



SHAREHOLDERS' REPORT

Three and six-month periods ended February 29, 2020

FINANCIAL HIGHLIGHTS

	Three months ended					Six months ended				
	February 29, 2020	February 28, 2019	Change	Change in constant currency ⁽¹⁾	Foreign exchange impact ⁽¹⁾	February 29, 2020	February 28, 2019	Change	Change in constant currency ⁽¹⁾	Foreign exchange impact ⁽¹⁾
<i>(in thousands of dollars, except percentages and per share data)</i>	\$	\$	%	%	\$	\$	\$	%	%	\$
Operations										
Revenue	610,797	608,574	0.4	0.8	(2,637)	1,229,266	1,215,935	1.1	1.1	199
Adjusted EBITDA	279,609	284,863	(1.8)	(1.4)	(1,127)	570,118	561,064	1.6	1.6	70
Integration, restructuring and acquisition costs ⁽²⁾	5,458	3,823	42.8			5,538	10,857	(49.0)		
Profit for the period from continuing operations	113,384	87,646	29.4			207,600	170,413	21.8		
Loss for the period from discontinued operations	—	(5,369)	(100.0)			—	(8,991)	(100.0)		
Profit for the period	113,384	82,277	37.8			207,600	161,422	28.6		
Profit for the period from continuing operations attributable to owners of the Corporation	34,975	27,366	27.8			66,259	54,680	21.2		
Profit for the period attributable to owners of the Corporation	34,975	25,667	36.3			66,259	51,835	27.8		
Cash flow										
Cash flow from operating activities	236,117	204,665	15.4			387,188	307,784	25.8		
Acquisitions of property, plant and equipment ⁽³⁾	111,222	94,138	18.1	18.9	(736)	233,252	195,287	19.4	19.3	178
Free cash flow	125,067	128,229	(2.5)	(2.4)	(96)	233,960	241,151	(3.0)	(2.9)	(147)
Financial condition⁽⁴⁾										
Cash and cash equivalents						503,117	559,393	(10.1)		
Total assets						7,184,425	7,125,037	0.8		
Indebtedness ⁽⁵⁾						3,547,505	3,514,185	0.9		
Equity attributable to owners of the Corporation						759,745	754,768	0.7		
Per Share Data⁽⁶⁾										
Earnings (loss) per share										
Basic										
From continuing operations	2.19	1.69	29.6			4.15	3.37	23.1		
From discontinued operations	—	(0.10)	(100.0)			—	(0.18)	(100.0)		
From continuing and discontinued operations	2.19	1.58	38.6			4.15	3.19	30.1		
Diluted										
From continuing operations	2.18	1.67	30.5			4.12	3.34	23.4		
From discontinued operations	—	(0.10)	(100.0)			—	(0.18)	(100.0)		
From continuing and discontinued operations	2.18	1.57	38.9			4.12	3.17	30.0		
Dividends	0.475	0.43	10.5			0.95	0.86	10.5		

(1) Key performance indicators presented on a constant currency basis are obtained by translating financial results of the current periods denominated in US dollars at the foreign exchange rates of the comparable periods of the prior year. For the three and six-month periods ended February 28, 2019, the average foreign exchange rates used for translation were 1.3313 USD/CDN and 1.3198 USD/CDN, respectively.

(2) For the three and six-month periods ended February 29, 2020, integration, restructuring and acquisition costs resulted mostly from organizational changes and costs related to the acquisition of Thames Valley Communications. For the second-quarter and first six months of fiscal 2019, integration, restructuring and acquisitions costs were mostly due to an operational optimization program that included a voluntary departure program combined with costs related to the acquisition of 10 regional radio stations.

(3) For the three and six-month periods ended February 29, 2020, acquisitions of property, plant and equipment in constant currency amounted to \$112.0 million and \$233.1 million, respectively.

(4) At February 29, 2020 and August 31, 2019.

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

(6) Per multiple and subordinate voting shares.



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

Three and six-month periods ended February 29, 2020

1. FORWARD-LOOKING STATEMENTS

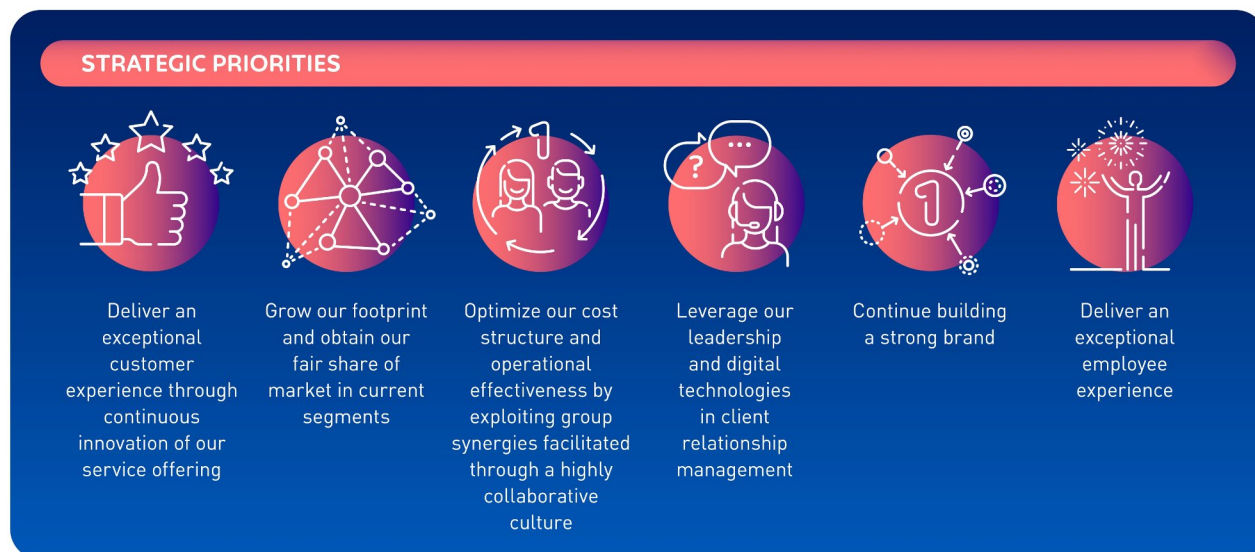
Certain statements contained in this Management's Discussion and Analysis ("MD&A") may constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to Cogeco Inc.'s ("Cogeco" or the "Corporation") future outlook and anticipated events, business, 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 believes are reasonable as of the current date. Refer in particular to the "Corporate Objectives and Strategies" and "Fiscal 2020 Financial Guidelines" sections of the Corporation's 2019 annual 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 currently expects. These factors include risks such as competitive risks, business risks (including potential disruption to our supply chain), regulatory risks, public health crisis and emergencies such as an epidemic or a pandemic, technology risks, financial risks (including variations in currency and interest rates), economic conditions, human-caused and natural threats to our network, infrastructure and systems, community acceptance risks, ethical behavior risks, ownership risks 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 2019 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 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's 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 six-month periods ended February 29, 2020 prepared in accordance with the International Financial Reporting Standards ("IFRS") and the MD&A in the Corporation's 2019 Annual Report.

2. CORPORATE OBJECTIVES AND STRATEGIES

Cogeco Inc.'s ("Cogeco" or the "Corporation") mission is to connect its customers to the digital world and create outstanding communication experiences. This mission is enabled by our core fundamental values of respect, trust, commitment to customer services, teamwork and innovation.

Our vision is to deliver value to our shareholders by: 1) creating exceptional customer experience, 2) augmenting our geographic reach in Canada and the United States, 3) expanding into new market segments, and 4) mobilizing highly engaged teams. The Corporation has defined six key strategic priorities that embody the roadmap to achieving our mission and vision. These strategic priorities are as follows:



We measure our performance with regard to these objectives by monitoring revenue, adjusted EBITDA⁽¹⁾ and free cash flow⁽¹⁾ on a constant currency basis⁽¹⁾.

COMMUNICATIONS SEGMENT

To achieve these objectives, Cogeco Communications Inc. ("Cogeco Communications") has developed the following strategies:

Canadian broadband services	American broadband services
Delivering organic growth by introducing value added services for residential customers and by growing our business customer base	Delivering exceptional customer experience while fostering team member engagement
Optimizing the return on investments by delivering our services more efficiently and improving loyalty through a differentiated customer experience strategy	Leveraging Internet superiority and advanced video platform to promote growth and customer satisfaction
Exploring a potential wireless service in a profitable manner and within our financial means	Focusing on growth in the business market and continuing Florida expansion efforts while actively pursuing acquisition opportunities
Enabling business transformation through modern talent management practices that will provide meaningful and engaging employee experiences	Driving unit growth and customer satisfaction through product marketing and brand positioning

Cogeco Communications measures its performance, with regard to these objectives by monitoring revenue, adjusted EBITDA, free cash flow and capital intensity. For further details please refer to the 2019 Annual Report of Cogeco Communications Inc. available on www.sedar.com or on the Corporation's website at corpo.cogeco.com.

MEDIA ACTIVITIES

Cogeco Media focuses on continuous improvement of its programming and opportunistic acquisitions in order to increase its market share and thereby its profitability.

(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.

2.1 FISCAL 2020 OUTLOOK AND FINANCIAL GUIDELINES

CONSOLIDATED

Cogeco is withdrawing its financial guidelines for fiscal year 2020 as the COVID-19 pandemic is evolving rapidly and its duration, magnitude and economic impact are uncertain, especially in our radio operations which generate revenue primarily from the retail industry. As a result, it is not possible at this time to reliably estimate the impact of the pandemic on the financial results of the Corporation for the remainder of the fiscal year. The Corporation intends to reinstate annual guidance when the situation stabilizes.

Cogeco's results are primarily derived from the Communications segment. The financial results of the media activities, which represents less than 5% of Cogeco's consolidated revenue, are however expected to be more proportionally impacted by the crisis than the Communications segment.

The media activities, which operates radio stations, is an essential service and a strong media platform, especially during a crisis. Our talk radio stations and strong news programming provide critical real-time information to the population, which results in strong ratings. However, these ratings are not expected to translate into equally strong revenue since the bulk of radio revenue is generated from the retail industry which is significantly impacted by the COVID-19 crisis. We have already seen an impact of the crisis on the radio revenue, especially from the time most retail stores were forced to close temporarily by government decree. The radio business has therefore taken immediate steps by temporarily laying off approximately 25% of its employees on March 26, 2020. The severity and length of the crisis and its economic impact, especially on the retail industry, are unknown at the moment. We do however expect to be in a strong position from a market share perspective when the situation eventually stabilizes.

From a liquidity standpoint, Cogeco has a separate financing in place with a \$100 million revolving facility, of which \$23.8 million was used at February 29, 2020, and \$35 million in subordinated debt.

COMMUNICATIONS SEGMENT

Cogeco Communications is withdrawing its financial guidelines for fiscal year 2020 as the COVID-19 pandemic is evolving rapidly and its duration, magnitude and economic impact are uncertain. As a result, it is not possible at this time to reliably estimate the impact of the pandemic on the financial results of the Corporation for the remainder of the fiscal year. The Corporation intends to reinstate annual guidance when the situation stabilizes.

Cogeco Communications has proactively managed the impacts on its operations related to the COVID-19 crisis to ensure that it could pursue its operations and serve its customers as an essential service provider in the two Canadian provinces and eleven U.S. states where it operates. The crisis management team has been successful so far at anticipating potential disruptions and implementing alternative modes of operation. Efforts have focused on:

- Transitioning virtually all contact center and office employees to work from home;
- Converting customer visits to self-installation and remote repairs in part through the use of new customer-friendly video technology;
- Transitioning all store operations to be handled either on-line, by phone or by mail;
- Increasing network capacity in certain areas to handle higher traffic; and
- Providing customers with temporary relief during the crisis, including removing data overage fees for the minority of customers not subscribing to unlimited plans; providing free news, kids and movie television channels; and not disconnecting non-paying customers.

Access to our Internet, video and telephony services are of paramount importance during this crisis. We are satisfied with the complex plan that was rapidly put into place in order to deliver our usual level of service to our customers.

While we have not yet experienced material changes to our financial results, we expect the following impacts over the coming months:

- Economic downturn which will affect most sectors of the economy;
- Certain customers reducing video packages due to reduced sports programming, while other customers may increase video packages due to customers spending more time at home;
- Certain customers upgrading their Internet packages due to increased home usage, while others may be forced to reduce packages due to the rising level of unemployment;
- Higher levels of bad debt due to a deteriorating economy and the decision not to disconnect non-paying customers during the crisis;
- Delays in implementing price increases and temporary removal of overage fees;
- Lower small business customer activity resulting in a reduction of services and cancellations;
- Lower advertising revenue in our U.S. networks;
- Reduction of customer servicing costs due to a reduction in customer connection and disconnection activity as customers are inclined to reduce, or forced to, avoid home visits; and
- Lower level of construction activity resulting in a reduction of capital expenditures.

Although the pandemic is expected to impact revenue and adjusted EBITDA in the short-term, Cogeco Communications does not currently expect a significant impact on its free cash flow. In the longer term, we intend to capitalize on a number of initiatives which we are implementing through this crisis and which will accelerate our digital transformation program.

Finally, Cogeco Communications has a strong liquidity position with \$502M in excess cash and cash equivalents and \$948 million in unused credit facilities as of February 29, 2020.

3. BUSINESS DEVELOPMENTS

The COVID-19 pandemic is having a profound impact on the world population and its various economies. During this time of crisis, our radio operations, and access to our Internet, video and telephony services are of paramount importance and are considered essential services. In order to continue providing our usual level of services to customers, the Corporation has proactively implemented many operational changes in the two Canadian provinces and eleven U.S. states where it operates. Among these measures, the Corporation has proactively instructed most of its employees to work from home and for those who must work on site or on the road, the Corporation has put in place several measures to ensure the safety of its employees and its customers. We have also converted most customer visits to self installation and remote repairs, transitioned store operations to be handled remotely, increased network capacity and provided customers with temporary relief measures during the crisis. We are satisfied with the complex plan that was rapidly put into place and will continue to be alert to any additional operational changes which we believe are warranted in the circumstances.

On March 26, 2020, Cogeco Media temporary laid off approximately 25% of its workforce resulting from a significant slowdown in radio advertising market as a consequence of the COVID-19 crisis where most retail stores were forced to close temporarily by government decree.

On February 3, 2020, Cogeco Communications amended its Senior Secured Term Loan B Facility, whereby the most significant change consisted in the reduction of the interest rate by 0.25%. Consequently, Cogeco Communications recognized, during the second quarter of fiscal 2020, a \$22.9 million non-cash gain on debt modification. As a result, the interest expense on the Senior Secured Term Loan B Facility will be higher than the interest paid until its maturity date in January 2025 as Cogeco Communications will continue to record the interest expense at the effective interest rate in place prior to the amendment.

On January 10, 2020, Cogeco Communications announced that its subsidiary Atlantic Broadband had signed a definitive agreement to purchase Thames Valley Communications, a broadband services company operating in Southeastern Connecticut, for US\$50 million. The transaction was completed on March 10, 2020 and is subject to post closing adjustments

On December 20, 2019, the Corporation extended its \$100 million Term Revolving Facility maturity date by an additional year until February 3, 2025.

On December 6, 2019, Cogeco Communications has extended its Term Revolving Facility for an additional year up to January 24, 2025 for an amount of \$750 million. Moreover, on the same date, the maturity date of the US\$150 million Senior Secured Revolving Facility, benefiting two subsidiaries related to Atlantic Broadband, was extended by an additional 18 months until July 4, 2024.

4. OPERATING AND FINANCIAL RESULTS

4.1 OPERATING RESULTS

	Three months ended				
	February 29, 2020 ⁽¹⁾	February 28, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Revenue	610,797	608,574	0.4	0.8	(2,637)
Operating expenses	331,188	323,711	2.3	2.8	(1,510)
Adjusted EBITDA	279,609	284,863	(1.8)	(1.4)	(1,127)

(1) For the three-month period ended February 29, 2020, the average foreign exchange rate used for translation was 1.3182 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3313 USD/CDN.

	Six months ended				
	February 29, 2020 ⁽¹⁾	February 28, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Revenue	1,229,266	1,215,935	1.1	1.1	199
Operating expenses	659,148	654,871	0.7	0.6	129
Adjusted EBITDA	570,118	561,064	1.6	1.6	70

(1) For the six-month period ended February 29, 2020, the average foreign exchange rate used for translation was 1.3203 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3198 USD/CDN.

REVENUE

For the second-quarter and first six months of fiscal 2020, revenue remained essentially stable and increased by 1.1%, respectively, (0.8% and 1.1% increases in constant currency) mainly due to:

- stable revenue (0.9% increase in constant currency) in the Communications segment due to organic growth in the American broadband services operations, partly offset by a decrease in the Canadian broadband services operations; and
- stable revenue in the Other segment mainly due to a soft radio advertising market and increased competition from other media platforms. In addition, revenue for the first six months were higher due to the acquisition of 10 regional radio stations on November 26, 2018 from RNC Média inc. (the "RNC Média acquisition") by Cogeco Media during the first quarter of fiscal 2019.

For further details on the Communications segment's revenue, please refer to the "Communications segment" section.

OPERATING EXPENSES

For the second-quarter and first six months of fiscal 2020, operating expenses increased by 2.3% and 0.7% (2.8% and 0.6% in constant currency) as a result of higher operating expenses in the media activities resulting from additional costs related to certain initiatives. Moreover, the increase in operating expenses for the second quarter of fiscal 2020 was also attributable to the Communications segment.

For further details on the Communications segment's operating expenses, please refer to the "Communications segment" section.

ADJUSTED EBITDA

Fiscal 2020 second-quarter adjusted EBITDA decrease by 1.8% (1.4% in constant currency) which was mostly attributable to lower adjusted EBITDA in the Communications segment and in the media activities.

For the first six months of fiscal 2020, adjusted EBITDA increased by 1.6% as reported and in constant currency, which was mostly attributable to higher adjusted EBITDA in the Communications segment as a result of increases in the American and Canadian broadband services operations, partly offset by a decrease in the media activities.

For further details on the Communications segment's adjusted EBITDA, please refer to the "Communications segment" section.

4.2 INTEGRATION, RESTRUCTURING AND ACQUISITION COSTS

For the second-quarter and first six months of fiscal 2020, restructuring and acquisition costs amounted to \$5.5 million resulting from organizational changes and costs related to the acquisition of Thames Valley Communications.

For the second-quarter and first six months of fiscal 2019, integration, restructuring and acquisition costs amounted to \$3.8 million and \$10.9 million, respectively, mostly due to an operational optimization program that included a voluntary departure program combined with costs related to the acquisition of 10 regional radio stations.

4.3 DEPRECIATION AND AMORTIZATION

	Three months ended			Six months ended		
	February 29, 2020	February 28, 2019	Change	February 29, 2020	February 28, 2019	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Depreciation of property, plant and equipment ⁽¹⁾	109,153	106,874	2.1	219,108	213,575	2.6
Amortization of intangible assets	14,266	14,191	0.5	28,574	28,155	1.5
	123,419	121,065	1.9	247,682	241,730	2.5

(1) The depreciation of right-of-use assets amounted to \$2.1 million and \$4.1 million, respectively, for the three and six-month periods ended February 29, 2020.

For the second-quarter and first six months of fiscal 2020, depreciation and amortization expense increased by 1.9% and 2.5%, respectively, due to additional depreciation as a result of higher capital expenditures combined with the impact of IFRS 16 adoption.

In addition, the increase in depreciation and amortization for the second quarter of fiscal 2020 was partly offset by the depreciation of the US dollar against the Canadian dollar compared to the same period of the prior year.

4.4 FINANCIAL EXPENSE

	Three months ended			Six months ended		
	February 29, 2020	February 28, 2019	Change	February 29, 2020	February 28, 2019	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Interest on long-term debt, excluding interest on lease liabilities	39,711	46,852	(15.2)	80,543	92,834	(13.2)
Interest on lease liabilities	594	—	—	1,241	—	—
Gain on debt modification	(22,898)	—	—	(22,898)	—	—
Net foreign exchange losses (gains)	2	(517)	—	(2)	(308)	(99.4)
Amortization of deferred transaction costs	230	486	(52.7)	715	942	(24.1)
Capitalized borrowing costs	(142)	(178)	(20.2)	(293)	(298)	(1.7)
Other	(3,857)	480	—	(5,264)	1,116	—
	13,640	47,123	(71.1)	54,042	94,286	(42.7)

For the second-quarter and first six months of fiscal 2020, financial expense decreased by 71.1% and 42.7%, respectively, mainly due to:

- a non-cash gain on debt modification related to the amendment made to the Senior Secured Term Loan B Facility on February 3, 2020 resulting in the reduction of the interest rate by 0.25%;
- lower debt outstanding under the Canadian Revolving Facility following the sale of Cogeco Peer 1 in fiscal 2019;
- lower debt outstanding and interest rates on the First Lien Credit Facilities; and
- interest revenue resulting from investments of excess cash.

Moreover, the decrease in financial expense for the second quarter of fiscal 2020 also resulted from the depreciation of the US dollar against the Canadian dollar compared to the same period of the prior year.

4.5 INCOME TAXES

	Three months ended			Six months ended		
	February 29, 2020	February 28, 2019	Change	February 29, 2020	February 28, 2019	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Current	5,005	18,003	(72.2)	30,305	31,844	(4.8)
Deferred	18,703	7,203	—	24,951	11,934	—
	23,708	25,206	(5.9)	55,256	43,778	26.2

	Three months ended			Six months ended		
	February 29, 2020	February 28, 2019	Change	February 29, 2020	February 28, 2019	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Profit before income taxes	137,092	112,852	21.5	262,856	214,191	22.7
Combined Canadian income tax rate	26.5%	26.5%	—	26.5%	26.5%	—
Income taxes at combined Canadian income tax rate	36,330	29,906	21.5	69,657	56,761	22.7
Difference in operations' statutory income tax rates	403	205	96.6	1,217	1,022	19.1
Impact on deferred taxes as a result of changes in substantively enacted tax rates	3	295	(99.0)	34	295	(88.5)
Impact on income taxes arising from non-deductible expenses and non-taxable profit	(724)	1,191	—	(1,075)	1,172	—
Tax impacts related to foreign operations	(6,103)	(7,100)	(14.0)	(12,613)	(13,861)	(9.0)
Other	(6,201)	709	—	(1,964)	(1,611)	21.9
	23,708	25,206	(5.9)	55,256	43,778	26.2

Fiscal 2020 second-quarter income taxes expense decreased by 5.9% compared to the same period of the prior year mainly due to:

- a non-recurring current income taxes recovery related to a tax reorganization; and
- the depreciation of the US dollar against the Canadian dollar compared to the same period of the prior year; partly offset by
- the increase in profit before income taxes.

For the first six months of fiscal 2020, income taxes expense increased by 26.2% mainly due to the increase in profit before income taxes.

4.6 PROFIT FOR THE PERIOD

	Three months ended			Six months ended		
	February 29, 2020	February 28, 2019	Change	February 29, 2020	February 28, 2019	Change
<i>(in thousands of dollars, except percentages and earnings per share)</i>	\$	\$	%	\$	\$	%
Profit for the period from continuing operations	113,384	87,646	29.4	207,600	170,413	21.8
Profit for the period	113,384	82,277	37.8	207,600	161,422	28.6
Profit for the period from continuing operations attributable to owners of the Corporation	34,975	27,366	27.8	66,259	54,680	21.2
Profit for the period attributable to owners of the Corporation	34,975	25,667	36.3	66,259	51,835	27.8
Profit for the period attributable to non-controlling interest ⁽¹⁾	78,409	56,610	38.5	141,341	109,587	29.0
Basic earnings per share from continuing operations	2.19	1.69	29.6	4.15	3.37	23.1
Basic earnings earnings per share	2.19	1.58	38.6	4.15	3.19	30.1

(1) At February 29, 2020, the non-controlling interest relates to a participation of approximately 67.8% in the profit for the year attributable to owners of Cogeco Communications in addition to the 21% ownership of Caisse de dépôt et placement du Québec ("CDPQ") in Cogeco Communications' Atlantic Broadband subsidiary.

Fiscal 2020 second-quarter profit for the period from continuing operations and profit for the period from continuing operations attributable to owners of the Corporation increased by 29.4% and 27.8%, respectively, as a result of:

- the decrease in financial expense mainly due to the \$22.9 million non-cash gain on debt modification resulting from the reduction of the interest rate by 0.25%; partly offset by
- lower adjusted EBITDA.

Also, fiscal 2020 second-quarter profit for the period and profit for the period attributable to owners of the Corporation increased by 37.8% and 36.3%, respectively, mainly due to discontinued operations which generated a loss of \$5.4 million for the same period of the prior year in addition to the elements mentioned above.

For the first six months of fiscal 2020, profit for the period from continuing operations and profit for the period from continuing operations attributable to owners of the Corporation increased by 21.8% and 21.2%, respectively, as a result of:

- higher adjusted EBITDA; and
- the decrease in financial expense mainly due to the \$22.9 million non-cash gain on debt modification resulting from the reduction of the interest rate by 0.25%; partly offset by
- the increase in income taxes.

Also, for the first six months of fiscal 2020, profit for the period and profit for the period attributable to owners of the Corporation increased by 28.6% and 27.8%, respectively, mainly due to discontinued operations which generated a loss of \$9.0 million for the same period of the prior year in addition to the elements mentioned above.

5. RELATED PARTY TRANSACTIONS

Cogeco holds 32.2% of Cogeco Communications' equity shares, representing 82.6% of Cogeco Communications' voting shares.

Cogeco provides executive, administrative, financial and strategic planning services and additional services to Cogeco Communications under a Management Services Agreement (the "Agreement"). The methodology used to establish the management fees is based on the costs incurred by Cogeco plus a reasonable mark-up. This cost-plus methodology became effective on May 1, 2019 and was introduced to avoid future variations of the management fee percentage due to frequent changes to Cogeco Communications' consolidated revenue pursuant to business acquisitions and divestitures. Provision is made for future adjustment upon the request of either Cogeco Communications or the Corporation from time to time during the term of the Agreement. For the second-quarter and first six months of fiscal 2020, management fees paid by Cogeco Communications Inc. amounted to \$5.7 million and \$11.0 million, respectively compared to \$4.9 million and \$9.7 million for the same periods of fiscal 2019 as a result of higher corporate costs in Cogeco.

No direct remuneration is payable to Cogeco's executive officers by Cogeco Communications. However, during the first six months of fiscal 2020, Cogeco Communications granted stock options and performance share units ("PSUs") to these executive officers, as executive officers of Cogeco Communications and issued deferred share units ("DSUs") to Board directors of Cogeco, as shown in the following table:

<i>(in number of units)</i>	Six months ended	
	February 29, 2020	February 28, 2019
Stock options	110,875	97,725
PSUs	14,375	14,625
DSUs	1,847	2,469

The following table shows the amounts that Cogeco Communications charged Cogeco with regards to Cogeco Communications' stock options, incentive share units ("ISUs") and PSUs granted to these executive officers, as well as DSUs issued to Board directors of Cogeco:

<i>(in thousands of dollars)</i>	Three months ended		Six months ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
	\$	\$	\$	\$
Stock options	261	195	570	493
ISUs	9	15	22	30
PSUs	385	302	697	502
DSUs	11	64	143	324
	666	576	1,432	1,349

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

6. CASH FLOW ANALYSIS

	Three months ended			Six months ended		
	February 29, 2020	February 28, 2019	Change	February 29, 2020	February 28, 2019	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Cash flow from operating activities	234,559	204,665	14.6	384,065	307,784	24.8
Cash flow from investing activities	(109,523)	(93,288)	17.4	(231,358)	(250,111)	(7.5)
Cash flow from financing activities	(166,785)	(124,761)	33.7	(214,396)	(82,521)	—
Effect of exchange rate changes on cash and cash equivalents denominated in a foreign currency	2,191	(568)	—	2,290	(744)	—
Net change in cash and cash equivalents from continuing operations	(39,558)	(13,952)	—	(59,399)	(25,592)	—
Net change in cash and cash equivalent from discontinued operations	—	2,574	(100.0)	—	(598)	(100.0)
Cash and cash equivalents, beginning of the period	541,117	71,540	—	559,393	86,352	—
Cash and cash equivalents, end of the period	503,117	60,162	—	503,117	60,162	—

At February 29, 2020, the Corporation had a larger excess of cash and cash equivalents compared to the prior year resulting from the sale of Cogeco Peer 1 in the third quarter of fiscal 2019.

6.1 OPERATING ACTIVITIES

Fiscal 2020 second-quarter cash flow from operating activities increased by 14.6% mainly from:

- the increase in changes in non-cash operating activities primarily due to changes in working capital; and
- the decrease in financial expense paid; partly offset by
- lower adjusted EBITDA.

For the first six months of fiscal 2020, cash flow from operating activities increased by 24.8% mainly from:

- higher adjusted EBITDA;
- the decrease in changes in non-cash operating activities primarily due to changes in working capital; and
- the decreases in financial expense paid and in income taxes paid.

6.2 INVESTING ACTIVITIES

Fiscal 2020 second-quarter investing activities increased by 17.4% mainly due to the increase in acquisitions of property, plant and equipment in the Communications segment.

For the first six months of fiscal 2020, investment activities decreased by 7.5% mainly due to:

- the acquisition, on October 3, 2018, of a fibre network and corresponding assets in south Florida previously owned by FiberLight, LLC (the "FiberLight acquisition"); and
- the acquisition on November 26, 2018, of 10 regional stations from the RNC Média acquisition; partly offset by
- the increase in acquisitions of property, plant and equipment in the Communications segment.

BUSINESS COMBINATION

Acquisition of 10 regional radio stations

On November 26, 2018, Cogeco Media completed the acquisition of 10 regional radio stations (9 located in Québec and 1 in Ontario) from RNC Média inc. The transaction, valued at \$19.2 million, was approved on October 11, 2018 by the Canadian Radio-television and Telecommunications Commission.

The acquisition was accounted for using the purchase method and was subject to post closing adjustments. The final allocation of the purchase price of this acquisition is as follows:

	Final November 30, 2019	Preliminary November 30, 2018
<i>(in thousands of dollars)</i>	\$	\$
Purchase price		
Consideration paid at closing	17,174	17,174
Balance due on business combinations	2,000	2,000
Working capital adjustment	(352)	—
	18,822	19,174
Net assets acquired		
Trade and other receivables	2,022	2,354
Prepaid expenses and other	11	31
Property, plant and equipment	1,337	1,337
Intangible assets	6,237	7,354
Goodwill	9,427	8,310
Trade and other payables assumed	(146)	(168)
Contract liabilities and other liabilities assumed	(66)	(44)
	18,822	19,174

ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT

For the second-quarter and first six months of fiscal 2020, acquisitions of property, plant and equipment increased by 18.1% and 19.4% (18.9% and 19.3% in constant currency) compared to the same periods of fiscal 2019 mainly due to the increase of capital expenditures in the Communications segment.

For further details on the Communications segment's capital expenditures, please refer to the "Communications segment" section.

6.3 FINANCING ACTIVITIES

ISSUANCE AND REPAYMENT OF DEBT

For the second-quarter and first six months of fiscal 2020, changes in cash flows from the issuance and repayment of debt are mainly explained as follows:

	Three months ended		Six months ended		Explanations
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019	
<i>(in thousands of dollars)</i>	\$	\$	\$	\$	
Increase (decrease) in bank indebtedness	(12,405)	30,135	732	32,225	Related to the timing of payments made to suppliers.
Net increase (decrease) under the revolving facilities	2,637	(124,114)	1,302	4,458	Repayment of the revolving facilities in fiscal 2019 as a result of generated free cash flow.
Repayment of notes, debentures and credit facilities	(52,096)	(5,592)	(57,744)	(66,250)	Repayment of US\$35 million combined with the quarterly repayment on the Senior Secured Term Loan B Facility during the second quarter of fiscal 2020.
Repayment of lease liabilities	(1,558)	—	(3,123)	—	Related to the adoption of IFRS 16.
Repayment of balance due on business combinations	—	(655)	(3,228)	(655)	Partial repayment of the balance related to the FiberLight acquisition.
	(63,422)	(100,226)	(62,061)	(30,222)	

DIVIDENDS

During the second quarter of fiscal 2020, a quarterly eligible dividend of \$0.475 per share, was paid to the holders of multiple and subordinate voting shares, totalling \$7.6 million, compared to a quarterly eligible dividend of \$0.43 per share, or \$7.0 million, in the second quarter of fiscal 2019. Dividend payment in the first six months of totaled \$0.95 per share, or \$15.1 million, compared to \$0.86 per share, or \$14.0 million, in the prior year.

NORMAL COURSE ISSUER BID ("NCIB") - Cogeco Inc.

During the second quarter and first six months of fiscal 2020, Cogeco purchased and cancelled 61,415 and 84,855 subordinate voting shares, respectively, with an average price per share repurchased of \$99.54 and \$99.32 for a total consideration of \$6.1 million and \$8.4 million.

During the second quarter of fiscal 2019, Cogeco did not purchase and cancel subordinate voting shares. During the first six months of fiscal 2019, Cogeco purchased and cancelled 60,790 subordinate voting shares with an average price per share repurchased of \$59.97 for a total consideration of \$3.6 million.

As a result of the external and extraordinary events and circumstances created by the evolving COVID-19 pandemic and out of caution, the Corporation announced on March 20, 2020 that it is in its best interests to terminate its automatic share purchase plan (the "ASPP") under its NCIB. The NCIB remains in effect on the same terms and subject to the same restrictions as previously disclosed.

NCIB - Cogeco Communications Inc.

During the second quarter and first six months of fiscal 2020, Cogeco Communications purchased and cancelled 652,400 and 795,500 subordinate voting shares, respectively, with an average price per share repurchased of \$108.50 and \$108.71 for a total consideration of \$70.8 million and \$86.5 million. In the comparable periods of fiscal 2019, Cogeco Communications did not purchase and cancel subordinate voting shares as the NCIB program started in the third quarter of fiscal 2019.

As a result of the external and extraordinary events and circumstances created by the evolving COVID-19 pandemic and out of caution, Cogeco Communications has determined that it is in its best interest to terminate its ASPP under its NCIB. Cogeco Communications will terminate the ASPP effective as of April 8, 2020. The NCIB will remain in effect on the same terms and subject to the same restrictions as previously disclosed.

6.4 FREE CASH FLOW

	Three months ended				
	February 29, 2020 ⁽¹⁾	February 28, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Adjusted EBITDA ⁽⁴⁾	279,609	284,863	(1.8)	(1.4)	(1,127)
Amortization of deferred transaction costs and discounts on long-term debt	2,258	2,204	2.5	1.6	(19)
Share-based payment	2,144	3,639	(41.1)	(41.1)	—
Loss on disposals and write-offs of property, plant and equipment	256	270	(5.2)	(5.2)	—
Defined benefit plans expense, net of contributions	581	340	70.9	70.9	—
Integration, restructuring and acquisition costs	(5,458)	(3,823)	42.8	43.1	(14)
Financial expense ⁽³⁾	(36,538)	(47,123)	(22.5)	(23.1)	323
Current income taxes	(5,005)	(18,003)	(72.2)	(72.2)	(3)
Acquisition of property, plant and equipment	(111,222)	(94,138)	18.1	18.9	736
Repayment of lease liabilities	(1,558)	—	—	—	8
Free cash flow⁽⁴⁾	125,067	128,229	(2.5)	(2.4)	(96)

(1) For the three-month period ended February 29, 2020, the average foreign exchange rate used for translation was 1.3182 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3313 USD/CDN.

(3) Excludes the \$22.9 million non-cash gain on debt modification.

(4) 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.

	Six months ended				
	February 29, 2020 ⁽¹⁾	February 28, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Adjusted EBITDA ⁽⁴⁾	570,118	561,064	1.6	1.6	70
Amortization of deferred transaction costs and discounts on long-term debt	4,816	4,357	10.5	10.6	1
Share-based payment	5,363	6,090	(11.9)	(11.9)	—
Loss on disposals and write-offs of property, plant and equipment	1,240	681	82.1	82.1	—
Defined benefit plans expense, net of contributions	1,581	1,233	28.2	28.2	—
Integration, restructuring and acquisition costs	(5,538)	(10,857)	(49.0)	(48.9)	(15)
Financial expense ⁽³⁾	(76,940)	(94,286)	(18.4)	(18.4)	(14)
Current income taxes	(30,305)	(31,844)	(4.8)	(4.8)	(10)
Acquisition of property, plant and equipment	(233,252)	(195,287)	19.4	19.3	(178)
Repayment of lease liabilities	(3,123)	—	—	—	(1)
Free cash flow⁽⁴⁾	233,960	241,151	(3.0)	(2.9)	(147)

(1) For the six-month period ended February 29, 2020, the average foreign exchange rate used for translation was 1.3203 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3198 USD/CDN.

(3) Excludes the \$22.9 million non-cash gain on debt modification.

(4) 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.

Fiscal 2020 second-quarter free cash flow decreased by 2.5% (2.4% in constant currency) mainly as a result of the following:

- the increase in acquisitions of property, plant and equipment in both the Canadian and American broadband services operations; and
- lower adjusted EBITDA; partly offset by
- the decrease in financial expense, excluding the \$22.9 million non-cash gain on debt modification resulting from the reduction of the interest rate by 0.25%; and
- the decrease in current income taxes.

For the first six months of fiscal 2020, free cash flow decreased by 3.0% (2.9% in constant currency) mainly as a result of the following:

- the increase in acquisitions of property, plant and equipment; partly offset by
- the decrease in financial expense, excluding the \$22.9 million non-cash gain on debt modification resulting from the reduction of the interest rate by 0.25%; and
- higher adjusted EBITDA.

6.5 DIVIDEND DECLARATION

At its April 7, 2020 meeting, the Board of Directors of Cogeco declared a quarterly eligible dividend of \$0.475 per share for multiple voting and subordinate voting shares, payable on May 5, 2020 to shareholders of record on April 21, 2020. 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. COMMUNICATIONS SEGMENT

7.1 OPERATING RESULTS

<i>(in thousands of dollars, except percentages)</i>	Three months ended				
	February 29, 2020 ⁽¹⁾	February 28, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
	\$	\$	%	%	\$
Revenue	586,467	584,129	0.4	0.9	(2,637)
Operating expenses	303,441	298,676	1.6	2.1	(1,510)
Management fees – Cogeco Inc.	5,654	4,901	15.4	15.4	—
Adjusted EBITDA	277,372	280,552	(1.1)	(0.7)	(1,127)
Adjusted EBITDA margin	47.3%	48.0%			

(1) For the three-month period ended February 29, 2020, the average foreign exchange rate used for translation was 1.3182 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3313 USD/CDN.

<i>(in thousands of dollars, except percentages)</i>	Six months ended				
	February 29, 2020 ⁽¹⁾	February 28, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
	\$	\$	%	%	\$
Revenue	1,173,294	1,160,802	1.1	1.1	199
Operating expenses	602,773	602,703	—	—	129
Management fees – Cogeco Inc.	11,044	9,696	13.9	13.9	—
Adjusted EBITDA	559,477	548,403	2.0	2.0	70
Adjusted EBITDA margin	47.7%	47.2%			

(1) For the six-month period ended February 29, 2020, the average foreign exchange rate used for translation was 1.3203 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3198 USD/CDN.

REVENUE

<i>(in thousands of dollars, except percentages)</i>	Three months ended				
	February 29, 2020 ⁽¹⁾	February 28, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
	\$	\$	%	%	\$
Canadian broadband services	322,221	326,759	(1.4)	(1.4)	—
American broadband services	264,246	257,370	2.7	3.7	(2,637)
	586,467	584,129	0.4	0.9	(2,637)

(1) For the three-month period ended February 29, 2020, the average foreign exchange rate used for translation was 1.3182 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3313 USD/CDN.

<i>(in thousands of dollars, except percentages)</i>	Six months ended				
	February 29, 2020 ⁽¹⁾	February 28, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
	\$	\$	%	%	\$
Canadian broadband services	643,028	649,224	(1.0)	(1.0)	—
American broadband services	530,266	511,578	3.7	3.6	199
	1,173,294	1,160,802	1.1	1.1	199

(1) For the six-month period ended February 29, 2020, the average foreign exchange rate used for translation was 1.3203 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3198 USD/CDN.

For the second-quarter and first six months of fiscal 2020, revenue remained essentially stable and increased by 1.1%, respectively, (0.9% and 1.1% increases in constant currency) resulting from:

- organic growth in the American broadband services operations mainly as a result of:
 - growth in both residential and business Internet service customers; and
 - rate increases mostly implemented during the fourth quarter of fiscal 2019; partly offset by
 - a decrease in video service customers.
- a decrease in the Canadian broadband services operations mainly due to:
 - a decline in video service customers; and
 - lower net pricing from consumer sales primarily as a result of the carry-over effect of product bundles being promoted more actively from the fourth quarter of fiscal 2019 to the second quarter of fiscal 2020; partly offset by
 - rate increases implemented during the first quarter of fiscal 2020;
 - customers' transition to higher value offerings;
 - continued growth in Internet service customers; and
 - growth in commercial revenue.

OPERATING EXPENSES

	Three months ended				
	February 29, 2020 ⁽¹⁾	February 28, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Canadian broadband services	151,856	152,091	(0.2)	(0.1)	(68)
American broadband services	145,030	140,225	3.4	4.5	(1,442)
Inter-segment eliminations and other	6,555	6,360	3.1	3.1	—
	303,441	298,676	1.6	2.1	(1,510)

(1) For the three-month period ended February 29, 2020, the average foreign exchange rate used for translation was 1.3182 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3313 USD/CDN.

	Six months ended				
	February 29, 2020 ⁽¹⁾	February 28, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Canadian broadband services	301,701	311,417	(3.1)	(3.1)	39
American broadband services	289,400	277,157	4.4	4.4	89
Inter-segment eliminations and other	11,672	14,129	(17.4)	(17.4)	1
	602,773	602,703	—	—	129

(1) For the six-month period ended February 29, 2020, the average foreign exchange rate used for translation was 1.3203 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3198 USD/CDN.

Fiscal 2020 second-quarter operating expenses increased by 1.6% (2.1% in constant currency) mainly from:

- additional costs in the American broadband services operations resulting mainly from:
 - higher compensation expenses and costs related to additional headcount to support growth;
 - higher marketing initiatives to support primary service units growth; and
 - additional costs related to the development and implementation of a new financial and human capital management system; partly offset by
 - the impact of IFRS 16 adoption.
- a decrease in the Canadian broadband services operations due to:
 - lower programming costs resulting from lower video service customers;
 - lower compensation expenses resulting from an operational optimization program implemented in the first half of fiscal 2019; and
 - the impact of IFRS 16 adoption; partly offset by
 - higher marketing initiatives; and
 - additional expenses related to certain initiatives.

For the first six months of fiscal 2020, operating expenses remained the same as reported and in constant currency mainly from:

- additional costs in the American broadband service operations as described above; partly offset by
- a decrease in the Canadian broadband services operations as described above in addition to the following:
 - additional costs of \$4.5 million incurred in the first quarter of fiscal 2019 to support the stabilization phase of the new customer management system implemented in the third quarter of fiscal 2018; and
 - retroactive costs of \$3.2 million incurred in the first quarter of fiscal 2019 related to higher than expected rates established by the Copyright Board of Canada for the retransmission of distant Canadian and American television signals in Canada for the period from 2014 to 2018.
- lower costs in Inter-segment eliminations and other resulting from the timing of corporate projects and initiatives

MANAGEMENT FEES

For the second-quarter and first six months of fiscal 2020, management fees paid to Cogeco reached \$5.7 million and \$11.0 million, respectively, compared to \$4.9 million and \$9.7 million for the same periods of fiscal 2019 as a result of higher corporate costs in Cogeco. For further details on Cogeco Communications' management fees, please refer to the "Related party transactions" section.

ADJUSTED EBITDA

	Three months ended				
	February 29, 2020 ⁽¹⁾	February 28, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Canadian broadband services	170,365	174,668	(2.5)	(2.5)	68
American broadband services	119,216	117,145	1.8	2.8	(1,195)
Inter-segment eliminations and other	(12,209)	(11,261)	8.4	8.4	—
	277,372	280,552	(1.1)	(0.7)	(1,127)

(1) For the three-month period ended February 29, 2020, the average foreign exchange rate used for translation was 1.3182 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3313 USD/CDN.

	Six months ended				
	February 29, 2020 ⁽¹⁾	February 28, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Canadian broadband services	341,327	337,807	1.0	1.1	(39)
American broadband services	240,866	234,421	2.7	2.7	110
Inter-segment eliminations and other	(22,716)	(23,825)	(4.7)	(4.7)	(1)
	559,477	548,403	2.0	2.0	70

(1) For the six-month period ended February 29, 2020, the average foreign exchange rate used for translation was 1.3203 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3198 USD/CDN.

Fiscal 2020 second-quarter adjusted EBITDA decreased by 1.1% (0.7% in constant currency) as a result of:

- a decrease in the Canadian broadband services operations resulting from a decline in revenue; and
- an increase in operating expenses related to the Inter-segment eliminations and other; partly offset by
- an increase in the American broadband services operations mainly as a result of organic revenue growth.

For the first six months of fiscal 2020, adjusted EBITDA increased by 2.0% as reported and in constant currency as a result of:

- an increase in the American broadband services operations mainly as a result of organic revenue growth;
- an increase in the Canadian broadband services operations mainly from a decline in operating expenses; and
- a decline in operating expenses related to the Inter-segment eliminations and other.

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

For the second-quarter and first six months of fiscal 2020, acquisitions of property, plant and equipment increased by 19.5% and 20.1%, respectively, (20.3% and 20.0% in constant currency) mainly as follows:

- In the Canadian broadband services operations, capital expenditures increased by 20.4% and 24.6%, respectively (21.1% and 24.6% in constant currency) resulting from:
 - higher costs related to the maintenance, growth and expansion of our network infrastructure;
 - higher purchases of customer premise equipment due to the timing of certain initiatives; and
 - the increase in capital expenditures for the first six months of fiscal 2020 was also due to higher costs related to the upcoming launch of the new Internet protocol television ("IPTV") platform.
- In the American broadband services operations, capital expenditures increased by 17.8% and 13.1%, respectively, (18.8% and 13.0% in constant currency) resulting from:
 - higher purchases of customer premise equipments resulting from equipment upgrades;
 - acquisition of vehicles;
 - additional investments to improve and expand the network infrastructure in Florida; and
 - costs related to the development and implementation of a new financial and human capital management system.

Acquisitions of property, plant and equipment in the second quarter and first six months of fiscal 2019 were lower due to the timing of certain initiatives such as the development of the IPTV platform and investments to improve and to expand the network infrastructure both in the Canadian broadband services operations.

7.2 CUSTOMER STATISTICS

	February 29, 2020			Net additions (losses) Three months ended		Net additions (losses) Six months ended	
	Consolidated	Canada	United States	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019 ⁽²⁾
Primary service units ⁽¹⁾	2,719,347	1,812,140	907,207	(2,955)	(8,709)	7,535	(48,160)
Internet service customers	1,253,183	795,950	457,233	6,825	9,964	18,803	7,341
Video service customers	945,085	638,833	306,252	(9,879)	(12,021)	(17,053)	(29,643)
Telephony service customers	521,079	377,357	143,722	99	(6,652)	5,785	(25,858)

(1) Represents the sum of Internet, video and telephony customers.

(2) During the third quarter of fiscal 2018, the Canadian broadband services operations implemented a new customer management system, replacing 22 legacy systems. While the customer management system was still in the stabilization phase, contact center congestion resulted in lower services activations during most of the first quarter of 2019. Contact center and marketing operations had returned to normal at the end of the first quarter of 2019.

INTERNET

For the second-quarter and first six months of fiscal 2020, Internet service customers net additions amounted to 6,825 and 18,803, respectively, compared to 9,964 and 7,341 for the same periods of fiscal 2019. The variations were due to:

- the ongoing interest in high speed offerings in Canada;
- the sustained interest in bundle offers;
- the continued demand from Internet resellers in Canada; and
- growth in both the residential and business sectors in the United States; partly offset by
- competitive offers in the industry; and
- seasonal disconnects from the Maine and New Hampshire areas which were lower than the comparable periods of the prior year in the United States.

VIDEO

For the second-quarter and first six months of fiscal 2020, video service customers net losses amounted to 9,879 and 17,053, respectively, compared to 12,021 and 29,643 for the same periods of fiscal 2019. The variations were due to:

- a changing video consumption environment;
- competitive offers in the industry; and
- seasonal disconnects from the Maine and New Hampshire areas; partly offset by
- customers' ongoing interest in digital advanced video services; and
- customers' interest in video services bundled with fast Internet offerings.

TELEPHONY

For the second-quarter and first six months of fiscal 2020, telephony service customers net additions amounted to 99 and 5,785, respectively, compared to net losses of 6,652 and 25,858 for the same periods fiscal 2019. The variations were due to:

- more telephony bundles being marketed during the first half of fiscal 2020 in Canada; and
- growth in the business sector in the United States; partly offset by
- increasing wireless penetration in North America and various unlimited offers launched by wireless operators causing some customers to cancel their landline telephony services for wireless telephony services only.

8. FINANCIAL POSITION

8.1 WORKING CAPITAL

As part of the usual conduct of its business, Cogeco generally maintains a working capital deficiency due to a low level of trade and other receivables as a large proportion of the Corporation's customers pay before their services are rendered, while trade and other payables are paid after products are delivered or services are rendered, enabling the Corporation to use the resulting cash and cash equivalents to reduce Indebtedness. However, the Corporation had a working capital surplus at August 31, 2019 and February 29, 2020 due to the increase in cash and cash equivalents resulting from the sale of Cogeco Peer 1 in the third quarter of fiscal 2019.

The variations are as follows:

	February 29, 2020	August 31, 2019	Change	Explanations
<i>(in thousands of dollars)</i>	\$	\$	\$	
Current assets				
Cash and cash equivalents	503,117	559,393	(56,276)	Please refer to the "Cash flow analysis" section.
Trade and other receivables	108,521	98,375	10,146	Mostly related to revenue growth.
Income taxes receivable	22,862	18,767	4,095	Not significant.
Prepaid expenses and other	33,848	24,184	9,664	Increase in prepayments for annual maintenance agreements.
Derivative financial instrument	425	109	316	Not significant.
	668,773	700,828	(32,055)	
Current liabilities				
Bank indebtedness	732	—	732	Not significant.
Trade and other payables	221,910	276,782	(54,872)	Timing of payments made to suppliers.
Provisions	31,178	36,803	(5,625)	Mainly related to a favorable adjustment of a tax assessment.
Income tax liabilities	15,134	16,693	(1,559)	Not significant.
Contract liabilities and other liabilities	48,951	43,768	5,183	Increase in advance billings due to the growth in primary service units.
Balance due on business combinations	3,293	6,520	(3,227)	Not significant.
Derivative financial instruments	5,177	—	5,177	Related to two derivative financial instruments maturing in January 2021.
Current portion of long-term debt	228,669	22,624	206,045	Related to the Senior Secured Debentures Series 2 maturing in November, 2020 combined with the recognition of the current portion of lease liabilities following the adoption of IFRS 16.
	555,044	403,190	151,854	
Working capital surplus	113,729	297,638	(183,909)	

8.2 OTHER SIGNIFICANT CHANGES

	February 29, 2020	August 31, 2019	Change	Explanations
<i>(in thousands of dollars)</i>	\$	\$	\$	
Non-current assets				
Property, plant and equipment	2,107,215	2,024,173	83,042	Recognition of right-of-use assets following the adoption of IFRS 16 combined with acquisitions of property, plant and equipment during the first half of fiscal 2020 and the appreciation of the US dollar against the Canadian dollar.
Intangible assets	2,926,661	2,938,116	(11,455)	Related to the amortization of intangible assets during the first half of fiscal 2020, partly offset by the appreciation of the US dollar against the Canadian dollar.
Goodwill	1,415,247	1,400,334	14,913	Appreciation of the US dollar against the Canadian dollar.
Non-current liabilities				
Long-term debt	3,249,276	3,439,399	(190,123)	Related to the Senior Secured Debentures Series 2 maturing in November 2020 and the repayment of US\$35 million combined with the quarterly repayment on the Senior Secured Term Loan B Facility during the second quarter of fiscal 2020, partly offset by the recognition of the long-term portion of lease liabilities following the adoption of IFRS 16 and the appreciation of the US dollar against the Canadian dollar.

8.3 OUTSTANDING SHARE DATA

A description of Cogeco's share data at March 31, 2020 is presented in the table below. Additional details are provided in note 12 of the condensed interim consolidated financial statements.

<i>(in thousands of dollars, except number of shares)</i>	Number of shares	Amount \$
Common shares		
Multiple voting shares	1,602,217	10
Subordinate voting shares	14,399,638	115,235

8.4 FINANCING

In the normal course of business, Cogeco has incurred financial obligations, primarily in the form of long-term debt, lease contracts and guarantees. Cogeco's obligations, as reported in the 2019 Annual Report, have not materially changed since August 31, 2019.

On February 3, 2020, Cogeco Communications amended its Senior Secured Term Loan B Facility, whereby the most significant change consisted in the reduction of the interest rate by 0.25%. Consequently, Cogeco Communications recognized, during the second quarter of fiscal 2020, a \$22.9 million non-cash gain on debt modification. As a result, the interest expense on the Senior Secured Term Loan B Facility will be higher than the interest paid until its maturity date in January 2025 as Cogeco Communications will continue to record the interest expense at the effective interest rate in place prior to the amendment.

On December 20, 2019, the Corporation extended its \$100 million Term Revolving Facility maturity date by an additional year until February 3, 2025.

On December 6, 2019, Cogeco Communications' Term Revolving Facility was decreased by \$50 million to \$750 million and the maturity date was extended by an additional year until January 24, 2025. Moreover, on the same date, the maturity date of the US\$150 million Senior Secured Revolving Facility, benefiting two subsidiaries related to Atlantic Broadband, was extended by an additional 18 months until July 4, 2024.

At February 29, 2020, the Corporation had used \$23.8 million of its \$100 million Term Revolving Facility and an amount of \$0.02 million was used from Cogeco Communications' Term Revolving Facility of \$750 million, for remaining availabilities of \$76.2 million and \$749.98 million, respectively. In addition, two subsidiaries of Cogeco Communications also benefit from a Senior Secured Revolving Facility of \$201.4 million (US \$150 million), of which \$3.3 million (US\$2.4 million) was used at February 29, 2020 for a remaining availability of \$198.2 million (US\$147.6 million).

8.5 COGECO COMMUNICATIONS CREDIT RATINGS

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

At February 29, 2020	S&P	DBRS	Moody's
Cogeco Communications			
Senior Secured Notes and Debentures	BBB-	BBB (low)	NR
Atlantic Broadband			
First Liens Credit Facilities	BB	NR	B1

NR : Not rated

Our ability to access debt capital markets and bank credit markets and the cost and amount of funding available partly depends on the quality of our credit ratings. Obligations rated in the "BBB" category are considered investment grade and their cost of funding is typically lower relative to the "BB/B" rating category. In addition, obligations with "BBB" ratings generally have greater access to funding than those with "BB/B" ratings.

On January 28, 2020, S&P raised the credit rating of Atlantic Broadband's First Liens Credit Facilities by one notch from BB- to BB given that its strategic importance to Cogeco Communications has increased over time.

8.6 FINANCIAL MANAGEMENT

Interest rate risk

The Corporation and its subsidiary, Cogeco Communications, are exposed to interest rate risk on their floating interest rate instruments. Interest rate fluctuations will have an effect on the repayment of these instruments. At February 29, 2020, all of the Corporation's and Cogeco Communications' long-term debt were at fixed rate, except for the amounts drawn under the Corporation's Term Revolving Facility and Cogeco Communications' First Lien Credit Facilities which are subject to floating interest rates.

To reduce the risk on the floating interest rate instruments and mitigate the impact of interest rate variations, Cogeco Communications' US subsidiary entered into fixed interest rate swap agreements. The following table shows the interest rate swaps outstanding at February 29, 2020:

Type of hedge	Notional amount	Receive interest rate	Pay interest rate	Maturity	Hedged item
Cash flow	US\$1.1 billion	US Libor base rate	2.017% - 2.262%	January 2021 - 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 \$7.4 million based on the outstanding debt at February 29, 2020.

Foreign exchange risk

Cogeco Communications is exposed to foreign exchange risk with respect to the interest associated with its long-term debt denominated in US dollars. The impact of a 10% increase in the exchange rate of the US dollar into Canadian dollars would increase financial expense by approximately \$10.9 million based on the outstanding debt at February 29, 2020.

Furthermore, Cogeco Communications' net investments in foreign operations are exposed to market risk attributable to fluctuations in foreign currency exchange rates, notably changes in the value of the Canadian dollar versus the US dollar. The risk related to the US dollar aggregate investments is mitigated since a portion was borrowed in US dollars.

The following table shows the aggregate investments in foreign operations attributable to owners of Cogeco Communications and the notional amount of debt borrowed to hedge these investments at February 29, 2020:

Type of hedge	Notional amount of debt	Aggregate investments	Hedged item
Net investments	US\$390 million	US\$1,047 million	Net investments in foreign operations in US dollar

The exchange rate used to convert the US dollar currency into Canadian dollars for the statement of financial position accounts at February 29, 2020 was \$1.3429 (\$1.3295 at August 31, 2019) per US dollar. A 10% decrease in the exchange rate of the US dollar into Canadian dollars would decrease other comprehensive income by approximately \$88.2 million.

Market risk

The Corporation and its subsidiary, Cogeco Communications, use derivative instruments to manage the cash flow exposure to the risk of changes in the price of their subordinate voting shares under the deferred share unit ("DSU") plans. As such, the Corporation and Cogeco Communications use equity swap agreements to economically hedge the market price appreciation risk of their subordinate voting shares. As at February 29, 2020 the fair value of the equity swaps was \$0.1 million and recognized as an asset. A 10% increase in the market price of the subordinate voting shares at February 29, 2020 would result in a gain of approximately \$0.9 million due to the equity swaps fair value appreciation, offset by a \$0.9 million increase in the DSU plans expense.

The following table shows the Corporation's equity derivative contracts outstanding at February 29, 2020:

Type of hedge	Notional	Maturity	Average share price	Hedged item
Economic	37,100 units	January 2021	\$93.33	Equity price exposure

The following table shows Cogeco Communications' equity derivative contracts outstanding at February 29, 2020:

Type of hedge	Notional	Maturity	Average share price	Hedged item
Economic	48,000 units	January 2021	\$102.61	Equity price exposure

8.7 FOREIGN CURRENCY

For the three and six-month periods ended February 29, 2020, the average rates prevailing used to convert the operating results of the Communications segment were as follows:

	Three months ended				Six months ended			
	February 29, 2020	February 28, 2019	Change	Change	February 29, 2020	February 28, 2019	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
US dollar vs Canadian dollar	1.3182	1.3313	(0.01)	(1.0)	1.3203	1.3198	—	—

The following table highlights in Canadian dollars, the impact of a 10% depreciation of the Canadian dollar against the US dollar on the Communications segment's results for the six-month period ended February 29, 2020:

	Communications segment
Six months ended February 29, 2020	Exchange rate impact
<i>(in thousands of dollars)</i>	\$
Revenue	53,027
Operating expenses	30,473
Management fees - Cogeco Inc.	—
Adjusted EBITDA	22,554
Acquisitions of property, plant and equipment	16,069
Free cash flow	94

9. 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 of 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's 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 February 29, 2020, and concluded that they are adequate. Furthermore, no significant changes to the internal controls over financial reporting occurred during the three and six-month periods ended February 29, 2020.

10. UNCERTAINTIES AND MAIN RISK FACTORS

A detailed description of the uncertainties and main risk factors faced by Cogeco can be found in the 2019 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 2019 Annual Report, which are hereby incorporated by reference.

REGULATORY RISKS

On August 15, 2019, the Canadian Radio-television and Telecommunications Commission ("CRTC") issued its costing decision setting new rates for aggregated wholesale Internet services for resellers, significantly lowering the interim rates it had previously fixed in 2016 and applying the new rates on a retroactive basis. On September 13, 2019, Cogeco Communications, along with other telecommunications service providers (the "Cable Carriers"), jointly filed an application for leave to appeal the CRTC order to the Federal Court of Appeal ("FCA") and to suspend its effect pending the Court decision to hear the matter. On November 22, 2019, the FCA granted leave to appeal the CRTC decision and stayed the order pending final judgement, with the result that operators do not have at the moment to implement the new rates nor to make the retroactive payments. The case is set to be heard before the FCA on June 23, 2020. In addition to the FCA appeal, on November 13, 2019, the Cable Carriers filed a petition with the Governor in Council, asking Cabinet to refer the CRTC order back to the CRTC for reconsideration in conjunction with the CRTC's planned review of its regulatory framework for wireline wholesale services and in accordance with specific policy considerations. The Cabinet petition was gazetted on December 13, 2019. Interested parties filed comments on February 14, 2020. Furthermore, on December 13, 2019, the Cable Carriers submitted to the CRTC an application for review and variance of the CRTC order, based on substantial doubt as to the correctness of the rate setting methodology relied upon by the CRTC in the order. Comments were filed by interested parties and the Cable Carriers filed their reply on March 13, 2020. The Corporation has therefore not recorded the impact of the new reduced rates in the financial statements for the three and six-month periods ended February 29, 2020.

PUBLIC HEALTH CRISIS AND EMERGENCIES SUCH AS AN EPIDEMIC OR A PANDEMIC

The COVID-19 pandemic crisis evolves rapidly and could have a material adverse impact on the business, operating results and financial condition of the Corporation. The extent to which the COVID-19 pandemic may impact our business and activities will depend on future developments, which are highly uncertain and cannot be predicted with confidence, such as the spread of the disease, the duration of the outbreak, its impact on consumer spending, any disruption in the supply chain, and the effectiveness of the actions taken by the Canadian and US authorities to manage this pandemic. If it continues to spread at the current pace, disruption to consumer spending and trade could trigger a global recession. Management will continue to monitor the situation closely as it develops. Please refer to the section "Fiscal 2020 outlook and financial guidelines" for more details.

11. ACCOUNTING POLICIES

11.1 ADOPTION OF NEW ACCOUNTING STANDARD AND INTERPRETATION

IFRS 16

Effective September 1, 2019, the Corporation adopted IFRS 16 *Leases* using the modified retrospective approach whereby the financial statements of prior periods presented are not restated and the cumulative effect of the initial application is adjusted to opening retained earnings. IFRS 16 replaces previous accounting standards for leases, including IAS 17 *Leases* and IFRIC 4 *Determining whether an arrangement contains a lease*, and establishes a comprehensive model for the identification of lease arrangements, their recognition, measurement, presentation and disclosure in the financial statements of the lessees and lessors.

IFRS 16 eliminates the distinction between operating and finance leases for lessees, requiring instead the recognition on the statement of financial position of a right-of-use asset (representing the right to use the underlying asset) and a lease liability (representing the obligation to make the lease payments) for all leases at lease commencement, with certain exceptions permitted through elections and practical expedients. The accounting treatment for lessors and for leases previously classified as finance leases remains largely the same as under IAS 17.

As a result of adopting IFRS 16, the Corporation has recognized an increase to both assets and liabilities on the consolidated statement of financial position, stemming from the recognition of the right-of-use ("ROU") assets and the corresponding lease liabilities. Lease liabilities at transition have been measured at the present value of remaining future lease payments discounted at the related incremental borrowing rate as at September 1, 2019. ROU assets at transition have been measured at an amount equal to the lease liability, adjusted for any prepaid or accrued rent related to that lease. The ROU assets are presented within *Property, plant and equipment* and the lease liabilities within *Long-term debt*.

The total lease expenses over the lease term remain unchanged, however the timing of recognition of these expenses are effected. Relative to leases that have previously been accounted for as operating leases, the Corporation has recognized a decrease in *Operating expenses* (due to the removal of rent expense), an increase in *Depreciation and amortization* (due to the depreciation of the ROU asset) and an increase in *Financial expense* (due to the accretion of the lease liability), on the consolidated statement of profit or loss.

Although the actual cash flows relative to leases that have previously been accounted for as operating leases are unaffected, the Corporation has presented an increase in cash flows from operating activities and a decrease in cash flows from financing activities, on the consolidated statement of cash flows. This is the result of the presentation of the payment of the principal component of these leases as a cash flow use within the financing activities under the new standard, versus an operating activities cash flow use under IAS 17.

As permitted by IFRS 16, the Corporation has elected to apply certain practical expedients, most notably:

- Not separating non-lease components from lease components for certain classes of underlying assets;
- Applying a single discount rate to a portfolio of leases with similar characteristics;
- Excluding initial direct costs from measuring the right-of-use assets as at September 1, 2019;
- Using hindsight in determining the lease term where the contract contains extension or termination options;
- Electing not to recognize lease liabilities and right-of-use assets for short-term leases or low-value leases;
- Electing to exclude intangible assets from the application of IFRS 16.

The table below shows the impact of adopting IFRS 16 on the September 1, 2019 consolidated statement of financial position:

	August 31, 2019		September 1, 2019
	As reported	IFRS 16 impact	Upon adoption of IFRS 16
<i>(in thousands of dollars)</i>	\$	\$	\$
Property, plant and equipment	2,024,173	61,525	2,085,698
Current portion of long-term debt	22,624	5,882	28,506
Long-term debt	3,439,399	60,578	3,499,977
Contract liabilities and other liabilities	14,450	(4,935)	9,515

The difference between operating lease commitments of \$191 million at August 31, 2019 and lease liabilities of \$66.5 million recognized upon adoption of IFRS 16 at September 1, 2019 was mainly the result of:

- The exclusion of approximately \$89 million of lease payments related to agreements that do not meet the criteria set out in IFRS 16, most notably for rent of support structures;
- The exclusion of approximately \$43 million of certain costs contractually committed under lease contracts, which do not qualify to be accounted for as lease liabilities, such as variable lease payments not tied to an index or rate;
- The diminishing effect of discounting the minimum lease payments, using the weighted average incremental borrowing rate of 3.86% at September 1, 2019, of approximately \$23 million;
- The inclusion of approximately \$35 million of lease payments related to reasonably certain renewal periods or extension options that had not been exercised at August 31, 2019;

The adoption of IFRS 16 had no significant impact on the Corporation's adjusted EBITDA.

IFRIC 23

IFRIC 23 *Uncertainty over income tax treatments* clarifies the application of recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers uncertain tax treatments separately or as a group, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. The adoption of IFRIC 23 on September 1, 2019 had no impact on the consolidated financial statements.

12. NON-IFRS FINANCIAL MEASURES

This section describes non-IFRS financial measures used by Cogeco 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" and "adjusted EBITDA" 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 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 measure
Adjusted EBITDA	Adjusted EBITDA is a key measure commonly reported and used in the telecommunications industry, as it allows comparisons between companies that have different capital structures and is a more current measure since it excludes 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 's business units is equal to the segment profit reported in note 4 of the condensed interim consolidated financial statements.	Adjusted EBITDA: - Profit for the period from continuing operations add: - Income taxes; - Financial expense; - Depreciation and amortization; and - Integration, restructuring and acquisition costs.	Profit for the period from continuing operations
Free cash flow ⁽¹⁾	Management and investors use free cash flow to measure Cogeco's ability to repay debt, distribute capital to its shareholders and finance its growth.	Free cash flow ⁽¹⁾ : - Adjusted EBITDA add: - Amortization of deferred transaction costs and discounts on long-term debt; - Share-based payment; - Loss on disposals and write-offs of property, plant and equipment; - Defined benefit plans expense, net of contributions; deduct: - Integration, restructuring and acquisition costs; - Financial expense ⁽²⁾ ; - Current income taxes; - Acquisition of property, plant and equipment ⁽³⁾ ; and - Repayment of lease liabilities.	Cash flow from operating activities
Constant currency basis	Revenue, operating expenses, adjusted EBITDA, acquisitions of property, plant and equipment 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 at the foreign exchange rates of the comparable periods of the prior year. The average foreign exchange rate during the three and six-month periods ended February 28, 2019 were 1.3313 USD/CDN and 1.3198 USD/CDN, respectively.	No comparable IFRS measure

(1) During the second quarter of fiscal 2020, the Corporation modified the calculation method of its free cash flow in order to reflect how the Corporation analyzed and makes projections of its free cash flow. This modification has no impact on the result under the current and former calculation, and therefore free cash flow for the comparable periods were not affected by this change.

(2) Excludes the non-cash gain on debt modification.

(3) Excludes the acquisition of right-of-use assets and the purchases of spectrum licenses.

12.1 FREE CASH FLOW RECONCILIATION

The reconciliation of free cash flow to the most comparable IFRS measure is as follows:

	Three months ended		Six months ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
<i>(in thousands of dollars)</i>	\$	\$	\$	\$
Cash flow from operating activities	236,117	204,665	387,188	307,784
Amortization of deferred transaction costs and discounts on long-term debt	2,258	2,204	4,816	4,357
Changes in non-cash operating activities	(8,816)	16,809	77,840	112,199
Income taxes paid	18,879	21,564	36,100	49,035
Current income taxes	(5,005)	(18,003)	(30,305)	(31,844)
Financial expense paid	30,952	42,251	71,636	89,193
Financial expense ⁽¹⁾	(36,538)	(47,123)	(76,940)	(94,286)
Acquisition of property, plant and equipment	(111,222)	(94,138)	(233,252)	(195,287)
Repayment of lease liabilities	(1,558)	—	(3,123)	—
Free cash flow	125,067	128,229	233,960	241,151

(1) Excludes the \$22.9 million non-cash gain on debt modification.

12.2 ADJUSTED EBITDA RECONCILIATION

The reconciliation of adjusted EBITDA to the most comparable IFRS measure

	Three months ended		Six months ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
<i>(in thousands of dollars)</i>	\$	\$	\$	\$
Profit for the period from continuing operations	113,384	87,646	207,600	170,413
Income taxes	23,708	25,206	55,256	43,778
Financial expense	13,640	47,123	54,042	94,286
Depreciation and amortization	123,419	121,065	247,682	241,730
Integration, restructuring and acquisition costs	5,458	3,823	5,538	10,857
Adjusted EBITDA	279,609	284,863	570,118	561,064

13. SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION

Three months ended	February 29,	February 28,	November 30,	August 31,	May 31,			
	2020	2019	2019	2018	2019	2018	2019	2018
<i>(in thousands of dollars, except per share data)</i>	\$	\$	\$	\$	\$	\$	\$	\$
Operations								
Revenue	610,797	608,574	618,469	607,361	610,510	592,277	617,617	598,877
Adjusted EBITDA	279,609	284,863	290,509	276,201	280,981	268,942	289,935	277,397
Integration, restructuring and acquisition costs	5,458	3,823	80	7,034	839	1,812	1,155	2,260
Profit for the period from continuing operations	113,384	87,646	94,216	82,767	95,193	78,340	102,559	76,116
Profit (loss) for the period from discontinued operations	—	(5,369)	—	(3,622)	1,920	(1,052)	82,451	(5,365)
Profit for the period	113,384	82,277	94,216	79,145	97,113	77,288	185,010	70,751
Profit for the period from continuing operations attributable to owners of the Corporation	34,975	27,366	31,284	27,314	30,798	25,498	33,744	26,854
Profit for the period attributable to owners of the Corporation	34,975	25,667	31,284	26,168	31,445	25,165	59,883	25,155
Cash flow								
Cash flow from operating activities	236,117	204,665	151,071	103,119	314,905	268,679	267,388	171,757
Acquisitions of property, plant and equipment	111,222	94,138	122,030	101,149	146,599	164,472	97,169	98,950
Free cash flow	125,067	128,229	108,893	112,922	87,611	51,354	140,393	109,446
Earnings (loss) per share⁽¹⁾								
Basic								
From continuing operations	2.19	1.69	1.96	1.68	1.91	1.56	2.09	1.64
From discontinued operations	—	(0.10)	—	(0.07)	0.04	(0.02)	1.62	(0.10)
From continuing and discontinued operations	2.19	1.58	1.96	1.61	1.95	1.54	3.71	1.54
Diluted								
From continuing operations	2.18	1.67	1.94	1.67	1.89	1.55	2.07	1.63
From discontinued operations	—	(0.10)	—	(0.07)	0.04	(0.02)	1.61	(0.10)
From continuing and discontinued operations	2.18	1.57	1.94	1.60	1.93	1.52	3.68	1.52
Dividends per share	0.475	0.43	0.475	0.43	0.43	0.39	0.43	0.39

(1) Per multiple and subordinate voting share.

13.1 SEASONAL VARIATIONS

Cogeco's operating results are not generally subject to material seasonal fluctuations except as follows. In the Communications segment, 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 towns with education institutions. In the United States, certain areas are also subject to seasonal fluctuations due to the winter and summer seasons.

14. ADDITIONAL INFORMATION

This MD&A was prepared on April 7, 2020. 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/ Louis Audet
Louis Audet
Executive Chairman of the Board

/s/ Philippe Jetté
Philippe Jetté
President and Chief Executive Officer

Cogeco Inc.
Montréal, Québec
April 7, 2020



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and six-month periods ended February 29, 2020

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

	Notes	Three months ended		Six months ended	
		February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
<i>(In thousands of Canadian dollars, except per share data)</i>					
		\$	\$	\$	\$
Revenue	3	610,797	608,574	1,229,266	1,215,935
Operating expenses	6	331,188	323,711	659,148	654,871
Integration, restructuring and acquisition costs	4	5,458	3,823	5,538	10,857
Depreciation and amortization	7	123,419	121,065	247,682	241,730
Financial expense	8	13,640	47,123	54,042	94,286
Profit before income taxes		137,092	112,852	262,856	214,191
Income taxes	9	23,708	25,206	55,256	43,778
Profit for the period from continuing operations		113,384	87,646	207,600	170,413
Loss for the period from discontinued operations		—	(5,369)	—	(8,991)
Profit for the period		113,384	82,277	207,600	161,422
Profit for the period attributable to:					
Owners of the Corporation		34,975	25,667	66,259	51,835
Non-controlling interest		78,409	56,610	141,341	109,587
		113,384	82,277	207,600	161,422
Earnings (loss) per share					
Basic	10				
Profit for the period from continuing operations		2.19	1.69	4.15	3.37
Loss for the period from discontinued operations		—	(0.10)	—	(0.18)
Profit for the period		2.19	1.58	4.15	3.19
Diluted	10				
Profit for the period from continuing operations		2.18	1.67	4.12	3.34
Loss for the period from discontinued operations		—	(0.10)	—	(0.18)
Profit for the period		2.18	1.57	4.12	3.17

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

	Three months ended		Six months ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
<i>(In thousands of Canadian dollars)</i>	\$	\$	\$	\$
Profit for the period	113,384	82,277	207,600	161,422
Other comprehensive income				
Items to be subsequently reclassified to profit or loss				
<i>Cash flow hedging adjustments</i>				
Net change in fair value of hedging derivative financial instruments	(24,958)	(21,021)	(9,829)	(18,288)
Related income taxes	6,589	5,572	2,604	4,847
	(18,369)	(15,449)	(7,225)	(13,441)
<i>Foreign currency translation adjustments</i>				
Net foreign currency translation differences on net investments in foreign operations	19,538	(16,759)	18,869	15,324
Net changes on translation of long-term debt designated as hedges of net investments in foreign operations	(5,458)	9,289	(5,224)	(7,982)
Related income taxes	(68)	—	(68)	—
	14,012	(7,470)	13,577	7,342
	(4,357)	(22,919)	6,352	(6,099)
Items not to be subsequently reclassified to profit or loss				
<i>Defined benefit plans actuarial adjustments</i>				
Remeasurement of net defined benefit liability or asset	(7,479)	(3,584)	(714)	(6,174)
Related income taxes	2,053	950	260	1,706
	(5,426)	(2,634)	(454)	(4,468)
	(9,783)	(25,553)	5,898	(10,567)
Comprehensive income for the period	103,601	56,724	213,498	150,855
Comprehensive income for the period attributable to:				
Owners of the Corporation	28,675	17,806	66,640	45,959
Non-controlling interest	74,926	38,918	146,858	104,896
	103,601	56,724	213,498	150,855

COGECO INC.
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

	Equity attributable to owners of the Corporation				Equity attributable to non-controlling interest	Total shareholders' equity
	Share capital	Share-based payment reserve	Accumulated other comprehensive income	Retained earnings		
<i>(In thousands of Canadian dollars)</i>	\$	\$	\$	\$	\$	\$
	(Note 12)		(Note 13)			
Balance at August 31, 2018	108,838	9,147	36,335	556,588	1,700,783	2,411,691
Profit for the period	—	—	—	51,835	109,587	161,422
Other comprehensive loss for the period	—	—	(2,859)	(3,017)	(4,691)	(10,567)
Comprehensive income for the period	—	—	(2,859)	48,818	104,896	150,855
Share-based payment	—	2,653	—	—	2,370	5,023
Issuance of subordinate voting shares by a subsidiary to non-controlling interest	—	(93)	—	—	1,382	1,289
Dividends (Note 12 C))	—	—	—	(13,957)	(35,373)	(49,330)
Effect of changes in ownership of a subsidiary on non-controlling interest	—	—	—	23	(23)	—
Purchase and cancellation of subordinate voting shares	(494)	—	—	(3,152)	—	(3,646)
Distribution to employees of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	2,665	(1,963)	—	(702)	—	—
Distribution to employees, by a subsidiary, of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	—	(1,108)	—	(104)	1,212	—
Total contributions by (distributions to) shareholders	2,171	(511)	—	(17,892)	(30,432)	(46,664)
Balance at February 28, 2019	111,009	8,636	33,476	587,514	1,775,247	2,515,882
Balance at August 31, 2019	106,106	9,165	10,116	629,381	1,869,111	2,623,879
Profit for the period	—	—	—	66,259	141,341	207,600
Other comprehensive income for the period	—	—	831	(450)	5,517	5,898
Comprehensive income for the period	—	—	831	65,809	146,858	213,498
Share-based payment	—	2,255	—	—	2,234	4,489
Issuance of subordinate voting shares by a subsidiary to non-controlling interest	—	(270)	—	—	5,614	5,344
Dividends (Note 12 C))	—	—	—	(15,149)	(38,599)	(53,748)
Effect of changes in ownership of a subsidiary on non-controlling interest	—	—	—	(15,519)	15,519	—
Purchase and cancellation of subordinate voting shares	(686)	—	—	(7,742)	—	(8,428)
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	(2,801)	—	—	—	—	(2,801)
Distribution to employees of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	2,325	(1,494)	—	(831)	—	—
Purchase and cancellation of subordinate voting shares by a subsidiary	—	—	—	(20,583)	(65,894)	(86,477)
Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	—	—	—	—	(5,643)	(5,643)
Distribution to employees, by a subsidiary, of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	—	(941)	—	(227)	1,168	—
Total distributions to shareholders	(1,162)	(450)	—	(60,051)	(85,601)	(147,264)
Balance at February 29, 2020	104,944	8,715	10,947	635,139	1,930,368	2,690,113

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

	Notes	February 29, 2020	August 31, 2019
		\$	\$
<i>(In thousands of Canadian dollars)</i>			
Assets			
Current			
Cash and cash equivalents		503,117	559,393
Trade and other receivables		108,521	98,375
Income taxes receivable		22,862	18,767
Prepaid expenses and other		33,848	24,184
Derivative financial instruments		425	109
		668,773	700,828
Non-current			
Other assets		45,019	40,412
Property, plant and equipment		2,107,215	2,024,173
Intangible assets		2,926,661	2,938,116
Goodwill		1,415,247	1,400,334
Deferred tax assets		21,510	21,174
		7,184,425	7,125,037
Liabilities and Shareholders' equity			
Liabilities			
Current			
Bank indebtedness		732	—
Trade and other payables		221,910	276,782
Provisions		31,178	36,803
Income tax liabilities		15,134	16,693
Contract liabilities and other liabilities		48,951	43,768
Balance due on business combinations		3,293	6,520
Derivative financial instruments		5,177	—
Current portion of long-term debt	11	228,669	22,624
		555,044	403,190
Non-current			
Long-term debt	11	3,249,276	3,439,399
Derivative financial instruments		50,747	46,044
Contract liabilities and other liabilities		12,620	14,450
Pension plan liabilities and accrued employee benefits		27,355	24,186
Deferred tax liabilities		599,270	573,889
		4,494,312	4,501,158
Shareholders' equity			
Equity attributable to owners of the Corporation			
Share capital	12 B)	104,944	106,106
Share-based payment reserve		8,715	9,165
Accumulated other comprehensive income	13	10,947	10,116
Retained earnings		635,139	629,381
		759,745	754,768
Equity attributable to non-controlling interest		1,930,368	1,869,111
		2,690,113	2,623,879
		7,184,425	7,125,037

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

	Notes	Three months ended		Six months ended	
		February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
<i>(In thousands of Canadian dollars)</i>					
		\$	\$	\$	\$
Cash flow from operating activities					
Profit for the period from continuing operations		113,384	87,646	207,600	170,413
Adjustments for:					
Depreciation and amortization	7	123,419	121,065	247,682	241,730
Financial expense	8	13,640	47,123	54,042	94,286
Income taxes	9	23,708	25,206	55,256	43,778
Share-based payment		2,144	3,639	5,363	6,090
Loss on disposals and write-offs of property, plant and equipment		256	270	1,240	681
Defined benefit plans expense, net of contributions		581	340	1,581	1,233
		277,132	285,289	572,764	558,211
Changes in non-cash operating activities	14	8,816	(16,809)	(77,840)	(112,199)
Financial expense paid		(30,952)	(42,251)	(71,636)	(89,193)
Income taxes paid		(18,879)	(21,564)	(36,100)	(49,035)
		236,117	204,665	387,188	307,784
Cash flow from investing activities					
Acquisition of property, plant and equipment		(111,222)	(94,138)	(233,252)	(195,287)
Business combinations, net of cash and cash equivalents acquired		—	—	—	(56,050)
Proceeds on disposals of property, plant and equipment		1,699	850	1,894	1,226
		(109,523)	(93,288)	(231,358)	(250,111)
Cash flow from financing activities					
Increase (decrease) in bank indebtedness		(12,405)	30,135	732	32,225
Net increase (decrease) under the revolving facilities		2,637	(124,114)	1,302	4,458
Repayment of notes, debentures and credit facilities		(52,096)	(5,592)	(57,744)	(66,250)
Repayment of lease liabilities		(1,558)	—	(3,123)	—
Repayment of balance due on a business combination		—	(655)	(3,228)	(655)
Increase in deferred transaction costs		(582)	(612)	(582)	(612)
Purchase and cancellation of subordinate voting shares		(6,114)	—	(8,428)	(3,646)
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	12 B)	—	—	(2,801)	—
Dividends paid on multiple voting shares	12 C)	(761)	(779)	(1,622)	(1,559)
Dividends paid on subordinate voting shares	12 C)	(6,789)	(6,199)	(13,527)	(12,398)
Issuance of subordinate voting shares by a subsidiary to non-controlling interest		849	745	5,344	1,289
Purchase and cancellation of subordinate voting shares by a subsidiary		(70,787)	—	(86,477)	—
Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans		—	—	(5,643)	—
Dividends paid on subordinate voting shares by a subsidiary to non-controlling interest		(19,179)	(17,690)	(38,599)	(35,373)
		(166,785)	(124,761)	(214,396)	(82,521)
Effect of exchange rate changes on cash and cash equivalents denominated in a foreign currency		2,191	(568)	2,290	(744)
Net change in cash and cash equivalents from continuing operations		(38,000)	(13,952)	(56,276)	(25,592)
Net change in cash and cash equivalents from discontinued operations		—	2,574	—	(598)
Cash and cash equivalents, beginning of the period		541,117	71,540	559,393	86,352
Cash and cash equivalents, end of the period		503,117	60,162	503,117	60,162

COGECO INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

February 29, 2020

(unaudited)

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

NATURE OF OPERATIONS

Cogeco Inc. ("Cogeco" or the "Corporation") is a diversified holding corporation which operates in the communications and media sectors.

Its Cogeco Communications Inc. ("Cogeco Communications") subsidiary provides residential and business customers with Internet, video and telephony services through its two-way broadband fibre networks, operating in Québec and Ontario, Canada, under the Cogeco Connexion name, and in the United States under the Atlantic Broadband brand (in 11 states along the East Coast, from Maine to Florida).

Its Cogeco Media subsidiary owns and operates 23 radio stations with complementary radio formats and extensive coverage serving a wide range of audiences mainly across the province of Québec, as well as Cogeco News, its news agency.

Cogeco is a Canadian public corporation whose subordinate voting shares are listed on the Toronto Stock Exchange ("TSX") under the trading symbol "CGO". The subordinate voting shares of Cogeco Communications are also listed on the 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 2019 annual consolidated financial statements.

These condensed interim consolidated financial statements have been prepared with the accounting policies the Corporation adopted in its 2019 annual consolidated financial statements, unless as mentioned in Note 2. 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 Communications segment, 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. The Corporation 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 United States, 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 April 7, 2020.

COGECO INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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(amounts in tables are in thousands of Canadian dollars, except number of shares or units and per share data)

2. ACCOUNTING POLICY DEVELOPMENTS

ADOPTION OF NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

IFRS 16

Effective September 1, 2019, the Corporation adopted IFRS 16 *Leases* using the modified retrospective approach whereby the financial statements of prior periods presented are not restated and the cumulative effect of the initial application is adjusted to opening retained earnings. IFRS 16 replaces previous accounting standards for leases, including IAS 17 *Leases* and IFRIC 4 *Determining whether an arrangement contains a lease*, and establishes a comprehensive model for the identification of lease arrangements, their recognition, measurement, presentation and disclosure in the financial statements of the lessees and lessors.

IFRS 16 eliminates the distinction between operating and finance leases for lessees, requiring instead the recognition on the statement of financial position of a right-of-use asset (representing the right to use the underlying asset) and a lease liability (representing the obligation to make the lease payments) for all leases at lease commencement, with certain exceptions permitted through elections and practical expedients. The accounting treatment for lessors and for leases previously classified as finance leases remains largely the same as under IAS 17.

As a result of adopting IFRS 16, the Corporation has recognized an increase to both assets and liabilities on the consolidated statement of financial position, stemming from the recognition of the right-of-use ("ROU") assets and the corresponding lease liabilities. Lease liabilities at transition have been measured at the present value of remaining future lease payments discounted at the related incremental borrowing rate as at September 1, 2019. ROU assets at transition have been measured at an amount equal to the lease liability, adjusted for any prepaid or accrued rent related to that lease. The ROU assets are presented within *Property, plant and equipment* and the lease liabilities within *Long-term debt*.

The total lease expenses over the lease term remain unchanged, however the timing of recognition of these expenses are effected. Relative to leases that have previously been accounted for as operating leases, the Corporation has recognized a decrease in *Operating expenses* (due to the removal of rent expense), an increase in *Depreciation and amortization* (due to the depreciation of the ROU asset) and an increase in *Financial expense* (due to the accretion of the lease liability), on the consolidated statement of profit or loss.

Although the actual cash flows relative to leases that have previously been accounted for as operating leases are unaffected, the Corporation has presented an increase in cash flows from operating activities and a decrease in cash flows from financing activities, on the consolidated statement of cash flows. This is the result of the presentation of the payment of the principal component of these leases as a cash flow use within the financing activities under the new standard, versus an operating activities cash flow use under IAS 17.

As permitted by IFRS 16, the Corporation has elected to apply certain practical expedients, most notably:

- Not separating non-lease components from lease components for certain classes of underlying assets;
- Applying a single discount rate to a portfolio of leases with similar characteristics;
- Excluding initial direct costs from measuring the right-of-use assets as at September 1, 2019;
- Using hindsight in determining the lease term where the contract contains extension or termination options;
- Electing not to recognize lease liabilities and right-of-use assets for short-term leases or low-value leases;
- Electing to exclude intangible assets from the application of IFRS 16.

The table below shows the impact of adopting IFRS 16 on the September 1, 2019 consolidated statement of financial position:

	August 31, 2019		September 1, 2019
	As reported	IFRS 16 impact	Upon adoption of IFRS 16
	\$	\$	\$
Property, plant and equipment	2,024,173	61,525	2,085,698
Current portion of long-term debt	22,624	5,882	28,506
Long-term debt	3,439,399	60,578	3,499,977
Contract liabilities and other liabilities	14,450	(4,935)	9,515

COGECO INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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The difference between operating lease commitments of \$191 million at August 31, 2019 and lease liabilities of \$66.5 million recognized upon adoption of IFRS 16 at September 1, 2019 was mainly the result of:

- The exclusion of approximately \$89 million of lease payments related to agreements that do not meet the criteria set out in IFRS 16, most notably for rent of support structures;
- The exclusion of approximately \$43 million of certain costs contractually committed under lease contracts, which do not qualify to be accounted for as lease liabilities, such as variable lease payments not tied to an index or rate;
- The diminishing effect of discounting the minimum lease payments, using the weighted average incremental borrowing rate of 3.86% at September 1, 2019, of approximately \$23 million;
- The inclusion of approximately \$35 million of lease payments related to reasonably certain renewal periods or extension options that had not been exercised at August 31, 2019;

IFRIC 23

IFRIC 23 *Uncertainty over income tax treatments* clarifies the application of recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers uncertain tax treatments separately or as a group, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. The adoption of IFRIC 23 on September 1, 2019 had no impact on the consolidated financial statements.

3. REVENUE

	Communications		Other		Consolidated	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
	\$	\$	\$	\$	\$	\$
Residential ⁽¹⁾	513,027	513,973	—	—	513,027	513,973
Commercial ⁽²⁾	65,656	62,599	—	—	65,656	62,599
Other ⁽³⁾	7,784	7,557	24,330	24,445	32,114	32,002
	586,467	584,129	24,330	24,445	610,797	608,574

(1) Includes revenue from Internet, video and telephony residential customers, bulk residential customers and Internet resellers customers.

(2) Includes revenue from Internet, video and telephony commercial customers.

(3) Includes advertising revenue, late fees, rental income and other miscellaneous revenue.

	Communications		Other		Consolidated	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
	\$	\$	\$	\$	\$	\$
Residential ⁽¹⁾	1,027,095	1,021,622	—	—	1,027,095	1,021,622
Commercial ⁽²⁾	131,619	124,150	—	—	131,619	124,150
Other ⁽³⁾	14,580	15,030	55,972	55,133	70,552	70,163
	1,173,294	1,160,802	55,972	55,133	1,229,266	1,215,935

(1) Includes revenue from Internet, video and telephony residential customers, bulk residential customers and Internet resellers customers.

(2) Includes revenue from Internet, video and telephony commercial customers.

(3) Includes advertising revenue, late fees, rental income and other miscellaneous revenue.

COGECO INC.
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(unaudited)

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

4. OPERATING SEGMENTS

The Corporation's segment profit for the period is reported in two operating segments: Communications and Other. 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 Communications segment provides, through the Cogeco Communications subsidiary, residential and business customers with Internet, video and telephony services through its two-way broadband fibre networks. Cogeco Communications operates in Canada under the Cogeco Connexion name in Québec and Ontario, and in the United States under the Atlantic Broadband brand in 11 states along the East Coast, from Maine to Florida.

The Other segment is comprised of radio and head office activities, as well as inter-segment eliminations. Through its subsidiary, Cogeco Media, the Corporation owns and operates 23 radio stations with complementary radio formats serving a wide range of audiences. Cogeco Media also operates Cogeco News, one of Québec's largest news agencies, feeding affiliates, independent and community radio stations.

The Corporation and its chief operating decision maker assess the performance of each operating segment based on the segment's profit, which is equal to revenue less operating expenses and management fees to Cogeco Inc. The other expenses are reported by segment solely for external reporting purposes. Transactions between segments are measured at the amounts agreed to between the parties.

	Three months ended					
	Communications		Other		Consolidated	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
	\$	\$	\$	\$	\$	\$
Revenue ⁽¹⁾	586,467	584,129	24,330	24,445	610,797	608,574
Operating expenses	303,441	298,676	27,747	25,035	331,188	323,711
Management fees – Cogeco Inc.	5,654	4,901	(5,654)	(4,901)	—	—
Segment profit	277,372	280,552	2,237	4,311	279,609	284,863
Integration, restructuring and acquisition costs ⁽²⁾	5,458	3,722	—	101	5,458	3,823
Depreciation and amortization	122,237	120,291	1,182	774	123,419	121,065
Financial expense	12,165	46,413	1,475	710	13,640	47,123
Profit before income taxes	137,512	110,126	(420)	2,726	137,092	112,852
Income taxes	23,501	23,998	207	1,208	23,708	25,206
Profit for the period from continuing operations	114,011	86,128	(627)	1,518	113,384	87,646
Loss for the period from discontinued operations	—	(5,369)	—	—	—	(5,369)
Profit for the period	114,011	80,759	(627)	1,518	113,384	82,277
Acquisition of property, plant and equipment	110,840	92,773	382	1,365	111,222	94,138

(1) For the three-month period ended February 29, 2020, revenue by geographic market includes \$346,551 in Canada (\$351,204 in 2019) and \$264,246 in the United States (\$257,370 in 2019).

(2) For the three-month period ended February 29, 2020, comprised of costs resulting from organizational changes and costs related to the acquisition of Thames Valley Communications in the Communications segment. For the three-month period ended February 28, 2019, comprised of costs resulting from an operational optimization program that included a voluntary departure program in the Communications segment and acquisition costs in the Other segment.

COGECO INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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(unaudited)

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

	Six months ended					
	Communications		Other		Consolidated	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
	\$	\$	\$	\$	\$	\$
Revenue ⁽¹⁾	1,173,294	1,160,802	55,972	55,133	1,229,266	1,215,935
Operating expenses	602,773	602,703	56,375	52,168	659,148	654,871
Management fees – Cogeco Inc.	11,044	9,696	(11,044)	(9,696)	—	—
Segment profit	559,477	548,403	10,641	12,661	570,118	561,064
Integration, restructuring and acquisition costs ⁽²⁾	5,519	9,435	19	1,422	5,538	10,857
Depreciation and amortization	245,372	240,028	2,310	1,702	247,682	241,730
Financial expense	51,435	92,972	2,607	1,314	54,042	94,286
Profit before income taxes	257,151	205,968	5,705	8,223	262,856	214,191
Income taxes	53,432	41,034	1,824	2,744	55,256	43,778
Profit for the period from continuing operations	203,719	164,934	3,881	5,479	207,600	170,413
Loss for the period from discontinued operations	—	(8,991)	—	—	—	(8,991)
Profit for the period	203,719	155,943	3,881	5,479	207,600	161,422
Total assets ⁽³⁾	6,994,453	6,951,079	189,972	173,958	7,184,425	7,125,037
Property, plant and equipment ⁽³⁾	2,071,662	2,007,610	35,553	16,563	2,107,215	2,024,173
Intangible assets ⁽³⁾	2,840,506	2,850,844	86,155	87,272	2,926,661	2,938,116
Goodwill ⁽³⁾	1,387,235	1,373,439	28,012	26,895	1,415,247	1,400,334
Acquisition of property, plant and equipment	232,142	193,330	1,110	1,957	233,252	195,287

(1) For the six-month period ended February 29, 2020, revenue by geographic market includes \$699,000 in Canada (\$704,357 in 2019) and \$530,266 in the United States (\$511,578 in 2019).

(2) For the six-month period ended February 29, 2020, comprised of costs resulting from organizational changes and costs related to the acquisition of Thames Valley Communications in the Communications segment and integration costs in the Other segment. For the six-month period ended February 28, 2019, comprised of costs resulting from an operational optimization program that included a voluntary departure program in the Communications segment and acquisition costs in the Other segment.

(3) At February 29, 2020 and August 31, 2019.

The following tables set out certain geographic market information at February 29, 2020 and August 31, 2019:

	At February 29, 2020		
	Canada	United States	Total
	\$	\$	\$
Property, plant and equipment	1,199,653	907,562	2,107,215
Intangible assets	1,080,511	1,846,150	2,926,661
Goodwill	32,674	1,382,573	1,415,247

	At August 31, 2019		
	Canada	United States	Total
	\$	\$	\$
Property, plant and equipment	1,141,346	882,827	2,024,173
Intangible assets	1,083,568	1,854,548	2,938,116
Goodwill	31,557	1,368,777	1,400,334

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5. BUSINESS COMBINATION

Acquisition of 10 regional radio stations

On November 26, 2018, Cogeco Media completed the acquisition of 10 regional radio stations (9 located in Québec and 1 in Ontario) from RNC Média inc. The transaction, valued at \$19.2 million, was approved on October 11, 2018 by the Canadian Radio-television and Telecommunications Commission.

The acquisition was accounted for using the purchase method and was subject to post closing adjustments. The final allocation of the purchase price of this acquisition is as follows:

	Final November 30, 2019	Preliminary November 30, 2018
	\$	\$
Purchase price		
Consideration paid at closing	17,174	17,174
Balance due on a business combination	2,000	2,000
Working capital adjustment	(352)	—
	18,822	19,174
Net assets acquired		
Trade and other receivables	2,022	2,354
Prepaid expenses and other	11	31
Property, plant and equipment	1,337	1,337
Intangible assets	6,237	7,354
Goodwill	9,427	8,310
Trade and other payables assumed	(146)	(168)
Contract liabilities and other liabilities assumed	(66)	(44)
	18,822	19,174

6. OPERATING EXPENSES

	Three months ended		Six months ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
	\$	\$	\$	\$
Salaries, employee benefits and outsourced services	112,710	105,153	224,196	209,765
Service delivery costs ⁽¹⁾	165,635	169,885	330,562	339,617
Customer related costs ⁽²⁾	24,937	20,273	49,426	43,774
Other external purchases ⁽³⁾	27,906	28,400	54,964	61,715
	331,188	323,711	659,148	654,871

(1) Include cost of equipment sold, content and programming costs, payments to other carriers, 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.

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7. DEPRECIATION AND AMORTIZATION

	Three months ended		Six months ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
	\$	\$	\$	\$
Depreciation of property, plant and equipment ⁽¹⁾	109,153	106,874	219,108	213,575
Amortization of intangible assets	14,266	14,191	28,574	28,155
	123,419	121,065	247,682	241,730

(1) The depreciation of ROU assets amounted to \$2,074 and \$4,086 for three and six-month periods of fiscal 2020.

8. FINANCIAL EXPENSE

	Three months ended		Six months ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
	\$	\$	\$	\$
Interest on long-term debt, excluding interest on lease liabilities	39,711	46,852	80,543	92,834
Interest on lease liabilities	594	—	1,241	—
Gain on debt modification ⁽¹⁾	(22,898)	—	(22,898)	—
Net foreign exchange loss (gain)	2	(517)	(2)	(308)
Amortization of deferred transaction costs	230	486	715	942
Capitalized borrowing costs ⁽²⁾	(142)	(178)	(293)	(298)
Other	(3,857)	480	(5,264)	1,116
	13,640	47,123	54,042	94,286

(1) On February 3, 2020, Cogeco Communications amended its Senior Secured Term Loan B Facility and the most significant change consisted in the reduction of the interest rate by 0.25%. As a result, the Corporation recognized a gain on debt modification of \$22.9 million.

(2) For the three and six-month periods ended February 29, 2020 and February 28, 2019, the weighted average interest rate used in the capitalization of borrowing costs was 4.5%.

9. INCOME TAXES

	Three months ended		Six months ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
	\$	\$	\$	\$
Current	5,005	18,003	30,305	31,844
Deferred	18,703	7,203	24,951	11,934
	23,708	25,206	55,256	43,778

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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		Six months ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
	\$	\$	\$	\$
Profit before income taxes	137,092	112,852	262,856	214,191
Combined Canadian income tax rate	26.5%	26.5%	26.5%	26.5%
Income taxes at combined Canadian income tax rate	36,330	29,906	69,657	56,761
Difference in operations' statutory income tax rate	403	205	1,217	1,022
Impact on deferred taxes as a result of changes in substantively enacted tax rates	3	295	34	295
Impact on income taxes arising from non-deductible expenses and non-taxable profit	(724)	1,191	(1,075)	1,172
Tax impacts related to foreign operations	(6,103)	(7,100)	(12,613)	(13,861)
Other	(6,201)	709	(1,964)	(1,611)
Income taxes at effective income tax rate	23,708	25,206	55,256	43,778

10. EARNINGS PER SHARE

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

	Three months ended		Six months ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
	\$	\$	\$	\$
Profit for the period from continuing operations attributable to owners of the Corporation	34,975	27,366	66,259	54,680
Loss for the period from discontinued operations attributable to owners of the Corporation	—	(1,699)	—	(2,845)
Profit for the period attributable to owners of the Corporation	34,975	25,667	66,259	51,835
Weighted average number of multiple and subordinate voting shares outstanding	15,938,785	16,230,058	15,958,847	16,230,043
Effect of dilutive incentive share units	62,850	64,063	63,030	62,741
Effect of dilutive performance share units	67,492	72,520	65,788	72,445
Weighted average number of diluted multiple and subordinate voting shares outstanding	16,069,127	16,366,641	16,087,665	16,365,229
Earnings (loss) per share				
Basic				
Profit for the period from continuing operations	2.19	1.69	4.15	3.37
Loss for the period from discontinued operations	—	(0.10)	—	(0.18)
Profit for the period	2.19	1.58	4.15	3.19
Diluted				
Profit for the period from continuing operations	2.18	1.67	4.12	3.34
Loss for the period from discontinued operations	—	(0.10)	—	(0.18)
Profit for the period	2.18	1.57	4.12	3.17

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11. LONG-TERM DEBT

A) Notes, debentures and credit facilities

	Maturity	Interest rate %	February 29, 2020 \$	August 31, 2019 \$
Corporation				
Term Revolving Facility ⁽¹⁾				
Revolving loan - US\$17.7 million (US\$16.7 million at August 31, 2019) ⁽²⁾	February 2025	2.80 ⁽⁶⁾	23,769	22,203
Unsecured Debentures	November 2021	6.50	34,923	34,901
Finance lease	February 2022	4.27	—	60
Subsidiaries ⁽³⁾				
Senior Secured Notes				
Series A - US\$25 million	September 2024	4.14	33,497	33,155
Series B - US\$150 million	September 2026	4.29	200,892	198,845
Senior Secured Notes - US\$215 million	June 2025	4.30	287,942	284,996
Senior Secured Debentures Series 2	November 2020	5.15	199,849	199,744
Senior Secured Debentures Series 3	February 2022	4.93	199,564	199,457
Senior Secured Debentures Series 4	May 2023	4.18	298,862	298,697
First Lien Credit Facilities ⁽⁴⁾				
Senior Secured Term Loan B Facility - US\$1,635.3 million (US\$1,678.8 million at August 31, 2019) ⁽⁵⁾	January 2025	3.60 ^{(6) (7)}	2,133,103	2,189,965
			3,412,401	3,462,023
Less current portion			222,678	22,624
			3,189,723	3,439,399

- (1) On December 20, 2019, the Corporation amended its \$100 million Term Revolving Facility by extending the maturity date by an additional year until February 3, 2025.
- (2) An amount of US\$17.7 million drawn under the Corporation's Revolving loan facility was hedged until March 31, 2020, using a cross-currency swap agreement which sets the amount redeemable at maturity at \$23.5 million and the effective interest rate on the Canadian dollar equivalent at 2.87%.
- (3) On December 6, 2019, the Corporation's subsidiary, Cogeco Communications, reduced the Term Revolving Facility from \$800 million to \$750 million and extended its maturity date by an additional year until January 24, 2025.
- (4) On December 6, 2019, the maturity date of the US\$150 million Senior Secured Revolving Facility, benefiting two subsidiaries related to Atlantic Broadband, was extended by an additional 18 months until July 4, 2024.
- (5) On February 3, 2020, Cogeco Communications amended its Senior Secured Term Loan B Facility, whereby the most significant change consisted in the reduction of the interest rate by 0.25%.
- (6) Interest rate on debt includes the applicable credit spread.
- (7) A US subsidiary of Cogeco Communications entered into interest rate swap agreements to fix the interest rate on a notional amount of 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 Senior Secured Term Loan B Facility. Taking into account these agreements, the effective interest rate on the Senior Secured Term Loan B Facility is 3.96%.

B) Lease liabilities

In the normal course of operations, the Corporation enters into leases for buildings, land, network infrastructure and equipment. Lease contracts are typically individually negotiated for a wide range of fixed periods, but may also include renewal or termination options.

The weighted average interest rate on lease liabilities was approximately 3.86% as at February 29, 2020.

	February 29, 2020 \$
Lease liabilities	65,544
Less current portion	5,991
	59,553

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12. SHARE CAPITAL

A) AUTHORIZED

Unlimited number of:

Preferred shares of first and second rank, issuable in series and non-voting, except when specified in the Articles of Incorporation of the Corporation or in the Law.

Multiple voting shares, 20 votes per share.

Subordinate voting shares, 1 vote per share.

B) ISSUED AND PAID

	February 29, 2020	August 31, 2019
	\$	\$
1,602,217 multiple voting shares (1,812,860 at August 31, 2019)	10	12
14,434,233 subordinate voting shares (14,308,445 at August 31, 2019)	115,514	116,198
	115,524	116,210
62,850 subordinate voting shares held in trust under the Incentive Share Unit Plan (63,075 at August 31, 2019)	(5,124)	(4,577)
68,536 subordinate voting shares held in trust under the Performance Share Unit Plan (72,691 at August 31, 2019)	(5,456)	(5,527)
	104,944	106,106

During the first six months of fiscal 2020, multiple voting share transactions were as follows:

	Number of shares	Amount \$
Balance at August 31, 2019	1,812,860	12
Conversion of multiple voting shares into subordinate voting shares ⁽¹⁾	(210,643)	(2)
Balance at February 29, 2020	1,602,217	10

(1) The conversion of shares is related to the sale, by way of a private placement, of subordinate voting shares by Gestion Audem Inc. in January 2020. Gestion Audem retained control of Cogeco upon completion of this transaction.

During the first six months of fiscal 2020, subordinate voting share transactions were as follows:

	Number of shares	Amount \$
Balance at August 31, 2019	14,308,445	116,198
Purchase and cancellation of subordinate voting shares ⁽¹⁾	(84,855)	(686)
Conversion of multiple voting shares into subordinate voting shares	210,643	2
Balance at February 29, 2020	14,434,233	115,514

(1) During the first six months of fiscal 2020, Cogeco purchased and cancelled 84,855 subordinate voting shares with an average stated value of \$0.7 million, for consideration of \$8.4 million. The excess of the purchase price over the average stated value of the shares totaled \$7.7 million and was charged to retained earnings.

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During the first six months of fiscal 2020, subordinate voting shares held in trust under the Incentive Share Unit Plan transactions were as follows:

	Number of shares	Amount \$
Balance at August 31, 2019	63,075	4,577
Subordinate voting shares acquired	18,150	1,880
Subordinate voting shares distributed to employees	(18,375)	(1,333)
Balance at February 29, 2020	62,850	5,124

During the first six months of fiscal 2020, subordinate voting shares held in trust under the Performance Share Unit Plan transactions were as follows:

	Number of shares	Amount \$
Balance at August 31, 2019	72,691	5,527
Subordinate voting shares acquired	8,888	921
Subordinate voting shares distributed to employees	(13,043)	(992)
Balance at February 29, 2020	68,536	5,456

C) DIVIDENDS

For the six-month period ended February 29, 2020, quarterly eligible dividends of \$0.475 per share, for a total of \$0.950 per share or \$15.1 million, were paid to the holders of multiple and subordinate voting shares, compared to quarterly eligible dividends of \$0.43 per share, for a total of \$0.86 per share or \$14 million for the six-month period ended February 28, 2019.

For the six-month period ended February 29, 2020, quarterly eligible dividends of \$0.58 per share, for a total of \$1.16 per share or \$38.6 million, was paid by the Corporation's subsidiary, Cogeco Communications, to non-controlling interest, compared to quarterly eligible dividends of \$0.525 per share, for a total of \$1.05 per share or \$35.4 million for the six-month period ended February 28, 2019.

	February 29, 2020 \$	Six months ended February 28, 2019 \$
Attributable to owners of the Corporation		
Dividends on multiple voting shares	1,622	1,559
Dividends on subordinate voting shares	13,527	12,398
	15,149	13,957
Attributable to non-controlling interest		
Dividends on subordinate voting shares	38,599	35,373

At its April 7, 2020 meeting, the Board of Directors of Cogeco declared a quarterly eligible dividend of \$0.475 per share for multiple and subordinate voting shares payable on May 5, 2020 to shareholders of record on April 21, 2020.

D) SHARE-BASED PAYMENT PLANS

The Corporation and its subsidiary, Cogeco Communications, offer Employee Stock Purchase Plans for the benefit of their employees and those of their subsidiaries, and Stock Option Plans for their 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 and its subsidiary, Cogeco Communications, offer Incentive Share Unit Plans ("ISU Plans") and Performance Share Unit Plans ("PSU Plans") for their executive officers and designated employees, and Deferred Share Unit Plans ("DSU Plans") for members of the Board of Directors. A detailed description of these plans can be found in the 2019 annual consolidated financial statements of the Corporation.

For the six-month period ended February 29, 2020, no stock options were granted to employees by Cogeco under the Stock Option Plan of the Corporation and no options were outstanding at February 29, 2020 and August 31, 2019.

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Under the Stock Option Plan of Cogeco Communications, the following options were granted and are outstanding at February 29, 2020:

	Options	Weighted average exercise price \$
Outstanding at August 31, 2019	715,614	65.93
Granted ⁽¹⁾	207,150	114.19
Exercised ⁽²⁾	(78,825)	67.80
Cancelled	(9,480)	71.97
Outstanding at February 29, 2020	834,459	77.67
Exercisable at February 29, 2020	316,859	58.99

(1) During the six-month period ended February 29, 2020, Cogeco Communications granted 110,875 stock options to Cogeco's executive officers as executive officers of Cogeco Communications.

(2) The weighted average share price for options exercised during the period was \$113.07.

A compensation expense of \$449,000 and \$918,000 (\$375,000 and \$932,000 in 2019) was recorded for the three and six-month periods ended February 29, 2020 related to this plan.

The weighted average fair value of stock options granted by Cogeco Communications for the six-month period ended February 29, 2020 was \$18.43 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:

	%
Expected dividend yield	2.07
Expected volatility	20.51
Risk-free interest rate	1.53
Expected life (in years)	5.9

Under the ISU Plan of the Corporation, the following ISUs were granted and are outstanding at February 29, 2020:

Outstanding at August 31, 2019	63,075
Granted	18,150
Distributed	(18,375)
Outstanding at February 29, 2020	62,850

Under the ISU Plan of Cogeco Communications, the following ISUs were granted and are outstanding at February 29, 2020:

Outstanding at August 31, 2019	71,825
Granted	27,225
Distributed	(20,784)
Cancelled	(2,900)
Outstanding at February 29, 2020	75,366

A compensation expense of \$987,000 and \$1,694,000 (\$921,000 and \$1,823,000 in 2019) was recorded for the three and six-month periods ended February 29, 2020 related to these plans.

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Under the PSU Plan of the Corporation, the following PSUs were granted and are outstanding at February 29, 2020:

Outstanding at August 31, 2019	72,515
Granted	17,575
Distributed	(13,043)
Cancelled	(9,934)
Dividend equivalents	643
Outstanding at February 29, 2020	67,756

Under the PSU Plan of Cogeco Communications, the following PSUs were granted and are outstanding at February 29, 2020:

Outstanding at August 31, 2019	107,551
Granted ⁽¹⁾	39,425
Distributed	(28,569)
Cancelled	(3,228)
Dividend equivalents	1,188
Outstanding at February 29, 2020	116,367

(1) During the six-month period ended February 29, 2020, Cogeco Communications granted 14,375 PSUs to Cogeco's executive officers as executive officers of Cogeco Communications.

A compensation expense of \$925,000 and \$1,877,000 (\$1,185,000 and \$2,268,000 in 2019) was recorded for the three and six-month periods ended February 29, 2020 related to these plans.

Under the DSU Plan of the Corporation, the following DSUs were issued and are outstanding at February 29, 2020:

Outstanding at August 31, 2019	32,877
Issued	4,679
Dividend equivalents	337
Outstanding at February 29, 2020	37,893

Under the DSU Plan of Cogeco Communications, the following DSUs were issued and are outstanding at February 29, 2020:

Outstanding at August 31, 2019	42,679
Issued ⁽¹⁾	7,233
Dividend equivalents	480
Outstanding at February 29, 2020	50,392

(1) During the six-month period ended February 29, 2020, Cogeco Communications issued 1,847 DSUs to Board directors of Cogeco.

A compensation expense reduction of \$217,000 and a compensation expense of \$874,000 (compensation expense of \$1,158,000 and \$1,067,000 in 2019) were recorded for the three and six-month periods ended February 29, 2020 related to these plans.

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13. ACCUMULATED OTHER COMPREHENSIVE INCOME

	Cash flow hedge reserve	Foreign currency translation	Total
	\$	\$	\$
Balance at August 31, 2018	8,166	28,169	36,335
Other comprehensive income (loss)	(4,251)	1,392	(2,859)
Balance at February 28, 2019	3,915	29,561	33,476
Balance at August 31, 2019	(10,740)	20,856	10,116
Other comprehensive income (loss)	(2,370)	3,201	831
Balance at February 29, 2020	(13,110)	24,057	10,947

14. ADDITIONAL CASH FLOW INFORMATION

CHANGES IN NON-CASH OPERATING ACTIVITIES

	Three months ended		Six months ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
	\$	\$	\$	\$
Trade and other receivables	(2,039)	(3,184)	(10,027)	(7,600)
Prepaid expenses and other	4,404	4,079	(9,366)	(8,383)
Other assets	(1,658)	(1,392)	(4,414)	(3,753)
Trade and other payables	7,880	(18,618)	(55,524)	(98,918)
Provisions	(4,560)	3,619	(6,387)	4,195
Contract liabilities and other liabilities	4,789	(1,313)	7,878	2,260
	8,816	(16,809)	(77,840)	(112,199)

15. 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		Six months ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
	\$	\$	\$	\$
Defined benefit plans				
Recognized in operating expenses (salaries, employee benefits and outsourced services)				
Current service cost	947	781	1,894	1,562
Administrative expense	75	119	150	238
Recognized in financial expense (other)				
Net interest	136	(41)	271	(83)
Defined contribution and collective registered retirement saving plans				
Recognized in operating expenses (salaries, employee benefits and outsourced services)	2,215	2,240	4,811	4,886
	3,373	3,099	7,126	6,603

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16. FINANCIAL INSTRUMENTS

A) FINANCIAL RISK MANAGEMENT

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

Liquidity risk

At February 29, 2020, the Corporation had used \$23.8 million of its \$100 million Term Revolving Facility and an amount of \$0.02 million was used from Cogeco Communications' Term Revolving Facility of \$750 million, for remaining availabilities of \$76.2 million and \$749.98 million, respectively. In addition, two subsidiaries of Cogeco Communications also benefit from a Senior Secured Revolving Facility of \$201.4 million (US\$150 million), of which \$3.3 million (US\$2.4 million) was used at February 29, 2020 for a remaining availability of \$198.2 million (US\$147.6 million).

Interest rate risk

The Corporation and its subsidiary, Cogeco Communications, are exposed to interest rate risk on their floating interest rate instruments. Interest rate fluctuations will have an effect on the repayment of these instruments. At February 29, 2020, all of the Corporation's and Cogeco Communications' long-term debt were at fixed rate, except for the amounts drawn under the Corporation's Term Revolving Facility and Cogeco Communications' First Lien Credit Facilities which are subject to floating interest rates.

To reduce the risk on the floating interest rate instruments and mitigate the impact of interest rate variations, Cogeco Communications' US subsidiary entered into fixed interest rate swap agreements. The following table shows the interest rate swaps outstanding at February 29, 2020:

Type of hedge	Notional amount	Receive interest rate	Pay interest rate	Maturity	Hedged item
Cash flow	US\$1.1 billion	US Libor base rate	2.017% - 2.262%	January 2021 - 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 \$7.4 million based on the outstanding debt at February 29, 2020.

Foreign exchange risk

Cogeco Communications is exposed to foreign exchange risk with respect to the interest associated with its long-term debt denominated in US dollars. The impact of a 10% increase in the exchange rate of the US dollar into Canadian dollars would increase financial expense by approximately \$10.9 million based on the outstanding debt at February 29, 2020.

Furthermore, Cogeco Communications' net investments in foreign operations are exposed to market risk attributable to fluctuations in foreign currency exchange rates, notably changes in the value of the Canadian dollar versus the US dollar. The risk related to the US dollar aggregate investments is mitigated since a portion was borrowed in US dollars.

The following table shows the aggregate investments in foreign operations attributable to owners of Cogeco Communications and the notional amount of debt borrowed to hedge these investments at February 29, 2020:

Type of hedge	Notional amount of debt	Aggregate investments	Hedged item
Net investments	US\$390 million	US\$1,047 million	Net investments in foreign operations in US dollar

The exchange rate used to convert the US dollar currency into Canadian dollars for the statement of financial position accounts at February 29, 2020 was \$1.3429 (\$1.3295 at August 31, 2019) per US dollar. A 10% decrease in the exchange rate of the US dollar into Canadian dollars would decrease other comprehensive income by approximately \$88.2 million.

Market risk

The Corporation and its subsidiary, Cogeco Communications, use derivative instruments to manage the cash flow exposure to the risk of changes in the price of their subordinate voting shares under the DSU plans. As such, the Corporation and Cogeco Communications use equity swap agreements to economically hedge the market price appreciation risk of their subordinate voting shares. As at February 29, 2020 the fair value of the equity swaps was \$0.1 million and recognized as an asset. A 10% increase in the market price of the subordinate voting

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shares at February 29, 2020 would result in a gain of approximately \$0.9 million due to the equity swaps fair value appreciation, offset by a \$0.9 million increase in the DSU plans expense.

The following table shows the Corporation's equity derivative contracts outstanding at February 29, 2020:

Type of hedge	Notional	Maturity	Average share price	Hedged item
Economic	37,100 units	January 2021	\$93.33	Equity price exposure

The following table shows Cogeco Communications' equity derivative contracts outstanding at February 29, 2020:

Type of hedge	Notional	Maturity	Average share price	Hedged item
Economic	48,000 units	January 2021	\$102.61	Equity price exposure

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:

	February 29, 2020		August 31, 2019	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Long-term debt, excluding lease liabilities	3,412,401	3,565,875	3,462,023	3,580,480

C) CAPITAL MANAGEMENT

The Corporation's objectives in managing capital are to ensure sufficient liquidity to support the capital requirements of its various businesses, including growth opportunities. The Corporation manages its capital structure and makes adjustments in light of general economic conditions, the risk characteristics of the underlying assets and the Corporation's working capital requirements. Management of the capital structure involves the issuance of new debt, the repayment of existing debt, the issuance or repurchase of equity and distributions to shareholders. The capital structure of the Corporation is composed of shareholders' equity, cash and cash equivalents, bank indebtedness and long-term debt.

At February 29, 2020 and August 31, 2019, the Corporation and Cogeco Communications were in compliance with all of their debt covenants and were not subject to any other externally imposed capital requirements.

The financial covenants related to the indebtedness of Cogeco Inc. are primarily based on a ratio of net indebtedness to adjusted EBITDA, computed on the basis of the Media subsidiary's adjusted EBITDA results and the dividends and management fees received from Cogeco Communications, net of corporate expenses.

The following table summarizes certain of the key ratios used to monitor and manage Cogeco Communications' capital structure:

	February 29, 2020	August 31, 2019
Net indebtedness ⁽¹⁾ / adjusted EBITDA ⁽²⁾	2.6	2.6
Adjusted EBITDA ⁽²⁾ / financial expense ⁽²⁾	7.1	6.3

(1) Net indebtedness is defined as the total of balance due on business combinations and principal on long-term debt, less cash and cash equivalents.

(2) Calculation based on adjusted EBITDA and financial expense for the twelve-month period ended February 29, 2020 and for the year ended August 31, 2019. Financial expense for the twelve-month period ended February 29, 2020 excludes the gain on debt modification of \$22.9M.

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

17. RELATED PARTY TRANSACTIONS

Cogeco provides executive, administrative, financial and strategic planning services and additional services to Cogeco Communications under a Management Services Agreement (the "Agreement"). The methodology used to establish the management fees is based on the costs incurred by Cogeco plus a reasonable mark-up. This cost-plus methodology became effective on May 1, 2019 and was introduced to avoid future variations of the management fee percentage due to frequent changes to Cogeco Communications' consolidated revenue pursuant to business acquisitions and divestitures. Provision is made for future adjustment upon the request of either Cogeco Communications or the Corporation from time to time during the term of the Agreement. For the three and six-month periods ended February 29, 2020, management fees paid to Cogeco amounted to \$5.7 million and \$11.0 million, respectively, compared to \$4.9 million and \$9.7 million for the same periods of fiscal 2019.

No direct remuneration is payable to Cogeco's executive officers by Cogeco Communications. However, during the six-month periods ended February 29, 2020 and February 28, 2019, Cogeco Communications granted stock options and PSUs to these executive officers, as executive officers of Cogeco Communications, and issued DSUs to Board directors of Cogeco, as shown in the following table:

	February 29, 2020	Six months ended February 28, 2019
Stock options	110,875	97,725
PSUs	14,375	14,625
DSUs	1,847	2,469

The following table shows the amounts that Cogeco Communications charged Cogeco, with regards to Cogeco Communications' stock options, ISUs and PSUs granted to these executive officers, as well as DSUs issued to Board directors of Cogeco:

	Three months ended		Six months ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
	\$	\$	\$	\$
Stock options	261	195	570	493
ISUs	9	15	22	30
PSUs	385	302	697	502
DSUs	11	64	143	324
	666	576	1,432	1,349

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

18. SUBSEQUENT EVENTS

COVID-19

The recent outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have affected economies and financial markets around the world resulting in an economic slowdown. This outbreak may also cause staff shortages, affect customer demand, increased government regulations or intervention, all of which may negatively impact the business, financial results and conditions of the Corporation. The duration and impact of the COVID-19 outbreak is unknown at this time and it is not possible to reliably estimate the length and severity of these developments as well as the impact on the financial results and condition of the Corporation in future periods.

Acquisition of Thames Valley Communications

On January 10, 2020, Cogeco Communications announced that its subsidiary Atlantic Broadband had signed a definitive agreement to purchase Thames Valley Communications, a broadband services company operating in Southeastern Connecticut, for US\$50 million. The transaction was completed on March 10, 2020 and is subject to post closing adjustments

COMMUNICATIONS SEGMENT CUSTOMER STATISTICS

	February 29, 2020	November 30, 2019	August 31, 2019	May 31, 2019	February 28, 2019
CONSOLIDATED					
Primary service units	2,719,347	2,722,302	2,711,812	2,707,227	2,703,223
Internet service customers	1,253,183	1,246,358	1,234,380	1,229,399	1,214,566
Video service customers	945,085	954,964	962,138	965,008	976,377
Telephony service customers	521,079	520,980	515,294	512,820	512,280
CANADA					
Primary service units	1,812,140	1,818,732	1,810,366	1,813,212	1,825,011
Internet service customers	795,950	794,895	788,243	785,703	785,004
Penetration as a percentage of homes passed	44.9%	45.0%	44.7%	44.6%	44.7%
Video service customers	638,833	646,326	649,583	657,747	668,771
Penetration as a percentage of homes passed	36.1%	36.6%	36.8%	37.4%	38.1%
Telephony service customers	377,357	377,511	372,540	369,762	371,236
Penetration as a percentage of homes passed	21.3%	21.4%	21.1%	21.0%	21.1%
UNITED STATES					
Primary service units	907,207	903,570	901,446	894,015	878,212
Internet service customers	457,233	451,463	446,137	443,696	429,562
Penetration as a percentage of homes passed	51.8%	51.3%	50.8%	50.7%	49.6%
Video service customers	306,252	308,638	312,555	307,261	307,606
Penetration as a percentage of homes passed	34.7%	35.1%	35.6%	35.1%	35.5%
Telephony service customers	143,722	143,469	142,754	143,058	141,044
Penetration as a percentage of homes passed	16.3%	16.3%	16.2%	16.3%	16.3%