088
Revolving Facility – US$29 million at August 31, 2017	—	—		—	36,354
				3,849,915	2,576,433
Less current portion				76,988	131,915
				3,772,927	2,444,518

(1) On December 11, 2017, the Corporation extended its $800 million Term Revolving Facility maturity date by an additional year until January 24, 2023.

(2) Interest rate on debt includes the applicable credit spread.

(3) In May 2018, the Corporation proceeded to the early reimbursement of its US$400 million Senior Unsecured Notes and drew a US$307 million revolving loan under its Term Revolving Facility.

(4) A US subsidiary of the Corporation entered into interest rate swap agreements to fix the interest rate on a notional amount of US$1.175 billion of its LIBOR based loans. These agreements have the effect of converting the floating US Libor base rate into fixed rates ranging from 0.987% to 2.262% for maturities between July 31, 2019 and November 30, 2024, under the Senior Secured Term Loan B Facility.Taking into account these agreements, the effective interest rate on the Senior Secured Term Loan B Facility is 4.41%.

(5) On January 4, 2018, in connection with the financing of the MetroCast acquisition, a new $2.1 billion (US$1.7 billion) Senior Secured Term Loan B maturing January 2025, and a $188 million (US$150 million) Senior Secured Revolving facility maturing January 2023 were entered into by two of Cogeco Communications' US subsidiaries, whereby $733 million (US$583 million) was used to reimburse the pre-existing Term Loan A-2, A-3, B and Revolving Facility. The interest rate on these First Lien Credit Facilities is based on LIBOR plus an applicable margin. Commencing in August 2018, the Senior Secured Term Loan B is subject to a quarterly amortization of 0.25% until its maturity date. In addition to the quarterly amortization, the loan shall be prepaid according to a prepayment percentage of excess cash flow generated during the prior fiscal year defined below. The first payment will be based on excess cash flows generated in fiscal year 2019.

(i) 50% if Atlantic Broadband's ratio of net senior secured indebtedness / adjusted EBITDA ("Leverage Ratio") is greater than or equal to 5.1 to 1.0;
(ii) 25% if Atlantic Broadband's Leverage Ratio is greater than or equal to 4.6 to 1.0 but less than 5.1 to 1.0; and
(iii) 0% if Atlantic Broadband's Leverage Ratio is less than 4.6 to 1.0.

The First Lien Credit Facilities are non-recourse to the Corporation, its Canadian subsidiaries and certain of its subsidiaries outside of Canada and are indirectly secured by a first priority fixed and floating charge on substantially all present and future real and personal property and undertaking of every nature and kind of Atlantic Broadband, its subsidiaries and certain of its affiliates. The provisions under the facilities provide for restrictions on the operations and activities of Atlantic Broadband and its subsidiaries. Generally, the most significant restrictions relate to permitted indebtedness and investments, distributions and maintenance of certain financial ratios.

(amounts in tables are in thousands of Canadian dollars, except number of shares and per share data)

10. SHARE CAPITAL

A) AUTHORIZED

Unlimited number of:

Class A Preference shares, without voting rights, redeemable by the Corporation and retractable at the option of the holder at any time at a price of $1 per share, carrying a cumulative preferential cash dividend at a rate of 11% of the redemption price per year.

Class B Preference shares, without voting rights, could be issued in series.

Multiple voting shares, 10 votes per share.

Subordinate voting shares, 1 vote per share.

B) ISSUED AND PAID

	May 31, 2018	August 31, 2017
	$	$
15,691,100 multiple voting shares	98,346	98,346
33,872,094 subordinate voting shares (33,813,777 at August 31, 2017)	937,110	933,149
	1,035,456	1,031,495
112,318 subordinate voting shares held in trust under the Incentive Share Unit Plan (105,219 at August 31, 2017)	(7,608)	(5,801)
143,377 subordinate voting shares held in trust under the Performance Share Unit Plan (122,614 at August 31, 2017)	(10,831)	(8,058)
	1,017,017	1,017,636

During the first nine months of fiscal 2018, subordinate voting share transactions were as follows:

	Number of shares	Amount
		$
Balance at August 31, 2017	33,813,777	933,149
Shares issued for cash under the Stock Option Plan	58,317	3,388
Share-based payment previously recorded in share-based payment reserve for options exercised	—	573
Balance at May 31, 2018	33,872,094	937,110

During the first nine months of fiscal 2018, subordinate voting shares held in trust under the Incentive Share Unit Plan transactions were as follows:

	Number of shares	Amount
		$
Balance at August 31, 2017	105,219	5,801
Subordinate voting shares acquired	42,390	3,790
Subordinate voting shares distributed to employees	(35,291)	(1,983)
Balance at May 31, 2018	112,318	7,608

(amounts in tables are in thousands of Canadian dollars, except number of shares and per share data)

During the first nine months of fiscal 2018, subordinate voting shares held in trust under the Performance Share Unit Plan transactions were as follows:

	Number of shares	Amount
		$
Balance at August 31, 2017	122,614	8,058
Subordinate voting shares acquired	62,204	5,562
Subordinate voting shares distributed to employees	(41,441)	(2,789)
Balance at May 31, 2018	143,377	10,831

C) DIVIDENDS

For the nine-month period ended May 31, 2018, quarterly eligible dividends of $0.475 per share for a total of $1.43 per share, were paid to the holders of multiple and subordinate voting shares, totaling $70.3 million, compared to quarterly eligible dividends of $0.43 per share for a total of $1.29 per share or $63.5 million for the nine-month period ended May 31, 2017.

	Nine months ended May 31,	
	2018	2017
	$	$
Dividends on multiple voting shares	22,360	20,242
Dividends on subordinate voting shares	47,917	43,241
	70,277	63,483

At its July 11, 2018 meeting, the Board of Directors of Cogeco Communications declared a quarterly eligible dividend of $0.475 per share for multiple and subordinate voting shares, payable on August 8, 2018 to shareholders of record on July 25, 2018.

D) SHARE-BASED PAYMENT PLANS

The Corporation offers an Employee Stock Purchase Plan for the benefit of its employees and those of its subsidiaries and a Stock Option Plan to its executive officers and designated employees. No more than 10% of the outstanding subordinate voting shares are available for issuance under these plans. Furthermore, the Corporation offers an Incentive Share Unit Plan ("ISU Plan") and a Performance Share Unit Plan ("PSU Plan") for executive officers and designated employees, and a Deferred Share Unit Plan ("DSU Plan") for members of the Board of Directors. A detailed description of these plans can be found in the 2017 annual consolidated financial statements of the Corporation.

Under the Stock Option Plan, the following options were granted by the Corporation and are outstanding at May 31, 2018:

	Options	Weighted average exercise price
		$
Outstanding at August 31, 2017	652,385	56.61
Granted (1)	281,350	85.08
Exercised (2)	(58,317)	58.10
Cancelled	(54,005)	72.28
Outstanding at May 31, 2018	821,413	65.23
Exercisable at May 31, 2018	278,508	49.72

(1) During the nine-month period ended May 31, 2018, the Corporation granted 126,425 stock options to Cogeco's executive officers as executive officers of the Corporation.

(2) The weighted average share price for options exercised during the period was $83.93.

A compensation expense of $234,000 and $590,000 ($171,000 and $427,000 in 2017) was recorded for the three and nine-month periods ended May 31, 2018 related to this plan.

(amounts in tables are in thousands of Canadian dollars, except number of shares and per share data)

The weighted average fair value of stock options granted for the nine-month period ended May 31, 2018 was $13.37 ($8.96 in 2017) per option. The weighted average fair value of each option granted was estimated at the grant date for purposes of determining share-based payment expense using the Black-Scholes option pricing model based on the following weighted-average assumptions:

	2018	2017
	%	%
Expected dividend yield	2.24	2.52
Expected volatility	20.12	21.28
Risk-free interest rate	1.65	0.81
Expected life (in years)	6.0	6.1

Under the ISU Plan, the following ISUs were granted by the Corporation and are outstanding at May 31, 2018:

Outstanding at August 31, 2017	101,538
Granted (1)	47,900
Distributed	(35,291)
Cancelled	(7,553)
Outstanding at May 31, 2018	106,594

(1) During the nine-month period ended May 31, 2018, the Corporation did not grant any ISUs to Cogeco's executive officers as executive officers of the Corporation.

A compensation expense of $654,000 and $1,837,000 ($522,000 and $1,472,000 in 2017) was recorded for the three and nine-month periods ended May 31, 2018 related to this plan.

Under the PSU Plan, the following PSUs were granted by the Corporation and are outstanding at May 31, 2018:

Outstanding at August 31, 2017	115,207
Granted (1)	65,525
Performance-based additional units granted	2,639
Distributed	(41,441)
Cancelled	(12,184)
Dividend equivalents	2,538
Outstanding at May 31, 2018	132,284

(1) During the nine-month period ended May 31, 2018, the Corporation granted 19,025 PSUs to Cogeco's executive officers as executive officers of the Corporation.

A compensation expense of $590,000 and $1,675,000 ($353,000 and $728,000 in 2017) was recorded for the three and nine-month periods ended May 31, 2018 related to this plan.

Under the DSU Plan, the following DSUs were issued by the Corporation and are outstanding at May 31, 2018:

Outstanding at August 31, 2017	40,446
Issued	6,662
Redeemed	(5,549)
Dividend equivalents	761
Outstanding at May 31, 2018	42,320

A compensation expense reduction of $2,000 and $273,000 (compensation expense of $387,000 and $899,000 in 2017) was recorded for the three and nine-month periods ended May 31, 2018 related to this plan.

(amounts in tables are in thousands of Canadian dollars, except number of shares and per share data)

11. ACCUMULATED OTHER COMPREHENSIVE INCOME

	Cash flow hedge reserve	Foreign currency translation	Total
	$	$	$
Balance at August 31, 2016	(121)	84,748	84,627
Other comprehensive income	1,091	4,716	5,807
Balance at May 31, 2017	970	89,464	90,434
Balance at August 31, 2017	**438**	**76,197**	**76,635**
Other comprehensive income	**23,639**	**10,644**	**34,283**
Balance at May 31, 2018	**24,077**	**86,841**	**110,918**

12. STATEMENTS OF CASH FLOWS

A) CHANGES IN NON-CASH OPERATING ACTIVITIES

	Three months ended May 31,		Nine months ended May 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Trade and other receivables	**8,259**	16,822	**3,466**	14,193
Prepaid expenses and other	**1,348**	(639)	**(10,687)**	(7,147)
Trade and other payables	**(22,194)**	9,146	**(88,070)**	(57,386)
Provisions	**3,321**	(9,179)	**3,910**	(7,254)
Deferred and prepaid revenue and other liabilities	**(16,595)**	12,741	**(10,661)**	14,414
	(25,861)	28,891	**(102,042)**	(43,180)

B) CASH AND CASH EQUIVALENTS

	May 31, 2018	August 31, 2017
	$	$
Cash	**46,780**	162,222
Cash equivalents (1)	**16,038**	48,963
	62,818	211,185

(1) At May 31, 2018, comprised of a certificate of deposit bearing interest at 1.7% with a maturity date of June 4th, 2018. At August 31, 2017, comprised of banker's acceptances and a certificate of deposit, bearing interest between 1.12% to 1.30% and with maturity dates ranging from September 21st to October 19th, 2017.

(amounts in tables are in thousands of Canadian dollars, except number of shares and per share data)

13. EMPLOYEE BENEFITS

The Corporation and its subsidiaries offer their employees either defined benefit pension plans, defined contribution pension plans or collective registered retirement savings plans, which are described in the Corporation's annual consolidated financial statements.

The total expense related to these plans is as follows:

	Three months ended May 31,		Nine months ended May 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Defined benefit plans				
Recognized in operating expenses (salaries, employee benefits and outsourced services)				
Current service cost	**528**	661	**1,432**	1,984
Administrative expense	**62**	65	**187**	195
Recognized in financial expense (other)				
Net interest	**15**	58	**56**	174
Defined contribution and collective registered retirement saving plans				
Recognized in operating expenses (salaries, employee benefits and outsourced services)	**2,548**	2,036	**7,337**	6,636
	3,153	2,820	**9,012**	8,989

14. FINANCIAL INSTRUMENTS

A) FINANCIAL RISK MANAGEMENT

Management's objectives are to protect the Corporation and its subsidiaries against material economic exposures and variability of results, and against certain financial risks including credit, liquidity, interest rate and foreign exchange risks which are described in the Corporation's annual consolidated financial statements.

Liquidity risk

At May 31, 2018, the Corporation had used $441.4 million of its $800 million Term Revolving Facility for a remaining availability of $358.6 million. In addition, two subsidiaries related to Atlantic Broadband benefit from a Senior Secured Revolving Facility of $194.2 million (US $150 million), of which $16.2 million (US$12.5 million) was used at May 31, 2018 for a remaining availability of $178 million (US$137.5 million).

Interest rate risk

The Corporation is exposed to interest rate risk on its floating interest rate instruments. Interest rate fluctuations will have an effect on the repayment of these instruments. At May 31, 2018, all of the Corporation's long-term debt was at fixed rate, except for the amounts drawn under the Term Revolving Facility and First Lien Credit Facilities which are subject to floating interest rates.

To reduce the risk on the floating interest rate instruments, the Corporation's US subsidiary entered into interest rate swap agreements. The following table shows the interest rate swaps outstanding at May 31, 2018:

Type of hedge	Notional amount	Receive interest rate	Pay interest rate	Maturity	Hedged item
Cash flow	US$1.175 billion	US Libor base rate	0.987% - 2.262%	July 2019 - November 2024	Senior Secured Term Loan B

The sensitivity of the Corporation's annual financial expense to an increase of 1% in the interest rate applicable to the unhedged portion of these facilities would represent an increase of approximately $11.2 million based on the outstanding debt at May 31, 2018.

(amounts in tables are in thousands of Canadian dollars, except number of shares and per share data)

Foreign exchange risk

The Corporation is exposed to foreign exchange risk with respect to the interest associated with its long-term debt denominated in US dollars. The impact of an increase of 10% in the exchange rate of the US dollar into Canadian dollars would increase financial expense by approximately $13.3 million based on the outstanding debt at May 31, 2018.

The Corporation faces exposure to foreign exchange risk related to its forecasted purchase commitments of property, plant and equipment denominated in US dollars. In order to mitigate such risk, the Corporation entered into foreign currency forward contracts and designated them as a cash-flow hedge for accounting purposes. The following table shows the forward contracts outstanding at May 31, 2018:

Type of hedge	Notional amount	Maturity	Exchange rate	Hedged item
Cash flow	US$7.5 million	June 2018	1.2848	Purchase commitments of property, plant and equipment

Furthermore, the Corporation's net investments in foreign operations are exposed to market risk attributable to fluctuations in foreign currency exchange rates, primarily changes in the values of the Canadian dollar versus the US dollar and British Pound. The risk related to the US dollar aggregate investments is mitigated since the major part was borrowed in US dollars.

The following table shows the net investments in foreign operations outstanding at May 31, 2018:

Type of hedge	Notional amount of debt	Aggregate investments	Hedged item
Net investments	US$697 million	US$957.5 million	Net investments in foreign operations in US dollar
N/A	£—	£25.5 million	N/A

The exchange rates used to translate the US dollar currency and British Pound currency into Canadian dollars for the statement of financial position accounts at May 31, 2018 was $1.2948 ($1.2536 at August 31, 2017) per US dollar and $1.7222 ($1.6161 at August 31, 2017) per British Pound. A 10% decrease in the exchange rates of the US dollar and British Pound into Canadian dollars would decrease other comprehensive income by approximately $38.1 million.

B) FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of all the Corporation's financial instruments approximates fair value, except as otherwise noted in the following table:

	May 31, 2018		August 31, 2017	
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Long-term debt	**3,849,915**	**3,934,562**	2,576,433	2,684,981

C) CAPITAL MANAGEMENT

At May 31, 2018 and August 31, 2017, the Corporation was in compliance with all of its debt covenants and was not subject to any other externally imposed capital requirements.

The following table summarizes certain key ratios used to monitor and manage the Corporation's capital structure:

	May 31, 2018	August 31, 2017
Net secured indebtedness (1) / adjusted EBITDA (2)	**3.7**	1.7
Net indebtedness (3) / adjusted EBITDA (2)	**3.7**	2.3
Adjusted EBITDA (2) / financial expense (2)	**6.2**	7.8

(1) Net secured indebtedness is defined as the total of bank indebtedness and principal on long-term debt, less cash and cash equivalents, short-term investments and principal on Senior Unsecured Debenture and Senior Unsecured Notes.

(2) Calculation based on adjusted EBITDA and financial expense for the twelve-month periods ended May 31, 2018, which include five months of Metrocast operations, and August 31, 2017.

(3) Net indebtedness is defined as the total of bank indebtedness, balance due on a business combination and principal on long-term debt, less cash and cash equivalents and short-term investments.

15. RELATED PARTY TRANSACTIONS

Cogeco provides executive, administrative, financial and strategic planning services and other services to the Corporation under a Management Services Agreement. Under the Agreement, management fees are payable on a monthly basis, representing 0.75% of the consolidated revenue of the Corporation. In addition, the Corporation reimburses Cogeco's out-of-pocket expenses incurred with respect to services provided to the Corporation under the Agreement. Provision is made for future adjustment upon the request of either Cogeco or the Corporation should the level of management fees no longer align with the costs, time and resources committed by Cogeco. As contemplated by this provision and following the MetroCast acquisition completed on January 4, 2018, the management fees payable on a monthly basis charged to the Corporation were reviewed and reduced from 0.85% to 0.75% of the consolidated revenue of the Corporation, effective on January 4, 2018. For the three and nine-month periods ended May 31, 2018, management fees paid to Cogeco amounted to $4.3 million and $14.2 million, respectively, compared to $4.8 million and $14.3 million for the same periods of fiscal 2017.

No direct remuneration is payable to Cogeco's executive officers by the Corporation. However, during the nine-month period ended May 31, 2018, the Corporation granted 126,425 (81,350 in 2017) stock options, did not grant any ISUs (nil in 2017) and granted 19,025 (12,150 in 2017) PSUs to these executive officers as executive officers of Cogeco Communications. During the three and nine-month periods ended May 31, 2018, the Corporation charged Cogeco $240,000 and $635,000 ($163,000 and $465,000 in 2017), nil and $1,000 ($2,000 and $37,000 in 2017) and $254,000 and $736,000 ($177,000 and $483,000 in 2017), respectively, with regards to the Corporation's stock options, ISUs and PSUs granted to these executive officers.

There were no other material related party transactions during the periods covered.

16. COMMITMENTS

Purchase of a fibre network and corresponding assets

On December 30, 2017, the Corporation's subsidiary, Atlantic Broadband, signed an Asset Purchase Agreement ("APA") with FiberLight, LLC to acquire all of its fibre network and corresponding assets owned on the East Coast of south Florida for a consideration of US$34 million, which is subject to regulatory approvals and customary closing adjustments.

Spectrum licenses

In May 2018, the Corporation announced that its subsidiary, Cogeco Connexion, was the successful bidder on 23 Spectrum licenses of 2500 MHz and 2300 MHz, primarily in its Ontario and Québec wireline footprints, in the auction for residual Spectrum licenses organized by Innovation, Science & Economic Development ("ISED") Canada for a total price of $24.3 million.

In June 2018, Cogeco Connexion also announced that it acquired 10 Spectrum licenses of 2500 MHz in non-metropolitan areas of Ontario, from Kian Telecom, for a consideration of $8 million. The transfer was approved by ISED Canada on June 21, 2018.

Both transactions were completed in June 2018 and the cost of these Spectrum licenses will be recorded in the fourth quarter of fiscal 2018.

CUSTOMER STATISTICS

	May 31, 2018	February 28, 2018	November 30, 2017	August 31, 2017	May 31, 2017
CONSOLIDATED					
Primary service units(1)	**2,782,705**	**2,788,268**	**2,532,964**	2,533,903	2,539,566
Internet service customers	**1,207,262**	**1,199,201**	**1,054,346**	1,042,996	1,034,686
Video service customers	**1,019,852**	**1,029,901**	**948,778**	956,775	967,020
Telephony service customers(1)	**555,591**	**559,166**	**529,840**	534,132	537,860
CANADA					
Primary service units(1)	**1,901,037**	**1,914,178**	**1,919,939**	1,921,068	1,930,037
Internet service customers	**787,007**	**786,314**	**779,434**	769,869	764,350
Penetration as a percentage of homes passed	**45.0%**	**45.1%**	**44.9%**	44.5%	44.3%
Video service customers	**699,554**	**708,584**	**715,604**	720,636	729,701
Penetration as a percentage of homes passed	**40.0%**	**40.7%**	**41.2%**	41.6%	42.3%
Telephony service customers(1)	**414,476**	**419,280**	**424,901**	430,563	435,986
Penetration as a percentage of homes passed(1)	**23.7%**	**24.1%**	**24.5%**	24.9%	25.3%
UNITED STATES					
Primary service units(1)	**881,668**	**874,090**	**613,025**	612,835	609,529
Internet service customers	**420,255**	**412,887**	**274,912**	273,127	270,336
Penetration as a percentage of homes passed	**51.1%**	**49.5%**	**46.2%**	45.9%	45.7%
Video service customers	**320,298**	**321,317**	**233,174**	236,139	237,319
Penetration as a percentage of homes passed	**38.9%**	**38.5%**	**39.2%**	39.7%	40.1%
Telephony service customers(1)	**141,115**	**139,886**	**104,939**	103,569	101,874
Penetration as a percentage of homes passed(1)	**17.2%**	**16.8%**	**17.6%**	17.4%	17.2%

(1) In the second quarter of fiscal 2018, telephony service customers have been adjusted upwards retroactively as a result of a change in reporting business customers and consequently, primary service units and penetration rates prior to that period have also been adjusted.