SHAREHOLDERS' REPORT

Three and nine-month periods ended May 31, 2017

FINANCIAL HIGHLIGHTS

	Quarters ended			Nine months ended		
	May 31, 2017	May 31, 2016	Change	May 31, 2017	May 31, 2016	Change
(in thousands of dollars, except percentages and per share data)	$	$	%	$	$	%
Operations						
Revenue	599,654	574,005	4.5	1,769,159	1,735,358	1.9
Adjusted EBITDA[(1)]	264,831	253,151	4.6	784,141	760,434	3.1
Integration, restructuring and acquisition costs	—	1,126	—	—	7,476	—
Claims and litigations	—	10,499	—	—	10,499	—
Impairment of goodwill and intangible assets	—	450,000	—	—	450,000	—
Gain on disposal of a subsidiary	—	—	—	—	(12,940)	—
Profit (loss) for the period	82,082	(381,886)	—	242,273	(239,367)	—
Profit (loss) for the period attributable to owners of the Corporation	30,043	(117,670)	—	86,673	(59,143)	—
Cash Flow						
Cash flow from operating activities	243,584	186,209	30.8	620,267	487,916	27.1
Acquisitions of property, plant and equipment, intangible and other assets	100,742	94,905	6.2	285,122	359,355	(20.7)
Free cash flow[(1)]	109,639	91,934	19.3	338,433	210,044	61.1
Financial Condition[(2)]						
Cash and cash equivalents	—	—	—	146,661	68,344	—
Property, plant and equipment	—	—	—	1,967,042	2,004,247	(1.9)
Total assets	—	—	—	5,551,804	5,495,520	1.0
Indebtedness[(3)]	—	—	—	2,834,890	2,974,119	(4.7)
Equity attributable to owners of the Corporation	—	—	—	569,840	503,344	13.2
Per Share Data[(4)]						
Earnings (loss) per share						
Basic	1.81	(7.03)	—	5.21	(3.54)	—
Diluted	1.80	(7.03)	—	5.17	(3.54)	—
Dividends	0.34	0.295	15.3	1.02	0.885	15.3

(1) The indicated terms do not have standardized definitions prescribed by the International Financial Reporting Standards ("IFRS") and, therefore, may not be comparable to similar measures presented by other companies. For more details, please consult the "Non-IFRS financial measures" section of the MD&A.
(2) At May 31, 2017 and August 31, 2016. Total assets and shareholders' equity were restated for the year ended August 31, 2016 as reported in note 2 of the Condensed Interim Consolidated Financial Statements.
(3) Indebtedness is defined as the aggregate of bank indebtedness, balance due on a business combination, principal on long-term debt and obligations under derivative financial instruments.
(4) Per multiple and subordinate voting share.

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

Three and nine-month periods ended May 31, 2017

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 2017 Financial Guidelines" sections of the Corporation's 2016 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, regulatory risks, technology risks, financial risks, economic conditions, ownership risks, human-caused and natural threats to our network, infrastructure and systems and litigation risks, many of which are beyond the Corporation's control. For more exhaustive information on these risks and uncertainties, the reader should refer to the "Uncertainties and Main Risk Factors" section of the Corporation's 2016 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 nine-month periods ended May 31, 2017 prepared in accordance with the International Financial Reporting Standards ("IFRS") and the MD&A included in the Corporation's 2016 Annual Report.

2. CORPORATE OBJECTIVES AND STRATEGIES

Cogeco's objectives are to provide outstanding service to its customers and create shareholder value by increasing profitability and ensuring continued revenue growth. The Corporation maximizes profitability and shareholder value by maintaining strict control over spending. In order to achieve this, Cogeco seeks to become more efficient with its processes. The Corporation measures its performance, with regard to these objectives by monitoring revenue, adjusted EBITDA[1] and free cash flow[1].

The strategies employed to reach these objectives are specific to each segment described below.

COMMUNICATIONS SEGMENT

Cogeco Communications Inc. ("Cogeco Communications") is dedicated to providing outstanding services to its customers and to increasing shareholder value. The Corporation focuses on optimizing profitability while efficiently managing capital utilization to generate future growth. To achieve these objectives, Cogeco Communications has developed the following strategies:

Canadian and American broadband services	Business information and communications technology ("Business ICT") services
Expanding service offerings, enhancing existing services at attractive prices and seeking value-added acquisitions	Promoting the new branding supported by a people centric culture
Improving the networks with state-of-the-art advanced technologies	Growing our customer base through an enhanced go-to-market strategy with a strong focus on specific horizontal and vertical markets
Improving customer experience and business processes to build on customer loyalty and retention	Rationalizing and expanding our product suite to bring relevant solutions to market, supported by exceptional customer service
Maintaining sound capital management and strict control over spending	Strengthening internal processes and systems to improve operational efficiency and optimize infrastructure
	Optimizing the use of current assets in order to optimize cash flows

Cogeco Communications measures its performance, with regard to these objectives by monitoring revenue, adjusted EBITDA, operating margin, free cash flow and capital intensity. For further details please refer to the 2016 Annual Report of Cogeco Communications Inc. available on www.sedar.com or on the Corporation's website at corpo.cogeco.com.

MEDIA ACTIVITIES

The media activities focus on continuous improvement of its programming and diversification of its product portfolio in order to increase its market share and thereby its profitability.

2.1 KEY PERFORMANCE INDICATORS

REVENUE

For the nine-month period ended May 31, 2017, revenue increased by $33.8 million, or 1.9%, to reach $1.77 billion, compared to $1.74 billion for the same period of fiscal 2016 driven by growth in the Communications segment, partly offset by lower revenue in the media activities attributable to the sale of Métromédia CMR Plus Inc. (" Métromédia") on January 5, 2016.

ADJUSTED EBITDA

For the nine-month period ended May 31, 2017, adjusted EBITDA increased by $23.7 million, or 3.1%, to reach $784.1 million compared to $760.4 million for the same period of fiscal 2016 as a result of the improvement in the Communications segment.

FREE CASH FLOW

For the nine-month period ended May 31, 2017, free cash flow increased by $128.4 million, or 61.1%, to reach $338.4 million compared to $210.0 million for the same period of the prior year mainly as a result of lower acquisitions of property, plant and equipment, intangible and other assets in the Communications segment resulting from the timing of certain initiatives and a greater focus on capital expenditure optimization. The improvement of the adjusted EBITDA combined with last year's claims and litigations and the decrease in integration, restructuring and acquisition costs also contributed to the increase in free cash flow.

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

3. BUSINESS DEVELOPMENTS AND OTHER

On July 10, 2017, Cogeco Communications Inc. announced that its subsidiary, Atlantic Broadband, entered into an agreement with Harron Communications, L.P. to acquire substantially all of the assets of its cable systems operating under the MetroCast brand name (“MetroCast”) which serves about 120,000 Internet, 76,000 video and 37,000 telephony customers. The transaction valued at US$1.4 billion includes the expected present value of future tax benefits of US$310 million and is subject to customary closing adjustments. This acquisition is expected to be financed through a combination of non-recourse debt financing at Atlantic Broadband and an equity investment by Caisse de Dépôt et Placement du Québec (“CDPQ”) in Atlantic Broadband’s holding company. The transaction is subject to usual closing conditions, regulatory approvals and other customary conditions. The Corporation expects the transaction to close in January 2018.

Numeris' spring 2017 survey in the Montréal region, conducted with the Portable People Meter (“PPM”), reported that in the Montréal French market *98.5 FM* is the leading radio station amongst all listeners two years old and over (“2+”), Rythme FM has maintained its leadership position amongst the female 25-54 segment and *CKOI* is well positioned amongst all listeners in the 25-54 segment. *The Beat* is the leading music radio station in the Montréal English market amongst all listeners two years old and over ("2+"). Finally, most of our other regional radio stations in Québec registered good ratings.

4. OPERATING AND FINANCIAL RESULTS

4.1 OPERATING RESULTS

	Quarters ended			Nine months ended		
	May 31, 2017	May 31, 2016	Change	**May 31, 2017**	May 31, 2016	Change
(in thousands of dollars, except percentages)	**$**	$	%	**$**	$	%
Revenue	**599,654**	574,005	4.5	**1,769,159**	1,735,358	1.9
Operating expenses	**334,823**	320,854	4.4	**985,018**	974,924	1.0
Adjusted EBITDA	**264,831**	253,151	4.6	**784,141**	760,434	3.1

REVENUE

Fiscal 2017 third-quarter revenue amounted to $599.7 million, an increase of $25.6 million, or 4.5%, compared to the same period of fiscal 2016 resulting from revenue growth in the Communications segment. For the first nine months, revenue amounted to $1.77 billion, an increase of $33.8 million, or 1.9%, compared to the same period of the prior year due to the improvement in the Communications segment, partly offset by lower revenue in the media activities attributable to the sale of Métromédia on January 5, 2016.

In the Communications segment, fiscal 2017 third-quarter revenue amounted to $565.2 million, an increase of $24.9 million, or 4.6%, compared to the same period of the prior year driven by growths of 9.8% in the American broadband services operations and 3.3% in the Canadian broadband services operations combined with stable revenue in the Business ICT services operations. For the first nine months of fiscal 2017, revenue amounted to $1.68 billion, an increase of $43.0 million, or 2.6%, compared to the same period of the prior year driven by growths of 5.7% in the American broadband services operations and of 2.5% in the Canadian broadband services operations, partly offset by a decrease of 3.0% in the Business ICT services operations. For further details on revenue, please refer to the “Communications segment” section.

OPERATING EXPENSES

Fiscal 2017 third-quarter operating expenses amounted to $334.8 million, an increase of $14.0 million, or 4.4%, compared to the same period of fiscal 2016. For the first nine months, operating expenses amounted to $985.0 million, an increase of $10.1 million, or 1.0%, compared to the same period of the prior year. The increase for both periods is mainly attributable to the Communications segment. In addition, the increase for the first nine months was partly offset by lower operating expenses in the media activities due to the sale of Métromédia during the second quarter of fiscal 2016.

In the Communications segment, fiscal 2017 third-quarter operating expenses amounted to $306.1 million, an increase of $13.6 million, or 4.6%, compared to the same period of the prior year. Operating expenses increased in all of our operating segments. The appreciation of the US dollar against the Canadian dollar has also contributed to the increase. For the first nine months of fiscal 2017, operating expenses amounted to $903.1 million, an increase of $20.5 million, or 2.3%, compared to the same period of the prior year. Operating expenses increased in the Canadian and American broadband services operations and remained essentially the same in the Business ICT services operations. For further details on operating expenses, please refer to the “Communications segment" section.

ADJUSTED EBITDA

Fiscal 2017 third-quarter adjusted EBITDA increased by $11.7 million, or 4.6%, to reach $264.8 million. For the first nine months, adjusted EBITDA increased by $23.7 million, or 3.1%, to reach $784.1 million. The increase for both periods is mainly due to the improvement in the Communications segment.

In the Communications segment, for the three and nine-month periods ended May 31, 2017, adjusted EBITDA increased by $11.1 million, or 4.6%, to reach $254.2 million, and by $22.1 million, or 3.0%, to reach $757.8 million, respectively. For both periods, the increase in adjusted EBITDA resulted from the improvement in the Canadian and American broadband services operations, partly offset by a decline in the Business ICT service operations. For further details on adjusted EBITDA, please refer to the "Communications segment" section.

4.2 FIXED CHARGES

	Quarters ended			Nine months ended		
	May 31, 2017	May 31, 2016	Change	**May 31, 2017**	May 31, 2016	Change
(in thousands of dollars, except percentages)	**$**	$	%	**$**	$	%
Depreciation and amortization	**120,547**	124,828	(3.4)	**360,448**	382,067	(5.7)
Financial expense	**33,196**	34,273	(3.1)	**100,279**	106,673	(6.0)

Fiscal 2017 third-quarter depreciation and amortization expense decreased by $4.3 million, or 3.4%, to reach $120.5 million compared to the same period of the prior year mainly due to certain assets being fully amortized and the impairment of intangible assets recognized in the third quarter of fiscal 2016, partly offset by the appreciation of the US dollar against the Canadian dollar and higher acquisitions of property, plant and equipment. For the nine-month period ended May 31, 2017, depreciation and amortization expense decreased by $21.6 million, or 5.7%, to reach $360.4 million, compared to the same period of the prior year mainly due to lower acquisitions of property, plant and equipment, the depreciation of the British Pound dollar against the Canadian dollar, certain assets being fully amortized and the impairment of intangible assets recognized in the third quarter of fiscal 2016.

For the three and nine-month periods ended May 31, 2017, financial expense decreased by $1.1 million, or 3.1%, to reach $33.2 million, and by $6.4 million, or 6.0%, to reach $100.3 million, respectively, compared to the same periods of the prior year mainly due to a lower level of Indebtedness as a result of generated free cash flow. In addition, the decrease in financial expense in the quarter was partly offset by the appreciation of the US dollar against the Canadian dollar.

4.3 IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

During the third quarter of fiscal 2016, Cogeco Communications recorded a non-cash pre-tax impairment of goodwill and intangible assets of $450 million related to its Business ICT services segment.

The impairment of goodwill and intangible assets that affected Cogeco Communications' financial results for the three and nine-month periods ended May 31, 2016 were as follows :

(in thousands of dollars)	$
Impairment of goodwill	428,500
Impairment of intangible assets	21,500
Impairment of goodwill and intangible assets	450,000
Income taxes	(16,048)
Impairment of goodwill and intangible assets net of income taxes	433,952

4.4 CLAIMS AND LITIGATIONS

During the third quarter of fiscal 2016, Cogeco Communications' subsidiary, Cogeco Peer 1, recognized an amount of $10.5 million related to the settlement of claims and costs related to litigations.

4.5 INCOME TAXES

For the three and nine-month periods ended May 31, 2017, income taxes increased by $14.7 million and $25.1 million, to reach $29.0 million and $81.1 million, respectively, compared to the same periods of fiscal 2016. The increase for both periods is mainly attributable to a profit before income taxes compared to a loss before income taxes in the same periods of the prior year resulting from the recognition of a non-cash pre-tax impairment of goodwill and intangible assets of $450 million in the third quarter of fiscal 2016, of which a portion was non-deductible. In addition, the increase is also attributable to a higher effective tax rate related to investments in foreign operations combined with a revaluation of deferred tax assets in the third quarter of fiscal 2016, partly offset by the impact on deferred income taxes as a result of changes in substantively enacted tax rates.

On March 26, 2015, in its 2015 budget, the Quebec government announced that the corporate tax rate would be gradually reduced by 0.1% per year from 11.9% in 2017 to 11.5% in 2020. These rate reductions were substantively enacted on November 15, 2016 and have reduced the deferred tax liabilities and the deferred income taxes by approximately $1.6 million for the nine-month period ended May 31, 2017. In addition, on July 8, 2015, the United Kingdom government announced corporate tax rate reductions from 20% to 19% on April 1, 2017 and to 18% on April 1, 2020. These rate reductions were substantively enacted on October 26, 2015 and have reduced the deferred tax assets and increased the deferred income taxes by $1.3 million for the first nine months of fiscal 2016.

4.6 PROFIT (LOSS) FOR THE PERIOD

Fiscal 2017 third-quarter profit for the period amounted to $82.1 million of which $30.0 million, or $1.81 per share, was attributable to owners of the Corporation, compared to a loss for the period of $381.9 million of which $117.7 million, or $7.03 per share, was attributable to owner of the Corporation for the same period of fiscal 2016. For the nine-month period ended May 31, 2017, profit for the period amounted to $242.3 million of which $86.7 million, or $5.21 per share, was attributable to owners of the Corporation compared to a loss for the period of $239.4 million of which $59.1 million, or $3.54 per share, was attributable to owners of the Corporation for the same period of the prior year. The profit progression for both periods resulted from last year's non-cash pre-tax impairment of goodwill and intangible assets of $450 million and from the claims and litigations of $10.5 million which both occurred in the Communications segment. The remaining variation is explained by the improvement of adjusted EBITDA combined with the decrease in depreciation and amortization, partly offset by the increase in income taxes. In addition, the increase for the first nine-period ended May 31, 2017 was partly offset by last's year gain on disposal of Métromédia.

The non-controlling interest represents a participation of approximately 68.3% in Cogeco Communications' results. For the third-quarter and first nine months of fiscal 2017, profit for the period attributable to non-controlling interest amounted to $52.0 million and $155.6 million, respectively, for the third-quarter and first nine months of fiscal 2017 compared to a loss for the period of $264.2 million and $180.2 million, respectively, for the same periods of the prior year.

5. RELATED PARTY TRANSACTIONS

Cogeco holds 31.7% of Cogeco Communications' equity shares, representing 82.3% of Cogeco Communications' voting shares.

Cogeco provides executive, administrative, financial and strategic planning services and other services to Cogeco Communications under a Management Services Agreement. Under the Agreement, management fees are payable on a monthly basis, representing 0.85% of the consolidated revenue of Cogeco Communications. In addition, provision is made for future adjustment upon the request of either Cogeco Communications or the Corporation should the level of management fees no longer align with the costs, time and resources committed by Cogeco. Cogeco Communications reimburses Cogeco's out-of-pocket expenses incurred with respect to services provided to Cogeco Communications under the Agreement.

No direct remuneration is payable to Cogeco's executive officers by Cogeco Communications. However, during the first nine months ended May 31, 2017, Cogeco Communications granted 81,350 (71,650 in 2016) stock options, did not grant any Incentive Share Units ("ISUs") and granted 12,150 (11,150 in 2016) Performance Share Units ("PSUs") to these executive officers as executive officers of Cogeco Communications. During the three and nine-month periods ended May 31, 2017, Cogeco Communications charged Cogeco $163,000 and $465,000 ($162,000 and $442,000 in 2016), $2,000 and $37,000 ($69,000 and $248,000 in 2016) and $177,000 and $483,000 ($135,000 and $364,000 in 2016), respectively, with regards to the Corporation's stock options, ISUs and PSUs granted to these executive officers.

On August 2, 2016 an intercompany loan agreement was concluded between the Corporation and its subsidiary, Cogeco Communications, by which a revolving credit facility was established in favour of Cogeco Communications. The maximum principal amount of the facility is set at $40 million and the full amount was advanced to Cogeco Communications as of the signing date. The credit facility is payable on demand and the interest is calculated on the daily outstanding balance at an annual rate equivalent to Cogeco Communications' Canadian Revolving Facility. During the third quarter of fiscal 2017, the intercompany loan was fully repaid by Cogeco Communications.

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

6. CASH FLOW ANALYSIS

	Quarters ended		Nine months ended	
	May 31, 2017	May 31, 2016	**May 31, 2017**	May 31, 2016
(in thousands of dollars)	**$**	$	**$**	$
Cash flow from operating activities	**243,584**	186,209	**620,267**	487,916
Cash flow from investing activities	**(100,752)**	(95,396)	**(277,376)**	(311,377)
Cash flow from financing activities	**(48,740)**	(61,090)	**(265,497)**	(248,722)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**253**	(256)	**923**	(60)
Net change in cash and cash equivalents	**94,345**	29,467	**78,317**	(72,243)
Cash and cash equivalents, beginning of the period	**52,316**	62,479	**68,344**	164,189
Cash and cash equivalents, end of the period	**146,661**	91,946	**146,661**	91,946

6.1 OPERATING ACTIVITIES

Fiscal 2017 third-quarter cash flow from operating activities reached $243.6 million, representing an increase of $57.4 million, or 30.8%, compared to the same period of the prior year mainly as a result of the following:

- the improvement of $11.7 million in adjusted EBITDA;

- the decrease of $38.4 million in income taxes paid as a result of the timing of payments related to the deferral until early fiscal 2018 of income tax installments pursuant to a corporate structure reorganization of certain Canadian subsidiaries of Cogeco Communications; and
- last year's claims and litigations of $10.5 million; partly offset by
- the decrease of $7.0 million in change in non-cash operating activities primarily due to changes in working capital.

First nine months of fiscal 2017 cash flow from operating activities reached $620.3 million, representing an increase of $132.4 million, or 27.1%, compared to the same period of fiscal 2016 mainly as a result of the following:

- the improvement of $23.7 million in adjusted EBITDA;
- the decrease of $96.4 million in income taxes paid as a result of the timing of payments related to the deferral until early fiscal 2018 of income tax installments pursuant to a corporate structure reorganization of certain Canadian subsidiaries of Cogeco Communications;
- last year's claims and litigations of $10.5 million; and
- the decrease of $10.3 million in financial expense paid; partly offset by
- the decrease of $19.9 million in change in non-cash operating activities primarily due to changes in working capital.

6.2 INVESTING ACTIVITIES

For the three and nine-month periods ended May 31, 2017, investing activities increased by $5.4 million, or 5.6%, to reach $100.8 million and decreased by $34.0 million, or 10.9%, to reach $277.4 million, respectively, compared to the same periods of the prior year. The increase for the quarter is mainly explained by higher acquisitions of property, plant and equipment, intangible and other assets. The decrease for the first nine months is mainly due to lower acquisitions of property, plant and equipment, intangible and other assets, partly offset by the disposal in the second quarter of fiscal 2016 of a subsidiary for $47.2 million, net of cash and cash equivalent disposed.

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

For the three and nine-month periods ended May 31, 2017, acquisitions of property, plant and equipment amounted to $96.0 million and $270.8 million, representing an increase of $5.9 million and a decrease of $72.3 million, respectively, compared to the same periods of fiscal 2016, mainly due to the following factors in the Communications segment:

Increase in the quarter and decrease in the first nine months in the Canadian broadband services operations as a result of:

- a timing difference for purchases of customer premise equipment ("CPE"), scalable infrastructure and line extensions due to the timing of certain initiatives.

Decrease in the Business ICT services operations for both periods as a result of:

- a greater focus on capital expenditure optimization;
- the timing of certain initiatives; and
- last year's strategic investments at the Kirkland data centre facility.

Increase in the American broadband services operations for both periods as a result of:

- additional acquisitions of CPE resulting from the primary service units ("PSU")(1) growth;
- additional acquisitions of scalable infrastructure and line extensions as a result of the ongoing growth in the business sector combined with network expansion in some of the areas we serve; and
- the appreciation of the US dollar against the Canadian dollar during the third quarter compared to the same period of fiscal 2016.

For the three and nine-month periods ended May 31, 2017, acquisitions of intangible and other assets amounted to $4.8 million and $14.3 million, respectively, compared to $4.8 million and $16.3 million for the same periods of fiscal 2016.

BUSINESS COMBINATION IN FISCAL 2017

On September 1, 2016, Cogeco Connexion, a subsidiary of Cogeco Communications, completed the acquisition of all the shares of Briand et Moreau Câble Inc., a regional cable company based in Gaspésie (Québec), which served 1,439 video and 808 Internet customers at September 1, 2016.

DISPOSAL OF A SUBSIDIARY IN FISCAL 2016

On January 5, 2016, the Corporation's subsidiary, Cogeco Media, completed the sale of its subsidiary Métromédia, an out-of-home advertising company, for a cash consideration of $47.5 million, which was subject to a post-closing net working capital adjustment. The selling price was reduced by selling fees of approximately $0.4 million. The carrying value of the net assets disposed of was $34.1 million resulting in a pre-tax gain of $12.9 million recorded in the consolidated statements of profit or loss.

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

6.3 FREE CASH FLOW AND FINANCING ACTIVITIES

FREE CASH FLOW

Fiscal 2017 third-quarter free cash flow amounted to $109.6 million, an increase of $17.7 million, or 19.3%, compared to the same period of the prior year mainly as a result of the following:

- the improvement of $11.7 million in adjusted EBITDA; and
- last year's claims and litigations of $10.5 million; partly offset by
- the increase of $5.8 million in acquisitions of property, plant and equipment, intangible and other assets as a result of the timing of certain initiatives, partly offset by a greater focus on capital expenditure optimization in the Communications segment.

For the first nine months, free cash flow amounted to $338.4 million, an increase of $128.4 million, or 61.1%, compared to the same period of the prior year mainly as a result of the following:

- the decrease of $74.2 million in acquisitions of property, plant and equipment, intangible and other assets as a result of the timing of certain initiatives combined with a greater focus on capital expenditure optimization in the Communications segment;
- the improvement of $23.7 million in adjusted EBITDA;
- last year's claims and litigations of $10.5 million; and
- the decrease of $7.5 million in integration, restructuring and acquisition costs.

FINANCING ACTIVITIES

For the three and nine-month periods ended May 31, 2017, lower Indebtedness levels resulting from debt repayments led to cash decreases of $24.8 million and $194.4 million, respectively, compared to cash decreases of $43.1 million and $192.3 million, respectively, for the same periods of fiscal 2016.

The variation is explained as follows:

	Quarters ended			Nine months ended			
	May 31, 2017	May 31, 2016	Change	**May 31, 2017**	May 31, 2016	Change	Explanations
(in thousands of dollars)	**$**	$	$	**$**	$	$	
Increase (decrease) in bank indebtedness	**(2,043)**	3,534	(5,577)	**(748)**	26,863	(27,611)	Related to the timing of payments made to suppliers.
Net increases (decreases) under the revolving facilities	**(20,326)**	(37,238)	16,912	**(173,323)**	21,489	(194,812)	Repayments of the revolving facilities in both periods in fiscal 2017 as a result of generated free cash flow. Repayments of the revolving facilities during the third quarter of fiscal 2016 as a result of generated free cash flow. Increase under the revolving facilities for the first nine months of fiscal 2016 mainly as a result of the repayment of the US$190 million Senior Secured Notes Series A maturing in October 2015, partly offset by the repayment of the Corporation's Term Revolving Facility.
Repayments of long-term debt and settlement of derivative financial instruments	**(1,607)**	(9,346)	7,739	**(19,461)**	(240,650)	221,189	Repayments on the First Lien Credit Facilities during the third quarter and the first nine months of fiscal 2017. Repayments on the First Lien Credit Facilities in the third quarter and first nine months of fiscal 2016. For the first nine months of fiscal 2016, repayments of the US$190 million Senior Secured Notes Series A maturing in October 2015 and settlement of the related derivative financial instruments.
Repayment of balance due on a business combination	**(837)**	—	(837)	**(837)**	—	(837)	Repayment of balance due on a business combination during the third quarter of fiscal 2017.
	(24,813)	(43,050)	18,237	**(194,369)**	(192,298)	(2,071)	

DIVIDENDS

During the third quarter of fiscal 2017, a quarterly eligible dividend of $0.34 per share was paid to the holders of multiple and subordinate voting shares, for a total paid of $5.6 million compared to a quarterly eligible dividend of $0.295, or $4.9 million, in the third quarter of fiscal 2016. Dividends payments in the first nine months totaled $1.02 per share, or $17.0 million, compared to $0.885 per share, or $14.8 million, the year before.

NORMAL COURSE ISSUER BID

On July 28, 2016, Cogeco announced through a normal course issuer bid its intention to acquire for cancellation up to 375,000 subordinate voting shares from August 2, 2016 to August 1, 2017. For the three and nine-month periods ended May 31, 2017, Cogeco purchased and canceled 69,354 and 161,965 subordinate voting shares with average stated value of $0.6 million and $1.3 million, respectively, for consideration of $4.4 million and $9.9 million.

The Corporation intends to renew its normal course issuer bid program from August 2, 2017 to August 1, 2018, to enable it to acquire for cancellation up to 550,000 subordinate voting shares. The renewal is subject to Toronto Stock Exchange approval.

6.4 DIVIDEND DECLARATION

At its July 13, 2017 meeting, the Board of Directors of Cogeco declared a quarterly eligible dividend of $0.34 per share for multiple and subordinate voting shares, payable on August 10, 2017 to shareholders of record on July 27, 2017. 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. FINANCIAL POSITION

7.1 WORKING CAPITAL

As part of the usual conduct of its business, Cogeco maintains a working capital deficiency due to a low level of trade and other receivables as a large portion 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.

The variations are as follows:

	May 31, 2017	August 31, 2016	Change	Explanations
(in thousands of dollars)	$	$	$	
Current assets				
Cash and cash equivalents	**146,661**	68,344	78,317	Please refer to the "Cash flow and analysis" section.
Trade and other receivables	**132,357**	142,542	(10,185)	Mostly related to a change in the billing cycle in the Canadian broadband services operations in the Communications segment, partly offset by revenue growth.
Income taxes receivable	**8,222**	12,707	(4,485)	Non significant.
Prepaid expenses and other	**25,534**	17,125	8,409	Increase in prepayment of annual maintenance agreements.
Derivative financial instrument	**286**	1,040	(754)	Non significant.
	313,060	241,758	71,302	
Current liabilities				
Bank indebtedness	**3,367**	4,115	(748)	Non significant.
Trade and other payables	**239,319**	312,914	(73,595)	Timing of payments made to suppliers.
Provisions	**25,105**	31,078	(5,973)	Mostly related to the settlement of claims and litigations in the Business ICT services operations in the Communications segment during the third quarter.
Income tax liabilities	**84,029**	28,910	55,119	Timing of payments of income taxes related to the deferral, in early fiscal 2018, of income tax installments pursuant to a corporate structure reorganization of certain Canadian subsidiaries of Cogeco Communications.
Deferred and prepaid revenue	**74,159**	61,707	12,452	Mostly related to a change in the billing cycle in the Canadian Broadband services operations in the Communications segment.
Balance due on a business combination	**118**	—	118	Non significant.
Current portion of long-term debt	**129,217**	22,527	106,690	Mostly related to the $100 million Senior Unsecured Debenture of Cogeco Communications maturing in March 2018.
	555,314	461,251	94,063	
Working capital deficiency	**(242,254)**	(219,493)	(22,761)	

7.2 OTHER SIGNIFICANT CHANGES

(in thousands of dollars)	May 31, 2017 $	August 31, 2016 $	Change $	Explanations
Non-current assets				
Property, plant and equipment	1,967,042	2,004,247	(37,205)	Depreciation expense exceeding capital expenditures, party offset by the appreciation of the US dollar against the Canadian dollar.
Goodwill	1,103,633	1,079,365	24,268	Appreciation of the US dollar against the Canadian dollar.
Non-current liabilities				
Long-term debt	2,681,550	2,922,078	(240,528)	Repayments on Cogeco Communications' Term Revolving Facility and First Lien Credit Facilities combined with Cogeco Communications' $100 million Unsecured Debenture maturing in March 2018, partly offset by the appreciation of the US dollar against the Canadian dollar.
Pension plan liabilities and accrued employee benefits	4,659	16,912	(12,253)	Actuarial gains recorded in the first nine months of fiscal 2017.
Deferred tax liabilities	642,052	620,820	21,232	Appreciation of the US dollar against the Canadian dollar.

7.3 OUTSTANDING SHARE DATA

A description of Cogeco's share data at June 30, 2017 is presented in the table below. Additional details are provided in Note 12 of the consolidated financial statements.

(in thousands of dollars, except number of shares)	Number of shares	Amount $
Common shares		
Multiple voting shares	1,842,860	12
Subordinate voting shares	14,807,607	120,497

7.4 FINANCING

In the normal course of business, Cogeco Inc. has incurred financial obligations, primarily in the form of long-term debt, operating and finance leases and guarantees. Cogeco's obligations, as reported in the 2016 Annual Report, have not materially changed since August 31, 2016.

On December 9, 2016, the Corporation's subsidiary, Cogeco Communications Inc., amended its Term Revolving Facility resulting in the extension of the maturity date by an additional year until January 24, 2022. In addition, on December 5, 2016, the Corporation amended its Term Revolving Facility. Under the terms of the amendment, the maturity was extended by an additional year until February 1, 2022.

At May 31, 2017, the Corporation's Term Revolving Facility of $50 million was unused, and an amount of $5.4 million was used from Cogeco Communications' Term Revolving Facility of $800 million for a remaining availability of $794.6 million. In addition, two subsidiaries of Cogeco Communications also benefit from a Revolving Facility of $202.5 million (US$150 million), of which $56.6 million (US$41.9 million) was used at May 31, 2017 for a remaining availability of $145.9 million (US$108.1 million).

7.5 CREDIT RATINGS

On December 14, 2016, strictly as a result of a general change in methodology, S&P Global Ratings lowered its issue-level rating on Cogeco Communications Inc.'s Senior secured debt to « BBB- » from « BBB », following the publication on December 7, 2016 of its revised criteria for rating debt issues of speculative-grade corporate issuers. Under the revised criteria, the ratings of debt instruments issued by companies with an issuer's rating of « BB+ » are now typically not notched up more than one level above the issuer rating. The secured debt rating downgrade to « BBB- » therefore does not reflect a change in Cogeco Communications' underlying credit profile. S&P's secured debt rating is now aligned with DBRS's and Fitch's secured debt ratings.

Pursuant to the announcement of the Metrocast acquisition, all credit ratings for Cogeco Communications and Atlantic Broadband were confirmed.

7.6 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 May 31, 2017, all of the Corporation's and Cogeco Communications' long-term debt was at fixed rate, except for the amounts drawn under Cogeco Communications' First Lien Credit Facilities.

To reduce such risk, Cogeco Communications entered into interest rate swap agreements. The following table shows the interest rate swaps outstanding at May 31, 2017:

Type of hedge	Notional amount	Receive interest rate	Pay interest rate	Maturity	Hedged item
Cash flow	US$75 million	US Libor base rate	0.6120%	October 30, 2017	Term Loan A-3 Facility
Cash flow	US$75 million	US Libor base rate	0.9870%	July 31, 2019	Term Loan A-2 Facility

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 $6.2 million based on the outstanding debt at May 31, 2017.

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 $7.5 million based on the outstanding debt at May 31, 2017.

Furthermore, Cogeco Communications' net investments in foreign operations are exposed to market risk attributable to fluctuations in foreign currency exchange rates, primarily changes in the values of the Canadian dollar versus the US dollar and British Pound. This risk related to the US dollar is mitigated since the major part of the purchase prices for Atlantic Broadband and Cogeco Peer 1 were borrowed directly in US dollars.

The following table shows the net investments in foreign operations outstanding at May 31, 2017:

Type of hedge	Notional amount of debt	Aggregate investments	Hedged item
Net investment	US$790 million	US$901.7 million	Net investments in foreign operations in US dollar
N/A	£—	£29.2 million	N/A

The exchange rates used to convert the US dollar currency and British Pound currency into Canadian dollars for the statement of financial position accounts at May 31, 2017 was $1.3500 ($1.3116 at August 31, 2016) per US dollar and $1.7387 ($1.7223 at August 31, 2016) per British Pound. A 10% decrease in the exchange rates of the US dollar and British Pound into Canadian dollars would decrease other comprehensive income by approximately $20.1 million.

For the three and nine-month periods ended May 31, 2017, the average rates prevailing used to convert the operating results of the Communications segment were as follows:

	Quarters ended			Nine months ended		
	May 31, 2017	May 31, 2016	Change	**May 31, 2017**	May 31, 2016	Change
	$	$	%	**$**	$	%
US dollar vs Canadian dollar	**1.3479**	1.2996	3.7	**1.3318**	1.3370	(0.4)
British Pound vs Canadian dollar	**1.7036**	1.8669	(8.7)	**1.6744**	1.9699	(15.0)

The following highlights in Canadian dollars, the impact of a 10% increase in US dollar or British Pound against the Canadian dollar on the Communications segment's operating results for the three and nine-month periods ended May 31, 2017:

	Communications segment			
	Quarter ended		Nine months ended	
	As reported	Exchange rate impact	As reported	Exchange rate impact
(in thousands of dollars)	$	$	$	$
Revenue	**565,158**	**20,286**	**1,675,123**	**59,865**
Operating expenses	**306,132**	**13,232**	**903,062**	**37,593**
Management fees - Cogeco Inc.	**4,793**	**—**	**14,286**	**—**
Adjusted EBITDA	**254,233**	**7,054**	**757,775**	**22,272**
Acquisitions of property, plant and equipment, intangible and other assets	**100,202**	**5,557**	**282,895**	**16,291**
Free cash flow	**104,728**	**(258)**	**322,894**	**680**

8. COMMUNICATIONS SEGMENT

8.1 CUSTOMER STATISTICS

	May 31, 2017			Net additions (losses) Quarters ended		Net additions (losses) Nine months ended	
	Consolidated	**Canada**	**United States**	**May 31, 2017**	May 31, 2016	**May 31, 2017** (2)	May 31, 2016
PSU(1)	**2,534,925**	**1,926,537**	**608,388**	**(1,951)**	(3,338)	**24,928**	14,097
Video service customers	**967,020**	**729,701**	**237,319**	**(9,977)**	(8,928)	**(17,374)**	(22,252)
Internet service customers	**1,034,686**	**764,350**	**270,336**	**11,167**	10,382	**46,513**	43,068
Telephony service customers	**533,219**	**432,486**	**100,733**	**(3,141)**	(4,792)	**(4,211)**	(6,719)

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

(2) Excludes 2,247 PSU (1,439 video services and 808 Internet services) from a business combination completed by the Canadian broadband services operations in the first quarter of fiscal 2017.

VIDEO

For the three and nine-month periods ended May 31, 2017, video service customers net losses stood at 9,977 and 17,374, respectively, compared to 8,928 and 22,252 for the same periods of fiscal 2016. The higher decrease in the quarter resulted mainly from competitive offers in the industry and the changing video consumption environment. The loss reduction for the first nine months resulted mainly from the customers' interest in the video product offering of the Corporation, including TiVo's digital advanced video services both in Canada and in the United States, as well as in bundles with fast Internet offerings, partly offset by competitive offers in the industry, service category maturity in Canada and the changing video consumption environment.

INTERNET

For the three and nine-month periods ended May 31, 2017, Internet service customers net additions amounted to 11,167 and 46,513, respectively, compared to 10,382 and 43,068 for the same periods of fiscal 2016. The net additions stemmed from the customers' ongoing interest in high speed offerings and in TiVo's services which requires an Internet subscription, the continued growth of Internet resellers' customers and from the business sector as well as sustained interest in bundle offers.

TELEPHONY

For the three and nine-month periods ended May 31, 2017, telephony service customers net losses stood at 3,141 and 4,211, respectively, compared to 4,792 and 6,719 for the same periods of fiscal 2016. The loss reduction for both periods are mainly explained by the continued growth in the residential and business sectors in the United States, partly offset by the increasing mobile penetration and various unlimited offers in Canada launched by mobile operators causing customers to cancel their landline telephony services for mobile telephony services only.

8.2 OPERATING RESULTS

	Quarters ended			Nine months ended		
	May 31, 2017	May 31, 2016	Change	**May 31, 2017**	May 31, 2016	Change
(in thousands of dollars, except percentages)	**$**	$	%	**$**	$	%
Revenue	**565,158**	540,257	4.6	**1,675,123**	1,632,093	2.6
Operating expenses	**306,132**	292,555	4.6	**903,062**	882,566	2.3
Management fees – Cogeco Inc.	**4,793**	4,587	4.5	**14,286**	13,888	2.9
Adjusted EBITDA	**254,233**	243,115	4.6	**757,775**	735,639	3.0
Operating margin	**45.0%**	45.0%		**45.2%**	45.1%	

REVENUE

Fiscal 2017 third-quarter revenue amounted to $565.2 million, an increase of $24.9 million, or 4.6%, compared to the same period of the prior year driven by growths of 9.8% in the American broadband services operations and 3.3% in the Canadian broadband services operations combined with stable revenue in the Business ICT services operations.

For the first nine months of fiscal 2017, revenue amounted to $1.68 billion, an increase of $43.0 million, or 2.6%, compared to the same period of the prior year driven by growths of 5.7% in the American broadband services operations and of 2.5% in the Canadian broadband services operations, partly offset by a decrease of 3.0% in the Business ICT services operations.

The increase for the quarter is mainly explained as follows:

- rate increases in the Canadian and American broadband services operations;
- continued growth in the Internet services customers in the Canadian broadband services operations and in the Internet and telephony services customers in the American broadband services operations;
- the movement of customers to higher value packages; and
- the appreciation of the US dollar against the Canadian dollar compared to the same period of the prior year; partly offset by
- competitive pricing pressures on the hosting and network connectivity services in the Business ICT services operations; and
- video and telephony services customers losses in the Canadian broadband services operations.

The increase for the first nine months is mainly explained as follows:

- rate increases in the Canadian and American broadband services operations;
- continued growth in the Internet services customers in the Canadian broadband services operations and in the Internet and telephony services customers in the American broadband services customers;
- the movement of customers to higher value packages;
- colocation revenue growth in the Business ICT services operations; partly offset by
- video and telephony services customers losses in the Canadian broadband services operations;
- competitive pricing pressures on the hosting and network connectivity services in the Business ICT services operations; and
- the depreciation of the British Pound currency against the Canadian dollar compared to the same period of the prior year.

OPERATING EXPENSES AND MANAGEMENT FEES

Fiscal 2017 third-quarter operating expenses amounted to $306.1 million, an increase of $13.6 million, or 4.6%, compared to the same period of the prior year. For the first nine months of fiscal 2017, operating expenses amounted to $903.1 million, an increase of $20.5 million, or 2.3%, compared to the same period of the prior year.

The increase for the quarter is mainly explained as follows:

- programming rate increases in the Canadian and American broadband services operations;
- costs to serve additional PSU;
- additional costs to support strategic investments in high growth segment;
- higher facilities costs mostly related to the Kirkland data centre; and
- the appreciation of the US dollar against the Canadian dollar compared to the same period of the prior year.

The increase for the first nine months is mainly explained as follows:

- programming rate increases in the Canadian and American broadband services operations;
- costs to serve additional PSU;
- higher facilities costs mostly related to the Kirkland data centre; and
- additional costs to support strategic investments in high growth segment; partly offset by
- the depreciation of the British Pound currency against the Canadian dollar compared to the same period of the prior year.

For the three and nine-month periods ended May 31, 2017, management fees paid to Cogeco Inc. amounted to $4.8 million and $14.3 million, respectively, compared to $4.6 million and $13.9 million for the same periods of fiscal 2016. For further details on the Communications segment's management fees, please refer to the "Related party transactions" section.

ADJUSTED EBITDA AND OPERATING MARGIN

For the three and nine-month periods ended May 31, 2017, adjusted EBITDA increased by $11.1 million, or 4.6%, to reach $254.2 million, and by $22.1 million, or 3.0%, to reach $757.8 million, respectively. The increase for both periods resulted from revenue growth exceeding operating expense growth.

Fiscal 2017 third-quarter operating margin remained stable at 45.0% and increased slightly for the first nine months of fiscal 2017 from 45.1% to 45.2% compared to the same periods of fiscal 2016 as a result of higher margins in the Canadian broadband services operations, partly offset by slightly lower margins in the American broadband services and a decline in the Business ICT services operations.

9. FISCAL 2018 PRELIMINARY FINANCIAL GUIDELINES

The following section contains forward-looking statements concerning the business outlook of Cogeco. For a description of risk factors that could cause actual results to differ materially from what Cogeco expects, please refer to the "Uncertainties and main risk factors" sectors of the present MD&A and the Corporation's 2016 annual MD&A.

9.1 CONSOLIDATED

These preliminary financial guidelines do not include the expected financial results from the announcement of the agreement for the acquisition of MetroCast by Cogeco Communications' subsidiary, Atlantic Broadband. They will be revised when the transaction is concluded.

The Corporation's fiscal 2018 preliminary financial guidelines are mainly driven by those of the Communications segment which are described below.

The following table outlines fiscal 2018 preliminary financial guidelines ranges on a consolidated basis:

(in millions of dollars)	**Preliminary projections** **Fiscal 2018** [(1)] **$**	Revised projections November 2, 2016 Fiscal 2017 $
Financial guidelines		
Revenue	**2,425 to 2,455**	2,320 to 2,350
Adjusted EBITDA	**1,055 to 1,080**	1,005 to 1,030
Acquisitions of property, plant and equipment, intangible and other assets	**475 to 490**	435 to 450
Free cash flow	**365 to 395**	355 to 385

(1) Fiscal 2018 financial guidelines are based on an estimated USD/CDN exchange rate of 1.33 and a GBP/CDN exchange rate of 1.65 compared to 1.32 and 1.65, respectively, for the fiscal 2017 revised financial guidelines. The assumed current income tax effective rate is approximately 23%.

9.2 COMMUNICATIONS SEGMENT

These preliminary financial guidelines do not include the expected financial results from the announcement of the agreement for the acquisition of MetroCast by Cogeco Communications' subsidiary, Atlantic Broadband. They will be revised when the transaction is concluded.

Cogeco Communications expects fiscal 2018 revenue to reach between $2.30 billion and $2.33 billion. In the Canadian broadband services segment, revenue growth should stem primarily from the residential and business sectors as well as from the impact of rate increases in most services. Residential revenue should also increase from the ongoing interest in Internet services, partly offset by a decline in video and telephony services as a result of service category maturity, competitive offers in the industry and a changing in video consumption environment. In addition, we expect the penetration of digital video and Internet services to continue to benefit from customers' ongoing interest in TiVo's digital advanced video services. Growth in the business sector should come from the increasing demand in Internet and telephony services as well as from Internet resellers customers. In the American broadband services segment, revenue growth should stem primarily from PSU growth in both residential and business sectors combined with the impact of rate increases in most services. Revenue in the residential sector should continue to benefit from customers' ongoing interest in all its services including TiVo's digital advanced video services as well as from the continued expansion in Florida. In addition, revenue growth in the business sector should be driven by new offerings in the Internet and telephony services. In the Business ICT services segment, revenue growth should stem primarily from cloud services due to additional services, partly offset by a decline in network connectivity services as a result of competitive pricing pressures.

Adjusted EBITDA should reach between $1,025 million and $1,050 million from revenue growth exceeding operating expenses as a result of cost reduction initiatives from improved systems and processes, partly offset by marketing initiatives, additional costs to support the revenue growth and annual increases in programming costs. Operating margin should remain essentially the same as the fiscal 2017 revised financial guidelines.

Free cash flow should remain in the same range as the fiscal 2017 revised financial guidelines as a result of the improvement of the adjusted EBITDA, partly offset by increases in capital expenditures and in current income taxes. As a result, generated free cash flow should reduce Indebtedness, net of cash and cash equivalents, thus improving the Corporation's net leverage ratios.

The capital intensity ratio should increase compared to the fiscal 2017 revised financial guidelines mainly as a result of significantly higher capital expenditures for the American broadband services segment as a result of continued expansion in high growth segments in Florida.

The following table outlines fiscal 2018 preliminary financial guidelines ranges on a consolidated basis:

	Preliminary projections	Revised projections November 2, 2016
	Fiscal 2018 [(1)]	Fiscal 2017
(in millions of dollars)	$	$
Financial guidelines		
Revenue	**2,300 to 2,330**	2,200 to 2,230
Adjusted EBITDA	**1,025 to 1,050**	980 to 1,005
Operating margin	**44.6% to 45.1%**	44.5% to 45.1%
Acquisitions of property, plant and equipment, intangible and other assets	**470 to 485**	430 to 445
Free cash flow	**345 to 375**	345 to 375
Capital intensity	**20.5% to 21.0%**	19.5% to 20.0%

(1) Fiscal 2018 financial guidelines are based on an estimated USD/CDN exchange rate of 1.33 and a GBP/CDN exchange rate of 1.65 compared to 1.32 and 1.65, respectively, for the fiscal 2017 revised financial guidelines. The assumed current income tax effective rate is approximately 23%.

10. CONTROLS AND PROCEDURES

Internal control over financial reporting ("ICFR") is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and 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 May 31, 2017, and concluded that they are adequate. Furthermore, no significant changes to the internal controls over financial reporting occurred during the three and nine-month periods ended May 31, 2017.

11. UNCERTAINTIES AND MAIN RISK FACTORS

A detailed description of the uncertainties and main risk factors faced by Cogeco can be found in the 2016 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 2016 Annual Report, which are hereby incorporated by reference.

On April 9, 2015, the Canadian Radio-Television and Telecommunications Commissions ("CRTC") initiated a public consultation aiming to review the basic telecommunications services that should be available and affordable to all Canadians. In this proceeding, the CRTC specifically considered whether the broadband Internet access service should be included in the current definition of the basic telecommunications services and examined whether the existing subsidy regime for local telephone service should be changed to fund the expansion of the Internet access service in rural and remote areas.

On December 21, 2016, the CRTC issued its decision and determined that broadband internet access is now considered a basic telecommunications service for all Canadians. It is creating a new fund to support projects aiming to build or upgrade infrastructure for fixed and mobile broadband internet access services in order to meet specific targets. The fund will make available up to $750 million over the first five years. The Commission existing subsidy regime for local telephone service will gradually be phased out and transitioned to the new funding mechanism. Furthermore, the current funding will be expanded to include both retail Internet access and texting services revenues. This change to the calculation of the revenue-percent charge will take effect in the first year of implementation of the new fund and it is expected, according to the Commission, that the revenue-percent charge will be approximately the same as the current revenue-percent charge of 0.63%. Two follow-up proceedings have been initiated in April 2017 to examine all matters related to the new funding mechanism and how the existing local subsidy regime should be phased out.

In the Budget Plan dated March 23, 2017, the Federal Government proposed to review and modernize the *Broadcasting Act* and the *Telecommunications Act*. In this review, the Government indicated that it will examine issues such as telecommunications and content creation in the digital age, net neutrality and cultural diversity and how to strengthen the future of Canadian media and Canadian content creation. The timeline and details of this review will be announced at a later date. It is not possible, at this time, to determine if these reviews will have a material impact on the activities of the Corporation.

12. ACCOUNTING POLICIES

12.1 NEW ACCOUNTING STANDARDS

A number of new standards, interpretations and amendments to existing standards were issued by the *International Accounting Standards Board* ("IASB") that are mandatory but not yet effective for the three and nine-month periods ended May 31, 2017 and have not been applied in preparing the condensed interim consolidated financial statements. These standards are described under the "Future accounting developments in Canada" section in the Corporation's 2016 Annual Report available on the SEDAR website at www.sedar.com or on the Corporation's website at corpo.cogeco.com.

12.2 CHANGES IN CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There has been no significant change in Cogeco's critical accounting policies and estimates since August 31, 2016, except as mentioned below. A description of the Corporation's policies and estimates can be found in the 2016 Annual Report, available on the SEDAR website at www.sedar.com or on the Corporation's website at corpo.cogeco.com.

During 2016, the *IFRS Interpretations Committee* ("IFRIC") received a request to clarify how an entity determines the expected manner of recovery of an intangible asset with an indefinite useful life for the purposes of measuring deferred tax. Through the process of considering this question, the IFRIC clarified that an entity should use the tax rate associated with the expected manner of recovery to measure deferred taxes. Further, the fact that an indefinite life intangible asset is not being amortized is not in and of itself evidence that the manner of recovery will be through sale. In response to this clarification, the Corporation retrospectively changed its accounting policy as of September 1, 2016 and has restated the prior period for this change as further explained below.

IAS 12, *Income Taxes*, states that measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of the assets and liabilities. The carrying value is recovered in the form of economic benefits that flow to the entity in future periods, thereby the assets are recovered through sale or recovered through use.

In applying the new interpretation, the Corporation has now determined that the benefit of its Cable Distribution Licenses and Broadcasting Licenses will flow to the Corporation on an annual basis, and thereby the carrying amount will be recovered through use, and as a result, will be subject to a higher tax rate.

Consequently, the Corporation changed its accounting policy with respect to the tax rate used in determining the deferred tax assets and liabilities at the reporting date. The Corporation believes this change in accounting policy will better reflect how the assets will be recovered by the Corporation. The change in accounting policy was applied retrospectively and resulted in the following changes to the Corporation's consolidated financial statements:

	As previously reported	Effect of change in accounting policy	As currently reported
	$	$	$
Balance at August 31, 2015			
Deferred tax assets	25,601	(4,093)	21,508
Deferred tax liabilities	528,211	120,002	648,213
Retained earnings	453,119	(44,785)	408,334
Equity attributable to non-controlling interest	1,197,120	(79,310)	1,117,810
Balance at August 31, 2016			
Deferred tax assets	26,497	(4,093)	22,404
Deferred tax liabilities	500,818	120,002	620,820
Retained earnings	397,182	(44,785)	352,397
Equity attributable to non-controlling interest	1,020,140	(79,310)	940,830

13. 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.

Non-IFRS measure	Application	Calculation	Most comparable IFRS measure
Free cash flow	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: - Cash flow from operating activities add: - Amortization of deferred transaction costs and discounts on long-term debt; - Changes in non-cash operating activities; - Income taxes paid; and - Financial expense paid deduct: - Current income taxes; - Financial expense; - Acquisition of property, plant and equipment; and - Acquisition of intangible and other assets.	Cash flow from operating activities
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 the Cogeco's business units is equal to the segment profit reported in note 3 of the Condensed Interim Consolidated Financial Statements.	Adjusted EBITDA: - Profit (loss) for the period add: - Income taxes; - Gain on disposal of a subsidiary; - Financial expense; - Depreciation and amortization; - Integration, restructuring and acquisition costs; - Impairment of goodwill and intangible assets; and - Claims and litigations.	Profit (loss) for the period

13.1 FREE CASH FLOW RECONCILIATION

	Quarters ended		Nine months ended	
	May 31, 2017	May 31, 2016	May 31, 2017	May 31, 2016
(in thousands of dollars)	$	$	$	$
Cash flow from operating activities	**243,584**	186,209	**620,267**	487,916
Amortization of deferred transaction costs and discounts on long-term debt	**2,307**	2,314	**6,850**	7,104
Changes in non-cash operating activities	**(26,103)**	(33,132)	**48,422**	28,513
Income taxes paid	**2,216**	40,636	**12,663**	109,055
Current income taxes	**(23,670)**	(26,442)	**(72,472)**	(74,927)
Financial expense paid	**45,243**	51,527	**108,104**	118,411
Financial expense	**(33,196)**	(34,273)	**(100,279)**	(106,673)
Acquisition of property, plant and equipment	**(95,987)**	(90,092)	**(270,779)**	(343,064)
Acquisition of intangible and other assets	**(4,755)**	(4,813)	**(14,343)**	(16,291)
Free cash flow	**109,639**	91,934	**338,433**	210,044

13.2 ADJUSTED EBITDA RECONCILIATION

	Quarters ended		Nine months ended	
	May 31, 2017	May 31, 2016	May 31, 2017	May 31, 2016
(in thousands of dollars)	$	$	$	$
Profit (loss) for the period	**82,082**	(381,886)	**242,273**	(239,367)
Income taxes	**29,006**	14,311	**81,141**	56,026
Gain on disposal of a subsidiary	**—**	—	**—**	(12,940)
Financial expense	**33,196**	34,273	**100,279**	106,673
Impairment of goodwill and intangible assets	**—**	450,000	**—**	450,000
Depreciation and amortization	**120,547**	124,828	**360,448**	382,067
Claims and litigations	**—**	10,499	**—**	10,499
Integration, restructuring and acquisition costs	**—**	1,126	**—**	7,476
Adjusted EBITDA	**264,831**	253,151	**784,141**	760,434

14. SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION

Quarters ended	May 31,		February 28,	February 29,	November 30,		August 31,	
(in thousands of dollars, except per share data)	**2017**	2016	**2017**	2016	**2016**	2015	2016	2015
	$	$	**$**	$	**$**	$	$	$
Revenue	**599,654**	574,005	**586,417**	578,450	**583,088**	582,903	572,045	554,089
Adjusted EBITDA	**264,831**	253,151	**258,043**	252,129	**261,267**	255,154	258,328	244,562
Integration, restructuring and acquisition costs	**—**	1,126	**—**	4,320	**—**	2,030	1,326	6,942
Claims and litigations	**—**	10,499	**—**	—	**—**	—	292	(27,431)
Impairment of goodwill and intangible asset	**—**	450,000	**—**	—	**—**	—	—	—
Gain on disposal of a subsidiary	**—**	—	**—**	(12,940)	**—**	—	(167)	—
Profit (loss) for the period	**82,082**	(381,886)	**78,232**	75,688	**81,959**	66,831	80,662	78,529
Profit (loss) for the period attributable to owners of the Corporation	**30,043**	(117,670)	**25,865**	33,330	**30,765**	25,197	29,792	25,402
Cash flow from operating activities	**243,584**	186,209	**253,808**	211,460	**122,875**	90,247	271,114	275,690
Acquisitions of property, plant and equipment, intangible and other assets	**100,742**	94,905	**87,036**	117,220	**97,344**	147,230	111,002	130,768
Free cash flow	**109,639**	91,934	**119,461**	77,172	**109,333**	40,938	88,028	73,150
Earnings (loss) per share(1)								
Basic	**1.81**	(7.03)	**1.55**	1.99	**1.84**	1.51	1.78	1.52
Diluted	**1.80**	(7.03)	**1.54**	1.98	**1.83**	1.50	1.78	1.51
Dividends per share	**0.34**	0.295	**0.34**	0.295	**0.34**	0.295	0.295	0.255

(1) Per multiple and subordinate voting share.

14.1 SEASONAL VARIATIONS

Cogeco's operating results are not generally subject to material seasonal fluctuations except as follows. In the Communications segment, the number of video and Internet customers are generally lower in the second half of the fiscal year as a result of a decrease in economic activity due to the beginning of the vacation period, the end of the television season, and students leaving their campuses at the end of the school year. Cogeco Communications offers its services in several university and college towns such as Kingston, Windsor, St.Catharines, Hamilton, Peterborough, Trois-Rivières and Rimouski in Canada and in Pennsylvania, and to a lesser extent in South Carolina, eastern Connecticut, Maryland and Delaware in the United States. In the United States, the Miami area is also subject to seasonal fluctuations due to the winter season residents returning home from late spring through the fall.

15. ADDITIONAL INFORMATION

This MD&A was prepared on July 13, 2017. Additional information relating to the Corporation, including its Annual Report and Annual Information Form, is available on the SEDAR website at www.sedar.com or on the Corporation's website at corpo.cogeco.com.

/s/ Jan Peeters
Jan Peeters
Chairman of the Board

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

Cogeco Inc.
Montréal, Québec
July 13, 2017

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine-month periods ended May 31, 2017

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

		Three months ended May 31,		Nine months ended May 31,	
	Notes	**2017**	2016	**2017**	2016
(In thousands of Canadian dollars, except per share data)		**$**	$	**$**	$
Revenue	*3*	**599,654**	574,005	**1,769,159**	1,735,358
Operating expenses	*5*	**334,823**	320,854	**985,018**	974,924
Integration, restructuring and acquisition costs	*3*	**—**	1,126	**—**	7,476
Claims and litigations	*3*	**—**	10,499	**—**	10,499
Depreciation and amortization	*6*	**120,547**	124,828	**360,448**	382,067
Impairment of goodwill and intangible assets	*7*	**—**	450,000	**—**	450,000
Financial expense	*8*	**33,196**	34,273	**100,279**	106,673
Gain on disposal of a subsidiary	*18*	**—**	—	**—**	(12,940)
Income taxes	*9*	**29,006**	14,311	**81,141**	56,026
Profit (loss) for the period		**82,082**	(381,886)	**242,273**	(239,367)
Profit (loss) for the period attributable to:					
Owners of the Corporation		**30,043**	(117,670)	**86,673**	(59,143)
Non-controlling interest		**52,039**	(264,216)	**155,600**	(180,224)
		82,082	(381,886)	**242,273**	(239,367)
Earnings (loss) per share					
Basic	*10*	**1.81**	(7.03)	**5.21**	(3.54)
Diluted	*10*	**1.80**	(7.03)	**5.17**	(3.54)

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

	Three months ended May 31,		Nine months ended May 31,	
	2017	2016	**2017**	2016
(In thousands of Canadian dollars)	**$**	$	**$**	$
Profit (loss) for the period	**82,082**	(381,886)	**242,273**	(239,367)
Other comprehensive income (loss)				
Items to be subsequently reclassified to profit or loss				
Cash flow hedging adjustments				
Net change in fair value of hedging derivative financial instruments	**(146)**	788	**1,459**	(49,813)
Net change in fair value of hedging derivative financial instruments reclassified to financial expense	**—**	—	**—**	48,108
Related income taxes	**39**	(198)	**(368)**	402
	(107)	590	**1,091**	(1,303)
Foreign currency translation adjustments				
Net foreign currency translation differences on net investments in foreign operations	**14,278**	(27,342)	**21,464**	(3,917)
Net changes on translation of long-term debt designated as hedges of net investments in foreign operations	**(10,067)**	19,406	**(16,342)**	4,550
Related income taxes	**(155)**	—	**(406)**	—
	4,056	(7,936)	**4,716**	633
	3,949	(7,346)	**5,807**	(670)
Items not to be subsequently reclassified to profit or loss				
Defined benefit plans actuarial adjustments				
Remeasurement of net defined benefit liability	**(2,945)**	(630)	**11,833**	(5,163)
Related income taxes	**780**	170	**(3,136)**	1,389
	(2,165)	(460)	**8,697**	(3,774)
Other comprehensive income (loss) for the period	**1,784**	(7,806)	**14,504**	(4,444)
Comprehensive income (loss) for the period	**83,866**	(389,692)	**256,777**	(243,811)
Comprehensive income (loss) for the period attributable to:				
Owners of the Corporation	**29,965**	(120,323)	**94,021**	(61,910)
Non-controlling interest	**53,901**	(269,369)	**162,756**	(181,901)
	83,866	(389,692)	**256,777**	(243,811)

COGECO INC.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited)

	Equity attributable to the owners of the Corporation					
	Share capital	Share-based payment reserve	Accumulated other comprehensive income	Retained earnings	Equity attributable to non-controlling interest	Total shareholders' equity
(In thousands of Canadian dollars)	$	$	$	$	$	$
	(Note 12)		*(Note 13)*	*(restated, Note 2)*	*(restated, Note 2)*	
Balance at August 31, 2015	117,172	6,468	26,839	408,334	1,117,810	1,676,623
Loss for the period	—	—	—	(59,143)	(180,224)	(239,367)
Other comprehensive loss for the period	—	—	(200)	(2,567)	(1,677)	(4,444)
Comprehensive loss for the period	—	—	(200)	(61,710)	(181,901)	(243,811)
Share-based payment	—	3,049	—	—	3,605	6,654
Issuance of subordinate voting shares by a subsidiary to non-controlling interest	—	(395)	—	—	5,588	5,193
Dividends on multiple voting shares (Note 12 C))	—	—	—	(1,631)	—	(1,631)
Dividends on subordinate voting shares (Note 12 C))	—	—	—	(13,177)	(38,985)	(52,162)
Effect of changes in ownership of a subsidiary on non-controlling interest	—	—	—	11	(11)	—
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	(2,109)	—	—	—	—	(2,109)
Distribution to employees of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	1,426	(1,048)	—	(378)	—	—
Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	—	—	—	—	(4,575)	(4,575)
Distribution to employees, by a subsidiary, of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	—	(1,230)	—	(244)	1,474	—
Total contributions by (distributions to) shareholders	(683)	376	—	(15,419)	(32,904)	(48,630)
Balance at May 31, 2016	116,489	6,844	26,639	331,205	903,005	1,384,182
Balance at August 31, 2016	**116,489**	**7,349**	**27,109**	**352,397**	**940,830**	**1,444,174**
Profit for the period	—	—	—	86,673	155,600	242,273
Other comprehensive income for the period	—	—	1,843	5,505	7,156	14,504
Comprehensive income for the period	—	—	1,843	92,178	162,756	256,777
Share-based payment	—	2,547	—	—	2,467	5,014
Issuance of subordinate voting shares by a subsidiary to non-controlling interest	—	(342)	—	—	5,453	5,111
Dividends on multiple voting shares (Note 12 C))	—	—	—	(1,880)	—	(1,880)
Dividends on subordinate voting shares (Note 12 C))	—	—	—	(15,103)	(43,241)	(58,344)
Effect of changes in ownership of a subsidiary on non-controlling interest	—	—	—	647	(647)	—
Purchase and cancellation of subordinate voting shares	(1,318)	—	—	(8,542)	—	(9,860)
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	(2,247)	—	—	—	—	(2,247)
Distribution to employees of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	1,563	(1,513)	—	(50)	—	—
Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	—	—	—	—	(3,436)	(3,436)
Distribution to employees, by a subsidiary, of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	—	(1,224)	—	(63)	1,287	—
Total distributions to shareholders	(2,002)	(532)	—	(24,991)	(38,117)	(65,642)
Balance at May 31, 2017	**114,487**	**6,817**	**28,952**	**419,584**	**1,065,469**	**1,635,309**

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

(In thousands of Canadian dollars)	*Notes*	May 31, 2017 $	August 31, 2016 $
			(restated, Note 2)
Assets			
Current			
Cash and cash equivalents	*14 B)*	146,661	68,344
Trade and other receivables		132,357	142,542
Income taxes receivable		8,222	12,707
Prepaid expenses and other		25,534	17,125
Derivative financial instrument		286	1,040
		313,060	241,758
Non-current			
Other assets		6,069	8,280
Property, plant and equipment		1,967,042	2,004,247
Intangible assets		2,138,701	2,139,466
Goodwill		1,103,633	1,079,365
Derivative financial instrument		1,008	—
Deferred tax assets		22,291	22,404
		5,551,804	5,495,520
Liabilities and Shareholders' equity			
Liabilities			
Current			
Bank indebtedness		3,367	4,115
Trade and other payables		239,319	312,914
Provisions		25,105	31,078
Income tax liabilities		84,029	28,910
Deferred and prepaid revenue		74,159	61,707
Balance due on a business combination		118	—
Current portion of long-term debt	*11*	129,217	22,527
		555,314	461,251
Non-current			
Long-term debt	*11*	2,681,550	2,922,078
Derivative financial instruments		—	165
Deferred and prepaid revenue and other liabilities		32,920	30,120
Pension plan liabilities and accrued employee benefits		4,659	16,912
Deferred tax liabilities		642,052	620,820
		3,916,495	4,051,346
Shareholders' equity			
Equity attributable to the owners of the Corporation			
Share capital	*12 B)*	114,487	116,489
Share-based payment reserve		6,817	7,349
Accumulated other comprehensive income	*13*	28,952	27,109
Retained earnings		419,584	352,397
		569,840	503,344
Equity attributable to non-controlling interest		1,065,469	940,830
		1,635,309	1,444,174
		5,551,804	5,495,520

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

		Three months ended May 31,		Nine months ended May 31,	
	Notes	**2017**	2016	**2017**	2016
(In thousands of Canadian dollars)		**$**	$	**$**	$
Cash flow from operating activities					
Profit (loss) for the period		**82,082**	(381,886)	**242,273**	(239,367)
Adjustments for:					
Depreciation and amortization	*6*	**120,547**	124,828	**360,448**	382,067
Impairment of goodwill and intangible assets	*7*	**—**	450,000	**—**	450,000
Financial expense	*8*	**33,196**	34,273	**100,279**	106,673
Income taxes	*9*	**29,006**	14,311	**81,141**	56,026
Share-based payment	*12 D)*	**2,699**	2,613	**6,826**	7,256
Loss on disposals and write-offs of property, plant and equipment		**1,557**	536	**974**	1,487
Gain on disposal of a subsidiary	*18*	**—**	—	**—**	(12,940)
Defined benefit plans contributions, net of expense		**(4,147)**	565	**(2,485)**	(7,307)
		264,940	245,240	**789,456**	743,895
Changes in non-cash operating activities	*14 A)*	**26,103**	33,132	**(48,422)**	(28,513)
Financial expense paid		**(45,243)**	(51,527)	**(108,104)**	(118,411)
Income taxes paid		**(2,216)**	(40,636)	**(12,663)**	(109,055)
		243,584	186,209	**620,267**	487,916
Cash flow from investing activities					
Acquisition of property, plant and equipment		**(95,987)**	(90,092)	**(270,779)**	(343,064)
Acquisition of intangible and other assets		**(4,755)**	(4,813)	**(14,343)**	(16,291)
Business combination, net of cash and cash equivalents acquired		**—**	—	**(804)**	—
Disposal of a subsidiary, net of cash and cash equivalents disposed	*18*	**—**	—	**—**	47,228
Proceeds on disposals of property, plant and equipment		**—**	287	**8,560**	594
Other		**(10)**	(778)	**(10)**	156
		(100,752)	(95,396)	**(277,376)**	(311,377)
Cash flow from financing activities					
Increase (decrease) in bank indebtedness		**(2,043)**	3,534	**(748)**	26,863
Net increases (decreases) under the revolving facilities		**(20,326)**	(37,238)	**(173,323)**	21,489
Repayments of long-term debt and settlement of derivative financial instruments		**(1,607)**	(9,346)	**(19,461)**	(240,650)
Repayment of balance due on a business combination		**(837)**	—	**(837)**	—
Transaction costs on long-term debt conversion and increase in deferred transaction costs		**—**	(668)	**(472)**	(1,140)
Purchase and cancellation of subordinate voting shares		**(4,354)**	—	**(9,860)**	—
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	*12 B)*	**—**	—	**(2,247)**	(2,109)
Dividends paid on multiple voting shares	*12 C)*	**(627)**	(544)	**(1,880)**	(1,631)
Dividends paid on subordinate voting shares	*12 C)*	**(5,003)**	(4,391)	**(15,103)**	(13,177)
Issuance of subordinate voting shares by a subsidiary to non-controlling interest		**479**	592	**5,111**	5,193
Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans		**—**	—	**(3,436)**	(4,575)
Dividends paid on subordinate voting shares by a subsidiary to non-controlling interest		**(14,422)**	(13,029)	**(43,241)**	(38,985)
		(48,740)	(61,090)	**(265,497)**	(248,722)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		**253**	(256)	**923**	(60)
Net change in cash and cash equivalents		**94,345**	29,467	**78,317**	(72,243)
Cash and cash equivalents, beginning of the period		**52,316**	62,479	**68,344**	164,189
Cash and cash equivalents, end of the period		**146,661**	91,946	**146,661**	91,946

NATURE OF OPERATIONS

Cogeco Inc. ("Cogeco" or the "Corporation") is a Canadian public corporation whose subordinate voting shares are listed on the Toronto Stock Exchange ("TSX") under the trading symbol "CGO". Cogeco is a diversified holding corporation which operates in the communications and media sectors.

Through its Cogeco Communications Inc. ("Cogeco Communications") subsidiary, the Corporation provides its residential and business customers with video, Internet 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 name in western Pennsylvania, south Florida, Maryland/Delaware, South Carolina and eastern Connecticut. Through its subsidiary Cogeco Peer 1, Cogeco Communications provides its business customers with a suite of information technology services (colocation, network connectivity, hosting, cloud services and managed services), through its 16 data centres, extensive FastFiber Network™ and more than 50 points of presence in North America and Europe.

Through its subsidiary Cogeco Media, the Corporation owns and operates radio stations across most of Québec with complementary radio formats serving a wide range of audiences as well as Cogeco News, its news agency.

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 of the information required for full annual financial statements. Certain information and footnote disclosure normally 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 2016 annual consolidated financial statements.

These condensed interim consolidated financial statements have been prepared with the accounting policies the Corporation adopted in its 2016 annual consolidated financial statements, except 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 video and Internet 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 area is also subject to seasonal fluctuations due to the winter season residents returning home from late spring through the fall.

The condensed interim consolidated financial statements were approved by the Board of Directors of the Corporation at its meeting held on July 13, 2017.

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

2. CHANGE IN ACCOUNTING POLICY

During 2016, the *IFRS Interpretations Committee* ("IFRIC") received a request to clarify how an entity determines the expected manner of recovery of an intangible asset with an indefinite useful life for the purposes of measuring deferred tax. Through the process of considering this question, the IFRIC clarified that an entity should use the tax rate associated with the expected manner of recovery to measure deferred taxes. Further, the fact that an indefinite life intangible asset is not being amortized is not in and of itself evidence that the manner of recovery will be through sale. In response to this clarification, the Corporation retrospectively changed its accounting policy as of September 1, 2016 and has restated the prior period for this change as further explained below.

IAS 12, *Income Taxes*, states that measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of the assets and liabilities. The carrying value is recovered in the form of economic benefits that flow to the entity in future periods, thereby the assets are recovered through sale or recovered through use.

In applying the new interpretation, the Corporation has now determined that the benefit of its Cable Distribution Licenses and Broadcasting Licenses will flow to the Corporation on an annual basis, and thereby the carrying amount will be recovered through use, and as a result, will be subject to a higher tax rate.

Consequently, the Corporation changed its accounting policy with respect to the tax rate used in determining the deferred tax assets and liabilities at the reporting date. The Corporation believes this change in accounting policy will better reflect how the assets will be recovered by the Corporation. The change in accounting policy was applied retrospectively and resulted in the following changes to the Corporation's consolidated financial statements:

	As previously reported	Effect of change in accounting policy	As currently reported
	$	$	$
Balance at August 31, 2015			
Deferred tax assets	25,601	(4,093)	21,508
Deferred tax liabilities	528,211	120,002	648,213
Retained earnings	453,119	(44,785)	408,334
Equity attributable to non-controlling interest	1,197,120	(79,310)	1,117,810
Balance at August 31, 2016			
Deferred tax assets	26,497	(4,093)	22,404
Deferred tax liabilities	500,818	120,002	620,820
Retained earnings	397,182	(44,785)	352,397
Equity attributable to non-controlling interest	1,020,140	(79,310)	940,830

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

3. 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 its Cogeco Communications subsidiary, its residential and business customers with video, Internet 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 name in western Pennsylvania, south Florida, Maryland/Delaware, South Carolina and eastern Connecticut. Through its subsidiary, Cogeco Peer 1, Cogeco Communications provides its business customers with a suite of information technology services (colocation, network connectivity, hosting, cloud and a rich portfolio of managed services), through 16 data centres, extensive FastFiber Network™ and more than 50 points of presence in North America and Europe.

The Other segment is comprised of radio, out of home advertising, head office activities as well as inter-segment eliminations. Through its subsidiary, Cogeco Media, the Corporation owns and operates radio stations across most of Québec 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. Through its subsidiary, Métromédia, Cogeco Media also operated an out-of-home advertising company specialized in the public transit sector, until it was sold on January 5, 2016.

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 agreed to amounts between the parties.

						Three months ended May 31,
	Communications		Other		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016
	$	$	**$**	$	**$**	$
Revenue [(1)]	**565,158**	540,257	**34,496**	33,748	**599,654**	574,005
Operating expenses	**306,132**	292,555	**28,691**	28,299	**334,823**	320,854
Management fees – Cogeco Inc.	**4,793**	4,587	**(4,793)**	(4,587)	**—**	—
Segment profit	**254,233**	243,115	**10,598**	10,036	**264,831**	253,151
Integration, restructuring and acquisition costs [(2)]	**—**	1,126	**—**	—	**—**	1,126
Claims and litigations [(3)]	**—**	10,499	**—**	—	**—**	10,499
Depreciation and amortization	**119,597**	123,928	**950**	900	**120,547**	124,828
Impairment of goodwill and intangible assets (Note 7)	**—**	450,000	**—**	—	**—**	450,000
Financial expense	**31,792**	32,792	**1,404**	1,481	**33,196**	34,273
Income taxes	**26,641**	12,127	**2,365**	2,184	**29,006**	14,311
Profit (loss) for the period	**76,203**	(387,357)	**5,879**	5,471	**82,082**	(381,886)
Acquisition of property, plant and equipment	**95,447**	89,629	**540**	463	**95,987**	90,092
Acquisition of intangible and other assets	**4,755**	4,813	**—**	—	**4,755**	4,813

(1) For the three-month period ended May 31, 2017, revenue by geographic market includes $405,120 in Canada ($391,702 in 2016), $186,802 in the United States ($173,170 in 2016) and $7,732 in Europe ($9,133 in 2016).

(2) Comprised of acquisition and integration costs at Atlantic Broadband and restructuring costs at Cogeco Peer 1.

(3) Comprised of costs related to the settlement of claims and costs related to litigations.

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

						Nine months ended May 31,
	Communications		Other		Consolidated	
	2017	2016	2017	2016	2017	2016
	$	$	$	$	$	$
Revenue [(1)]	1,675,123	1,632,093	94,036	103,265	1,769,159	1,735,358
Operating expenses	903,062	882,566	81,956	92,358	985,018	974,924
Management fees – Cogeco Inc.	14,286	13,888	(14,286)	(13,888)	—	—
Segment profit	757,775	735,639	26,366	24,795	784,141	760,434
Integration, restructuring and acquisition costs [(2)]	—	7,476	—	—	—	7,476
Claims and litigations [(3)]	—	10,499	—	—	—	10,499
Depreciation and amortization	357,926	378,664	2,522	3,403	360,448	382,067
Impairment of goodwill and intangible assets (Note 7)	—	450,000	—	—	—	450,000
Financial expense	96,357	101,984	3,922	4,689	100,279	106,673
Gain on disposal of a subsidiary (Note 18)	—	—	—	(12,940)	—	(12,940)
Income taxes	75,602	51,225	5,539	4,801	81,141	56,026
Profit (loss) for the period	227,890	(264,209)	14,383	24,842	242,273	(239,367)
Total assets [(4)]	5,348,801	5,333,249	203,003	162,271	5,551,804	5,495,520
Property, plant and equipment [(4)]	1,952,699	1,989,720	14,343	14,527	1,967,042	2,004,247
Intangible assets [(4)]	2,058,783	2,059,548	79,918	79,918	2,138,701	2,139,466
Goodwill [(4)]	1,085,048	1,060,780	18,585	18,585	1,103,633	1,079,365
Acquisition of property, plant and equipment	268,552	341,632	2,227	1,432	270,779	343,064
Acquisition of intangible and other assets	14,343	15,861	—	430	14,343	16,291

(1) For the nine-month period ended May 31, 2017, revenue by geographic market includes $1,194,427 in Canada ($1,170,929 in 2016), $550,960 in the United States ($535,071 in 2016) and $23,772 in Europe ($29,358 in 2016).

(2) Comprised of acquisition and integration costs at Atlantic Broadband and restructuring costs at Cogeco Peer 1 and Cogeco Connexion.

(3) Comprised of costs related to the settlement of claims and costs related to litigations.

(4) At May 31, 2017 and August 31, 2016.

The following tables set out certain geographic market information at May 31, 2017 and August 31, 2016:

				At May 31, 2017
	Canada	United States	Europe	Total
	$	$	$	$
Property, plant and equipment	1,411,592	522,042	33,408	1,967,042
Intangible assets	1,125,956	1,008,181	4,564	2,138,701
Goodwill	240,452	848,201	14,980	1,103,633

				At August 31, 2016
	Canada	United States	Europe	Total
	$	$	$	$
Property, plant and equipment	1,464,877	502,357	37,013	2,004,247
Intangible assets	1,131,110	1,002,134	6,222	2,139,466
Goodwill	240,452	824,074	14,839	1,079,365

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

4. BUSINESS COMBINATION

On September 1, 2016, Cogeco Connexion completed the acquisition of all the shares of Briand et Moreau Câble Inc., a regional cable company operating in Gaspésie (Québec), which served 1,439 video service and 808 Internet service customers at September 1, 2016.

The acquisition was accounted for using the purchase method and was subject to post closing adjustments, which were completed in the second quarter of 2017. The final allocation of the purchase price of this acquisition is as follows:

	Preliminary November 30, 2016 $	**Final** **February 28, 2017** **$**
Purchase price		
Consideration paid	880	**880**
Balance due on a business combination	896	**955**
	1,776	**1,835**
Net assets acquired		
Cash and cash equivalents	76	**76**
Trade and other receivables	70	**57**
Prepaid expenses and other	9	**9**
Property, plant and equipment	204	**204**
Intangible assets	2,296	**2,358**
Trade and other payables assumed	(102)	**(92)**
Income tax liabilities	(13)	**(13)**
Deferred and prepaid revenue	(10)	**(10)**
Deferred tax liabilities	(549)	**(549)**
Long-term debt assumed	(205)	**(205)**
	1,776	**1,835**

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

5. OPERATING EXPENSES

	Three months ended May 31,		Nine months ended May 31,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Salaries, employee benefits and outsourced services	**111,310**	107,657	**327,068**	324,847
Service delivery costs (1)	**170,088**	165,041	**503,773**	501,034
Customer related costs (2)	**18,540**	19,612	**56,775**	56,647
Other external purchases (3)	**34,885**	28,544	**97,402**	92,396
	334,823	320,854	**985,018**	974,924

(1) Include cost of equipment sold, content and programming costs, payments to other carriers, data centre expenses, franchise fees and network costs.

(2) Include advertising and marketing expenses, selling costs, billing expenses, bad debts and collection expenses.

(3) Include office building expenses, professional service fees, Canadian Radio-television and Telecommunications Commission ("CRTC") fees, losses and gains on disposals of property, plant and equipment, and other administrative expenses.

6. DEPRECIATION AND AMORTIZATION

	Three months ended May 31,		Nine months ended May 31,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Depreciation of property, plant and equipment	**104,831**	107,411	**313,727**	328,307
Amortization of intangible assets	**15,716**	17,417	**46,721**	53,760
	120,547	124,828	**360,448**	382,067

7. IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

During the three-month period ended May 31, 2016, management reviewed downwards its future financial projections, resulting in a decrease in the value of Cogeco Communications' investment in Cogeco Peer 1. As a result, Cogeco Communications tested goodwill and all long-lived assets of Cogeco Peer 1 for impairment at May 31, 2016. Based on lower expectations for future revenue, profitability and cash flow growth, Cogeco Communications recorded a non-cash impairment loss of $428.5 million on goodwill. In addition, Cogeco Communications also completed its impairment testing on the long-lived assets and concluded that the carrying value of the customer relationships exceeded their recoverable amount, calculated as the discounted future cash flows expected to be generated from the asset. As a result, a non-cash impairment loss of $21.5 million was also recognized during the three-month period ended May 31, 2016 regarding the customer relationships.

At May 31, 2017, Cogeco Communications tested goodwill and long-lived assets of Cogeco Peer 1 for impairment, due to the financial performance indicators being lower than initially projected. The recoverable amount was determined to be higher than its carrying amount and no impairment loss was recognized at May 31, 2017.

8. FINANCIAL EXPENSE

	Three months ended May 31,		Nine months ended May 31,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Interest on long-term debt	**32,622**	33,694	**97,414**	104,371
Net foreign exchange gains	**(725)**	(571)	**(936)**	(1,972)
Amortization of deferred transaction costs	**658**	623	**1,938**	1,884
Capitalized borrowing costs (1)	**(738)**	(509)	**(2,097)**	(1,318)
Other	**1,379**	1,036	**3,960**	3,708
	33,196	34,273	**100,279**	106,673

(1) For the three and nine-month periods ended May 31, 2017 and 2016, the weighted average interest rate used in the capitalization of borrowing costs was 4.5%.

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

9. INCOME TAXES

	Three months ended May 31,		Nine months ended May 31,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Current	**23,670**	26,442	**72,472**	74,927
Deferred	**5,336**	(12,131)	**8,669**	(18,901)
	29,006	14,311	**81,141**	56,026

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

	Three months ended May 31,		Nine months ended May 31,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Profit (loss) before income taxes	**111,088**	(367,575)	**323,414**	(183,341)
Combined Canadian income tax rate	**26.50%**	26.93%	**26.50%**	27.15%
Income taxes at combined Canadian income tax rate	**29,438**	(98,972)	**85,705**	(49,783)
Adjustment for losses or profit subject to lower or higher tax rates	**2,977**	(695)	**8,512**	3,260
Revaluation of deferred tax assets	**(293)**	12,278	**(29)**	10,518
Impact on deferred taxes as a result of changes in substantively enacted tax rates	**—**	(343)	**(1,552)**	1,294
Impact on income taxes arising from non-deductible expenses and non-taxable profit (1)	**51**	107,450	**268**	106,282
Tax impacts related to investments in foreign operations	**(4,327)**	(5,423)	**(12,762)**	(16,616)
Other	**1,160**	16	**999**	1,071
Income taxes at effective income tax rate	**29,006**	14,311	**81,141**	56,026

(1) Comprised of $107.2 million of non-deductible impairment of goodwill and intangible assets for the three and nine-month periods ended May 31, 2016.

10. EARNINGS (LOSS) PER SHARE

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

	Three months ended May 31,		Nine months ended May 31,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Profit (loss) for the period attributable to the owners of the Corporation	**30,043**	(117,670)	**86,673**	(59,143)
Weighted average number of multiple and subordinate voting shares outstanding	**16,566,422**	16,727,192	**16,648,843**	16,728,792
Effect of dilutive incentive share units (1)	**50,263**	—	**52,611**	—
Effect of dilutive performance share units (1)	**60,671**	—	**55,319**	—
Weighted average number of diluted multiple and subordinate voting shares outstanding	**16,677,356**	16,727,192	**16,756,773**	16,728,792
Earnings (loss) per share				
Basic	**1.81**	(7.03)	**5.21**	(3.54)
Diluted	**1.80**	(7.03)	**5.17**	(3.54)

(1) The weighted average dilutive potential of subordinate voting shares which amounted to 103,472 and 103,136 for the three and nine-month periods ended May 31,2016, is anti-dilutive due to the loss for the period.

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

11. LONG-TERM DEBT

	Maturity	Interest rate		May 31, 2017	August 31, 2016
		%		$	$
Corporation [(1)]					
Unsecured Debentures	November 2021	6.50		34,813	34,784
Senior Unsecured Notes	March 2020	6.00		49,328	49,164
Finance lease	February 2022	4.27		106	11
Subsidiaries					
Term Revolving Facility [(2)]					
Canadian Revolving Facility					
Revolving loan – US$59.5 million at August 31, 2016	January 2022	—		—	78,040
Revolving loan – £23.6 million at August 31, 2016	January 2022	—		—	40,646
UK Revolving Facility – £4.4 million at August 31, 2016	January 2022	—		—	7,578
Senior Secured Notes					
Series A – US$25 million	September 2024	4.14		33,635	32,665
Series B - US$150 million	September 2026	4.29		201,769	195,961
Senior Secured Notes Series B	October 2018	7.60		54,905	54,853
Senior Secured Notes - US$215 million	June 2025	4.30		289,129	280,787
Senior Secured Debentures Series 2	November 2020	5.15		199,309	199,174
Senior Secured Debentures Series 3	February 2022	4.93		199,016	198,878
Senior Secured Debentures Series 4	May 2023	4.18		298,006	297,788
Senior Unsecured Debenture	March 2018	5.94		99,969	99,939
Senior Unsecured Notes – US$400 million	May 2020	4.88		536,416	520,201
First Lien Credit Facilities					
Term Loan A-2 Facility – US$95.7 million (US$98.2 million at August 31, 2016)	September 2019	2.92	(3) (4)	127,955	127,146
Term Loan A-3 Facility - US$119.9 million (US$124.6 million at August 31, 2016)	September 2019	2.92	(3) (4)	160,288	161,284
Term Loan B Facility – US$355.4 million (US$362.6 million at August 31, 2016)	December 2019	3.54	(3)	472,123	466,024
Revolving Facility – US$40 million (US$76 million at August 31, 2016)	September 2019	2.92	(3)	54,000	99,682
				2,810,767	2,944,605
Less current portion				129,217	22,527
				2,681,550	2,922,078

(1) On December 5, 2016, the Corporation amended its $50 million Term Revolving Facility which was undrawn as of May 31, 2017 and August 31, 2016. Under the terms of the amendment, the maturity was extended by an additional year until February 1, 2022.

(2) On December 9, 2016, the Corporation's subsidiary, Cogeco Communications, amended its Term Revolving Facility resulting in the extension of the maturity date by an additional year until January 24, 2022.

(3) Interest rate on debt includes applicable margin.

(4) On October 14, 2015, a US subsidiary of Cogeco Communications entered into two interest rate swap agreements to fix the interest rate on a notional amount of US$150 million (US$75 million each agreement) of its LIBOR based loans.These agreements have the effect of converting the floating US Libor base rate at fixed rates of 0.6120% and 0.9870%, under Term Loan A-3 and Term Loan A-2 Facilities, until October 30, 2017 and July 31, 2019, respectively.

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

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

	May 31, 2017	August 31, 2016
	$	$
1,842,860 multiple voting shares	12	12
14,807,607 subordinate voting shares (14,969,572 at August 31, 2016)	120,497	121,815
	120,509	121,827
50,178 subordinate voting shares held in trust under the Incentive Share Unit Plan (63,021 at August 31, 2016)	(2,590)	(3,142)
61,386 subordinate voting shares held in trust under the Performance Share Unit Plan (38,786 at August 31, 2016)	(3,432)	(2,196)
	114,487	116,489

During the first nine months of fiscal 2017, subordinate voting shares transactions were as follows:

	Number of shares	Amount
		$
Balance at August 31, 2016	14,969,572	121,815
Purchase and cancellation of subordinate voting shares (1)	(161,965)	(1,318)
Balance at May 31, 2017	14,807,607	120,497

(1) On July 28, 2016 Cogeco announced through a normal course issuer bid its intention to acquire for cancellation up to 375,000 subordinate voting shares from August 2, 2016 to August 1, 2017. During the first nine months of fiscal 2017, Cogeco purchased and canceled 161,965 subordinate voting shares with an average stated value of $1.3 million, for consideration of $9.9 million. The excess of the purchase price over the average stated value of the shares totaled $8.5 million and was charged to retained earnings.

During the first nine months of fiscal 2017, subordinate voting shares held in trust under the Incentive Share Unit Plan transactions were as follows:

	Number of shares	Amount
		$
Balance at August 31, 2016	63,021	3,142
Subordinate voting shares acquired	18,379	1,005
Subordinate voting shares distributed to employees	(31,222)	(1,557)
Balance at May 31, 2017	50,178	2,590

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

During the first nine months of fiscal 2017, subordinate voting shares held in trust under the Performance Share Unit Plan transactions were as follows:

	Number of shares	Amount
		$
Balance at August 31, 2016	38,786	2,196
Subordinate voting shares acquired	22,701	1,242
Subordinate voting shares distributed to employees	(101)	(6)
Balance at May 31, 2017	61,386	3,432

C) DIVIDENDS

For the nine-month period ended May 31, 2017, quarterly eligible dividends of $0.34 per share, for a total of $1.02 per share, were paid to the holders of multiple and subordinate voting shares, totaling $17.0 million, compared to quarterly eligible dividends of $0.295 per share, for a total of $0.885 per share or $14.8 million for the nine-month period ended May 31, 2016.

At its July 13, 2017 meeting, the Board of Directors of Cogeco declared a quarterly eligible dividend of $0.34 per share for multiple and subordinate voting shares, payable on August 10, 2017 to shareholders of record on July 27, 2017.

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 2016 annual consolidated financial statements of the Corporation.

For the nine-month period ended May 31, 2017, no stock options were granted to employees by Cogeco under the Stock Option Plan of the Corporation and no options were outstanding at May 31, 2017 and August 31, 2016.

Under the Stock Option Plan of Cogeco Communications, the following options were granted and are outstanding at May 31, 2017:

	Options	Weighted average exercise price
		$
Outstanding at August 31, 2016	645,626	53.67
Granted (1)	210,650	62.43
Exercised (2)	(100,939)	50.64
Cancelled	(63,655)	60.60
Outstanding at May 31, 2017	691,682	56.14
Exercisable at May 31, 2017	239,203	47.07

(1) During the nine-month period ended May 31, 2017, the Corporation's subsidiary, Cogeco Communications, granted 81,350 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 $68.25.

A compensation expense of $334,000 and $892,000 ($376,000 and $915,000 in 2016) was recorded for the three and nine-month periods ended May 31, 2017 related to this plan.

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

The weighted average fair value of stock options granted by Cogeco Communications for the nine-month period ended May 31, 2017 was $8.96 ($11.36 in 2016) 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:

	2017	2016
	%	%
Expected dividend yield	2.52	2.08
Expected volatility	21.28	22.34
Risk-free interest rate	0.81	0.97
Expected life (in years)	6.1	6.1

Under the ISU Plan of the Corporation, the following ISUs were granted and are outstanding at May 31, 2017:

Outstanding at August 31, 2016	62,475
Granted	18,925
Distributed	(31,222)
Outstanding at May 31, 2017	**50,178**

Under the ISU Plan of Cogeco Communications, the following ISUs were granted and are outstanding at May 31, 2017:

Outstanding at August 31, 2016	144,623
Granted (1)	41,075
Distributed	(74,495)
Cancelled	(9,665)
Outstanding at May 31, 2017	**101,538**

(1) During the nine-month period ended May 31, 2017, the Corporation's subsidiary, Cogeco Communications, did not grant any ISUs to Cogeco's executive officers as executive officers of Cogeco Communications.

A compensation expense of $747,000 and $2,198,000 ($1,136,000 and $4,060,000 in 2016) was recorded for the three and nine-month periods ended May 31, 2017 related to these plans.

Under the PSU Plan of the Corporation, the following PSUs were granted and are outstanding at May 31, 2017:

Outstanding at August 31, 2016	38,062
Granted	21,925
Distributed	(101)
Dividend equivalents	991
Outstanding at May 31, 2017	**60,877**

Under the PSU Plan of Cogeco Communications, the following PSUs were granted and are outstanding at May 31, 2017:

Outstanding at August 31, 2016	81,376
Granted (1)	50,925
Distributed	(1,362)
Cancelled	(18,421)
Dividend equivalents	2,131
Outstanding at May 31, 2017	**114,649**

(1) During the nine-month period ended May 31, 2017, the Corporation's subsidiary, Cogeco Communications, granted 12,150 PSUs to Cogeco's executive officers as executive officers of Cogeco Communications.

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

A compensation expense of $791,000 and $1,924,000 ($632,000 and $1,679,000 in 2016) was recorded for the three and nine-month periods ended May 31, 2017 related to these plans.

Under the DSU Plan of the Corporation, the following DSUs were issued and are outstanding at May 31, 2017:

Outstanding at August 31, 2016	59,824
Issued	7,196
Redeemed	(7,890)
Dividend equivalents	983
Outstanding at May 31, 2017	**60,113**

Under the DSU Plan of Cogeco Communications, the following DSUs were issued and are outstanding at May 31, 2017:

Outstanding at August 31, 2016	32,483
Issued	7,097
Dividend equivalents	670
Outstanding at May 31, 2017	**40,250**

A compensation expense of $827,000 and $2,255,000 ($469,000 and $602,000 in 2016) was recorded for the three and nine-month periods ended May 31, 2017 related to these plans.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

	Cash flow hedge reserve	Foreign currency translation	Total
	$	$	$
Balance at August 31, 2015	438	26,401	26,839
Other comprehensive income (loss)	(389)	189	(200)
Balance at May 31, 2016	49	26,590	26,639
Balance at August 31, 2016	(47)	27,156	27,109
Other comprehensive income	346	1,497	1,843
Balance at May 31, 2017	**299**	**28,653**	**28,952**

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

14. STATEMENTS OF CASH FLOWS

A) CHANGES IN NON-CASH OPERATING ACTIVITIES

	Three months ended May 31,		Nine months ended May 31,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Trade and other receivables	**8,463**	(2,605)	**10,723**	10,373
Prepaid expenses and other	**(687)**	5,298	**(7,783)**	1,436
Trade and other payables	**14,672**	22,283	**(58,408)**	(49,917)
Provisions	**(9,179)**	6,634	**(7,394)**	6,983
Deferred and prepaid revenue and other liabilities	**12,834**	1,522	**14,440**	2,612
	26,103	33,132	**(48,422)**	(28,513)

B) CASH AND CASH EQUIVALENTS

At May 31, 2017 and August 31, 2016 the Corporation had no cash equivalents.

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 May 31,		Nine months ended May 31,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Defined benefit plans				
Recognized in operating expenses (salaries, employee benefits and outsourced services)				
Current service cost	**1,002**	848	**2,975**	2,544
Administrative expense	**82**	72	**277**	214
Recognized in financial expense (other)				
Net interest	**92**	48	**276**	144
Defined contribution and collective registered retirement saving plans				
Recognized in operating expenses (salaries, employee benefits and outsourced services)	**2,415**	2,303	**7,621**	7,474
	3,591	3,271	**11,149**	10,376

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

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 and foreign exchange risks which are described in the Corporation's annual consolidated financial statements.

Liquidity risk

At May 31, 2017, the Corporation's Term Revolving Facility of $50 million was unused, and an amount of $5.4 million was used from Cogeco Communications' Term Revolving Facility of $800 million for a remaining availability of $794.6 million. In addition, two subsidiaries of Cogeco Communications also benefit from a Revolving Facility of $202.5 million (US$150 million), of which $56.6 million (US$41.9 million) was used at May 31, 2017 for a remaining availability of $145.9 million (US$108.1 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 May 31, 2017, all of the Corporation's and Cogeco Communications' long-term debt was at fixed rate, except for the amounts drawn under Cogeco Communications' First Lien Credit Facilities.

To reduce such risk, Cogeco Communications entered into interest rate swap agreements. The following table shows the interest rate swaps outstanding at May 31, 2017:

Type of hedge	Notional amount	Receive interest rate	Pay interest rate	Maturity	Hedged item
Cash flow	US$75 million	US Libor base rate	0.6120%	October 30, 2017	Term Loan A-3 Facility
Cash flow	US$75 million	US Libor base rate	0.9870%	July 31, 2019	Term Loan A-2 Facility

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 $6.2 million based on the outstanding debt at May 31, 2017.

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 $7.5 million based on the outstanding debt at May 31, 2017.

Furthermore, Cogeco Communications' net investments in foreign operations are exposed to market risk attributable to fluctuations in foreign currency exchange rates, primarily changes in the values of the Canadian dollar versus the US dollar and British Pound. This risk related to the US dollar is mitigated since the major part of the purchase prices for Atlantic Broadband and Cogeco Peer 1 were borrowed directly in US dollars.

The following table shows the net investments in foreign operations outstanding at May 31, 2017:

Type of hedge	Notional amount of debt	Aggregate investments	Hedged item
Net investment	US$790 million	US$901.7 million	Net investments in foreign operations in US dollar
N/A	£—	£29.2 million	N/A

The exchange rates used to convert the US dollar currency and British Pound currency into Canadian dollars for the statement of financial position accounts at May 31, 2017 was $1.3500 ($1.3116 at August 31, 2016) per US dollar and $1.7387 ($1.7223 at August 31, 2016) per British Pound. A 10% decrease in the exchange rates of the US dollar and British Pound into Canadian dollars would decrease other comprehensive income by approximately $20.1 million.

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

B) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

		May 31, 2017		August 31, 2016
	Carrying value	Fair value	Carrying value	Fair value
	$	$	$	$
Long-term debt	**2,810,767**	**2,939,738**	2,944,605	3,067,189

C) CAPITAL MANAGEMENT

At May 31, 2017 and August 31, 2016, 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 following table summarizes certain of the key ratios used to monitor and manage the Corporation's capital structure:

	May 31, 2017	August 31, 2016
Net secured indebtedness (1) / adjusted EBITDA (2)	**1.9**	2.2
Net indebtedness (3) / adjusted EBITDA (2)	**2.6**	2.9
Adjusted EBITDA (2) / financial expense (2)	**7.7**	7.2

(1) Net secured indebtedness is defined as the total of bank indebtedness, principal on long-term debt and obligations under derivative financial instruments, less cash and cash equivalents and principal on Unsecured Debentures, Senior Unsecured Debenture and Senior Unsecured Notes.
(2) Calculation based on adjusted EBITDA and financial expense for the twelve-month periods ended May 31, 2017 and August 31, 2016.
(3) Net indebtedness is defined as the total of bank indebtedness, balance due on a business combination, principal on long-term debt and obligations under derivative financial instruments, less cash and cash equivalents.

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

	May 31, 2017	August 31, 2016
Net secured indebtedness (1) / adjusted EBITDA (2)	**2.0**	2.3
Net indebtedness (3) / adjusted EBITDA (2)	**2.6**	2.9
Adjusted EBITDA (2) / financial expense (2)	**7.7**	7.2

(1) Net secured indebtedness is defined as the total of bank indebtedness, intercompany note payable, principal on long-term debt and obligations under derivative financial instruments, less cash and cash equivalents and principal on Senior Unsecured Debenture and Senior Unsecured Notes.

(2) Calculation based on adjusted EBITDA and financial expense for the twelve-month periods ended May 31, 2017 and August 31, 2016.

(3) Net indebtedness is defined as the total of bank indebtedness, balance due on a business combination, intercompany note payable, principal on long-term debt and obligations under derivative financial instruments, less cash and cash equivalents.

17. RELATED PARTY TRANSACTIONS

Cogeco provides executive, administrative, financial and strategic planning services and other services to Cogeco Communications under a Management Services Agreement. Under the Agreement, management fees are payable on a monthly basis, representing 0.85% of the consolidated revenue of Cogeco Communications. In addition, provision is made for future adjustment upon the request of either Cogeco Communications or the Corporation should the level of management fees no longer align with the costs, time and resources committed by Cogeco. Cogeco Communications reimburses Cogeco's out-of-pocket expenses incurred with respect to services provided to Cogeco Communications under the Agreement. For the three and nine-month periods ended May 31, 2017, management fees paid to Cogeco amounted to $4.8 million and $14.3 million, respectively, compared to $4.6 million and $13.9 million for the same periods of fiscal 2016.

No direct remuneration is payable to Cogeco's executive officers by Cogeco Communications. However, during the nine-month period ended May 31, 2017, Cogeco Communications granted 81,350 (71,650 in 2016) stock options, did not grant any ISUs and granted 12,150 (11,150 in 2016) PSUs to these executive officers as executive officers of Cogeco Communications. During the three and nine-month periods ended May 31, 2017, Cogeco Communications charged Cogeco $163,000 and $465,000 ($162,000 and $442,000 in 2016), $2,000 and $37,000 ($69,000 and $248,000 in 2016) and $177,000 and $483,000 ($135,000 and $364,000 in 2016), respectively, with regards to Cogeco Communications' stock options, ISUs and PSUs granted to these executive officers.

On August 2, 2016 an intercompany loan agreement was concluded between the Corporation and its subsidiary, Cogeco Communications, by which a revolving credit facility was established in favour of Cogeco Communications. The maximum principal amount of the facility is set at $40 million and the full amount was advanced to Cogeco Communications as of the signing date. The credit facility is payable on demand and the interest is calculated on the daily outstanding balance at an annual rate equivalent to Cogeco Communications' Canadian Revolving Facility. During the third quarter of fiscal 2017, the intercompany loan was fully repaid by Cogeco Communications.

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

18. DISPOSAL OF A SUBSIDIARY IN FISCAL 2016

On January 5, 2016, the Corporation's subsidiary, Cogeco Media, completed the sale of its subsidiary Métromédia, an out-of-home advertising company, for a cash consideration of $47.5 million, which was subject to a post-closing net working capital adjustment. The selling price was reduced by selling fees of approximately $0.4 million. The carrying value of the net assets disposed was $34.1 million resulting in a pre-tax gain of $12.9 million recorded in the consolidated statements of profit or loss.

19. SUBSEQUENT EVENT

On July 10, 2017, Cogeco Communications Inc. announced that its subsidiary, Atlantic Broadband, entered into an agreement with Harron Communications, L.P. to acquire substantially all of the assets of its cable systems operating under the MetroCast brand name ("MetroCast") which serves about 120,000 Internet, 76,000 video and 37,000 telephony customers. The transaction valued at US$1.4 billion includes the expected present value of future tax benefits of US$310 million and is subject to customary closing adjustments. This acquisition is expected to be financed through a combination of non-recourse debt financing at Atlantic Broadband and an equity investment by Caisse de Dépôt et Placement du Québec ("CDPQ") in Atlantic Broadband's holding company. The transaction is subject to usual closing conditions, regulatory approvals and other customary conditions. The Corporation expects the transaction to close in January 2018.

COMMUNICATIONS SEGMENT CUSTOMER STATISTICS

	May 31, 2017	February 28, 2017	November 30, 2016	August 31, 2016	May 31, 2016
CONSOLIDATED					
Primary service units	**2,534,925**	**2,536,876**	**2,527,602**	2,507,750	2,511,799
Video service customers	**967,020**	**976,997**	**981,682**	982,955	992,409
Internet service customers	**1,034,686**	**1,023,519**	**1,007,610**	987,365	977,538
Telephony service customers	**533,219**	**536,360**	**538,310**	537,430	541,852
CANADA					
Primary service units	**1,926,537**	**1,934,496**	**1,930,909**	1,914,017	1,921,799
Video service customers	**729,701**	**737,975**	**740,855**	739,323	747,257
Penetration as a percentage of homes passed	**42.3%**	**42.9%**	**43.3%**	43.4%	43.9%
Internet service customers	**764,350**	**759,152**	**749,275**	733,701	728,086
Penetration as a percentage of homes passed	**44.3%**	**44.2%**	**43.8%**	43.0%	42.8%
Telephony service customers	**432,486**	**437,369**	**440,779**	440,993	446,456
Penetration as a percentage of homes passed	**25.1%**	**25.5%**	**25.8%**	25.9%	26.3%
UNITED STATES					
Primary service units	**608,388**	**602,380**	**596,693**	593,733	590,000
Video service customers	**237,319**	**239,022**	**240,827**	243,632	245,152
Penetration as a percentage of homes passed	**40.1%**	**40.4%**	**40.7%**	41.2%	41.4%
Internet service customers	**270,336**	**264,367**	**258,335**	253,664	249,452
Penetration as a percentage of homes passed	**45.7%**	**44.7%**	**43.7%**	42.9%	42.1%
Telephony service customers	**100,733**	**98,991**	**97,531**	96,437	95,396
Penetration as a percentage of homes passed	**17.0%**	**16.7%**	**16.5%**	16.3%	16.1%