



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three-month period ended November 30, 2019

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

		Three months ended November 30,	
	Notes	2019	2018
		\$	\$
<i>(In thousands of Canadian dollars, except per share data)</i>			
Revenue	3	618,469	607,361
Operating expenses	6	327,960	331,160
Integration, restructuring and acquisition costs	4	80	7,034
Depreciation and amortization	7	124,263	120,665
Financial expense	8	40,402	47,163
Profit before income taxes		125,764	101,339
Income taxes	9	31,548	18,572
Profit for the period from continuing operations		94,216	82,767
Loss for the period from discontinued operations		—	(3,622)
Profit for the period		94,216	79,145
Profit for the period attributable to:			
Owners of the Corporation		31,284	26,168
Non-controlling interest		62,932	52,977
		94,216	79,145
Earnings (loss) per share			
Basic	10		
Profit for the period from continuing operations		1.96	1.68
Loss for the period from discontinued operations		—	(0.07)
Profit for the period		1.96	1.61
Diluted	10		
Profit for the period from continuing operations		1.94	1.67
Loss for the period from discontinued operations		—	(0.07)
Profit for the period		1.94	1.60

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

Three months ended November 30,

	2019	2018
	\$	\$
<i>(In thousands of Canadian dollars)</i>		
Profit for the period	94,216	79,145
Other comprehensive income		
Items to be subsequently reclassified to profit or loss		
<i>Cash flow hedging adjustments</i>		
Net change in fair value of hedging derivative financial instruments	15,129	2,733
Related income taxes	(3,985)	(725)
	11,144	2,008
<i>Foreign currency translation adjustments</i>		
Net foreign currency translation differences on net investments in foreign operations	(669)	32,083
Net changes on translation of long-term debt designated as hedges of net investments in foreign operations	234	(17,271)
	(435)	14,812
	10,709	16,820
Items not to be subsequently reclassified to profit or loss		
<i>Defined benefit plans actuarial adjustments</i>		
Remeasurement of net defined benefit liability or asset	6,765	(2,590)
Related income taxes	(1,793)	756
	4,972	(1,834)
	15,681	14,986
Comprehensive income for the period	109,897	94,131
Comprehensive income for the period attributable to:		
Owners of the Corporation	37,965	28,153
Non-controlling interest	71,932	65,978
	109,897	94,131

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

	Equity attributable to owners of the Corporation					Total shareholders' equity
	Share capital	Share-based payment reserve	Accumulated other comprehensive income	Retained earnings	Equity attributable to non-controlling interest	
<i>(In thousands of Canadian dollars)</i>	\$	\$	\$	\$	\$	\$
	(Note 12)		(Note 13)			
Balance at August 31, 2018	108,838	9,147	36,335	556,588	1,700,783	2,411,691
Profit for the period	—	—	—	26,168	52,977	79,145
Other comprehensive income (loss) for the period	—	—	3,276	(1,291)	13,001	14,986
Comprehensive income for the period	—	—	3,276	24,877	65,978	94,131
Share-based payment	—	1,335	—	—	1,207	2,542
Issuance of subordinate voting shares by a subsidiary to non-controlling interest	—	(47)	—	—	591	544
Dividends (Note 12 C))	—	—	—	(6,979)	(17,683)	(24,662)
Effect of changes in ownership of a subsidiary on non-controlling interest	—	—	—	(22)	22	—
Purchase and cancellation of subordinate voting shares	(494)	—	—	(3,152)	—	(3,646)
Distribution to employees of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	2,586	(1,897)	—	(689)	—	—
Distribution to employees, by a subsidiary, of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	—	(1,054)	—	(100)	1,154	—
Total contributions by (distributions to) shareholders	2,092	(1,663)	—	(10,942)	(14,709)	(25,222)
Balance at November 30, 2018	110,930	7,484	39,611	570,523	1,752,052	2,480,600
Balance at August 31, 2019	106,106	9,165	10,116	629,381	1,869,111	2,623,879
Profit for the period	—	—	—	31,284	62,932	94,216
Other comprehensive income for the period	—	—	3,449	3,232	9,000	15,681
Comprehensive income for the period	—	—	3,449	34,516	71,932	109,897
Share-based payment	—	1,158	—	—	970	2,128
Issuance of subordinate voting shares by a subsidiary to non-controlling interest	—	(223)	—	—	4,718	4,495
Dividends (Note 12 C))	—	—	—	(7,599)	(19,420)	(27,019)
Effect of changes in ownership of a subsidiary on non-controlling interest	—	—	—	(2,449)	2,449	—
Purchase and cancellation of subordinate voting shares	(190)	—	—	(2,124)	—	(2,314)
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	(2,801)	—	—	—	—	(2,801)
Distribution to employees of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	2,325	(1,494)	—	(831)	—	—
Purchase and cancellation of subordinate voting shares by a subsidiary	—	—	—	(3,722)	(11,968)	(15,690)
Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	—	—	—	—	(5,643)	(5,643)
Distribution to employees, by a subsidiary, of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	—	(941)	—	(227)	1,168	—
Total distributions to shareholders	(666)	(1,500)	—	(16,952)	(27,726)	(46,844)
Balance at November 30, 2019	105,440	7,665	13,565	646,945	1,913,317	2,686,932

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

	Notes	November 30, 2019	August 31, 2019
		\$	\$
<i>(In thousands of Canadian dollars)</i>			
Assets			
Current			
Cash and cash equivalents		541,117	559,393
Trade and other receivables		106,716	98,375
Income taxes receivable		20,495	18,767
Prepaid expenses and other		37,962	24,184
Derivative financial instruments		639	109
		706,929	700,828
Non-current			
Other assets		42,671	40,412
Property, plant and equipment		2,096,189	2,024,173
Intangible assets		2,921,788	2,938,116
Goodwill		1,400,834	1,400,334
Deferred tax assets		19,125	21,174
		7,187,536	7,125,037
Liabilities and Shareholders' equity			
Liabilities			
Current			
Bank indebtedness		13,137	—
Trade and other payables		210,639	276,782
Provisions		35,299	36,803
Income tax liabilities		14,280	16,693
Contract liabilities and other liabilities		43,633	43,768
Balance due on business combinations		3,280	6,520
Derivative financial instrument		25	—
Current portion of long-term debt	11	228,252	22,624
		548,545	403,190
Non-current			
Long-term debt	11	3,292,870	3,439,399
Derivative financial instruments		30,915	46,044
Contract liabilities and other liabilities		12,733	14,450
Pension plan liabilities and accrued employee benefits		19,527	24,186
Deferred tax liabilities		596,014	573,889
		4,500,604	4,501,158
Shareholders' equity			
Equity attributable to owners of the Corporation			
Share capital	12 B)	105,440	106,106
Share-based payment reserve		7,665	9,165
Accumulated other comprehensive income	13	13,565	10,116
Retained earnings		646,945	629,381
		773,615	754,768
Equity attributable to non-controlling interest		1,913,317	1,869,111
		2,686,932	2,623,879
		7,187,536	7,125,037

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

		Three months ended November 30,	
	Notes	2019	2018
		\$	\$
<i>(In thousands of Canadian dollars)</i>			
Cash flow from operating activities			
Profit for the period from continuing operations		94,216	82,767
Adjustments for:			
Depreciation and amortization	7	124,263	120,665
Financial expense	8	40,402	47,163
Income taxes	9	31,548	18,572
Share-based payment		3,219	2,451
Loss on disposals and write-offs of property, plant and equipment		984	411
Defined benefit plans expense, net of contributions		1,000	893
		295,632	272,922
Changes in non-cash operating activities	14	(86,656)	(95,390)
Financial expense paid		(40,684)	(46,942)
Income taxes paid		(17,221)	(27,471)
		151,071	103,119
Cash flow from investing activities			
Acquisition of property, plant and equipment		(122,030)	(101,149)
Business combinations, net of cash and cash equivalents acquired	5	—	(56,050)
Proceeds on disposals of property, plant and equipment		195	376
		(121,835)	(156,823)
Cash flow from financing activities			
Increase in bank indebtedness		13,137	2,090
Net increase (decrease) under the revolving facilities		(1,335)	128,572
Repayment of notes, debentures and credit facilities		(5,648)	(60,658)
Repayment of lease liabilities		(1,565)	—
Repayment of balance due on business combinations		(3,228)	—
Purchase and cancellation of subordinate voting shares		(2,314)	(3,646)
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	12 B)	(2,801)	—
Dividends paid on multiple voting shares	12 C)	(861)	(780)
Dividends paid on subordinate voting shares	12 C)	(6,738)	(6,199)
Issuance of subordinate voting shares by a subsidiary to non-controlling interest		4,495	544
Purchase and cancellation of subordinate voting shares by a subsidiary		(15,690)	—
Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans		(5,643)	—
Dividends paid on subordinate voting shares by a subsidiary to non-controlling interest		(19,420)	(17,683)
		(47,611)	42,240
Effect of exchange rate changes on cash and cash equivalents denominated in a foreign currency		99	(176)
Net change in cash and cash equivalents from continuing operations		(18,276)	(11,640)
Net change in cash and cash equivalents from discontinued operations		—	(3,172)
Cash and cash equivalents, beginning of the period		559,393	86,352
Cash and cash equivalents, end of the period		541,117	71,540

COGECO INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2019

(unaudited)

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

NATURE OF OPERATIONS

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

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

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

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

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

1. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting* and do not include all the information required for annual financial statements. Certain information and footnote disclosure included in annual financial statements were omitted or condensed where such information is not considered material to the understanding of the Corporation's interim financial information. As such, these condensed interim consolidated financial statements should be read in conjunction with the Corporation's 2019 annual consolidated financial statements.

These condensed interim consolidated financial statements have been prepared with the accounting policies the Corporation adopted in its 2019 annual consolidated financial statements, unless as mentioned in Note 2. Certain comparative figures have been restated to distinguish the impact of the discontinued operations from ongoing operations following the sale of Cogeco Peer 1. The accounting policies have been applied consistently to all periods presented in the condensed interim consolidated financial statements unless otherwise indicated.

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

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

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

The condensed interim consolidated financial statements were approved by the Board of Directors of the Corporation at its meeting held on January 14, 2020.

COGECO INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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2. ACCOUNTING POLICY DEVELOPMENTS

ADOPTION OF NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

IFRS 16

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

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

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

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

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

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

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

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

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

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

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

IFRIC 23

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

3. REVENUE

	Three months ended November 30,					
	Communications		Other		Consolidated	
	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$
Residential ⁽¹⁾	514,068	507,649	—	—	514,068	507,649
Commercial ⁽²⁾	65,963	61,551	—	—	65,963	61,551
Other ⁽³⁾	6,796	7,473	31,642	30,688	38,438	38,161
	586,827	576,673	31,642	30,688	618,469	607,361

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

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

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

4. OPERATING SEGMENTS

The Corporation's segment profit for the period is reported in two operating segments: Communications and Other. The reporting structure reflects how the Corporation manages its business activities to make decisions about resources to be allocated to the segments and to assess their performance.

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

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

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

COGECO INC.
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(unaudited)

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

	Three months ended November 30,					
	Communications		Other		Consolidated	
	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$
Revenue ⁽¹⁾	586,827	576,673	31,642	30,688	618,469	607,361
Operating expenses	299,332	304,027	28,628	27,133	327,960	331,160
Management fees – Cogeco Inc.	5,390	4,795	(5,390)	(4,795)	—	—
Segment profit	282,105	267,851	8,404	8,350	290,509	276,201
Integration, restructuring and acquisition costs ⁽²⁾	61	5,713	19	1,321	80	7,034
Depreciation and amortization	123,135	119,737	1,128	928	124,263	120,665
Financial expense	39,270	46,559	1,132	604	40,402	47,163
Profit before income taxes	119,639	95,842	6,125	5,497	125,764	101,339
Income taxes	29,931	17,036	1,617	1,536	31,548	18,572
Profit for the period from continuing operations	89,708	78,806	4,508	3,961	94,216	82,767
Loss for the period from discontinued operations	—	(3,622)	—	—	—	(3,622)
Profit for the period	89,708	75,184	4,508	3,961	94,216	79,145
Total assets ⁽³⁾	6,990,646	6,951,079	196,890	173,958	7,187,536	7,125,037
Property, plant and equipment ⁽³⁾	2,060,480	2,007,610	35,709	16,563	2,096,189	2,024,173
Intangible assets ⁽³⁾	2,835,633	2,850,844	86,155	87,272	2,921,788	2,938,116
Goodwill ⁽³⁾	1,372,822	1,373,439	28,012	26,895	1,400,834	1,400,334
Acquisition of property, plant and equipment	121,302	100,557	728	592	122,030	101,149

(1) For the three-month period ended November 30, 2019, revenue by geographic market includes \$352,449 in Canada (\$353,153 in 2018) and \$266,020 in the United States (\$254,208 in 2018).

(2) For the three-month period ended November 30, 2019, comprised of integration costs in the Communications and Other segments. For the three-month period ended November 30, 2018, comprised of integration, restructuring and acquisition costs in the Communications segment and acquisition costs in the Other segment.

(3) At November 30, 2019 and August 31, 2019.

The following tables set out certain geographic market information at November 30, 2019 and August 31, 2019:

	At November 30, 2019		
	Canada	United States	Total
	\$	\$	\$
Property, plant and equipment	1,197,943	898,246	2,096,189
Intangible assets	1,081,480	1,840,308	2,921,788
Goodwill	32,674	1,368,160	1,400,834

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

COGECO INC.
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(unaudited)

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

5. BUSINESS COMBINATION

Acquisition of 10 regional radio stations

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

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

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

6. OPERATING EXPENSES

	Three months ended November 30,	
	2019	2018
	\$	\$
Salaries, employee benefits and outsourced services	111,486	104,612
Service delivery costs ⁽¹⁾	164,927	169,732
Customer related costs ⁽²⁾	24,489	23,501
Other external purchases ⁽³⁾	27,058	33,315
	327,960	331,160

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

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

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

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7. DEPRECIATION AND AMORTIZATION

	Three months ended November 30,	
	2019	2018
	\$	\$
Depreciation of property, plant and equipment ⁽¹⁾	109,955	106,701
Amortization of intangible assets	14,308	13,964
	124,263	120,665

(1) The depreciation of ROU assets amounted to \$2,012 for the three-month period of fiscal 2020.

8. FINANCIAL EXPENSE

	Three months ended November 30,	
	2019	2018
	\$	\$
Interest on long-term debt, excluding interest on lease liabilities	40,832	45,982
Interest on lease liabilities	647	—
Net foreign exchange loss (gain)	(4)	209
Amortization of deferred transaction costs	485	456
Capitalized borrowing costs ⁽¹⁾	(151)	(120)
Other	(1,407)	636
	40,402	47,163

(1) For the three-month periods ended November 30, 2019 and 2018, the weighted average interest rate used in the capitalization of borrowing costs was 4.5%.

9. INCOME TAXES

	Three months ended November 30,	
	2019	2018
	\$	\$
Current	25,300	13,841
Deferred	6,248	4,731
	31,548	18,572

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 November 30,	
	2019	2018
	\$	\$
Profit before income taxes	125,764	101,339
Combined Canadian income tax rate	26.5%	26.5%
Income taxes at combined Canadian income tax rate	33,327	26,855
Difference in operations' statutory income tax rate	814	817
Impact on deferred taxes as a result of changes in substantively enacted tax rates	31	—
Impact on income taxes arising from non-deductible expenses and non-taxable profit	(351)	(19)
Tax impacts related to foreign operations	(6,510)	(6,761)
Other	4,237	(2,320)
Income taxes at effective income tax rate	31,548	18,572

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10. EARNINGS PER SHARE

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

	Three months ended November 30,	
	2019	2018
	\$	\$
Profit for the period from continuing operations attributable to owners of the Corporation	31,284	27,314
Loss for the period from discontinued operations attributable to owners of the Corporation	—	(1,146)
Profit for the period attributable to owners of the Corporation	31,284	26,168
Weighted average number of multiple and subordinate voting shares outstanding	15,978,909	16,230,028
Effect of dilutive incentive share units	63,210	61,433
Effect of dilutive performance share units	64,243	72,372
Weighted average number of diluted multiple and subordinate voting shares outstanding	16,106,362	16,363,833
Earnings (loss) per share		
Basic		
Profit for the period from continuing operations	1.96	1.68
Loss for the period from discontinued operations	—	(0.07)
Profit for the period	1.96	1.61
Diluted		
Profit for the period from continuing operations	1.94	1.67
Loss for the period from discontinued operations	—	(0.07)
Profit for the period	1.94	1.60

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11. LONG-TERM DEBT

A) Notes, debentures and credit facilities

	Maturity	Interest rate %	November 30, 2019 \$	August 31, 2019 \$
Corporation				
Term Revolving Facility ⁽¹⁾				
Revolving loan - US\$15.7 million (US\$16.7 million at August 31, 2019) ⁽²⁾	February 2024	2.97 ⁽⁵⁾	20,864	22,203
Unsecured Debentures	November 2021	6.50	34,911	34,901
Finance lease	February 2022	4.27	—	60
Subsidiaries ⁽³⁾				
Senior Secured Notes				
Series A - US\$25 million	September 2024	4.14	33,144	33,155
Series B - US\$150 million	September 2026	4.29	198,774	198,845
Senior Secured Notes - US\$215 million	June 2025	4.30	284,900	284,996
Senior Secured Debentures Series 2	November 2020	5.15	199,796	199,744
Senior Secured Debentures Series 3	February 2022	4.93	199,511	199,457
Senior Secured Debentures Series 4	May 2023	4.18	298,779	298,697
First Lien Credit Facilities ⁽⁴⁾				
Senior Secured Term Loan B Facility - US\$1,674.5 million (US\$1,678.8 million at August 31, 2019)	January 2025	3.95 ^{(5) (6)}	2,185,167	2,189,965
			3,455,846	3,462,023
Less current portion			222,387	22,624
			3,233,459	3,439,399

- (1) On December 20, 2019, the Corporation amended its \$100 million Term Revolving Facility by extending the maturity date by an additional year until February 3, 2025.
- (2) An amount of US\$15.7 million drawn under the Corporation's Revolving loan facility was hedged until January 10, 2020, using a cross-currency swap agreement which sets the amount redeemable at maturity at \$20.9 million and the effective interest rate on the Canadian dollar equivalent at 2.76%.
- (3) On December 6, 2019, the Corporation's subsidiary, Cogeco Communications, reduced the Term Revolving Facility from \$800 million to \$750 million and extended its maturity date by an additional year until January 24, 2025.
- (4) On December 6, 2019, the maturity date of the US\$150 million Senior Secured Revolving Facility, benefiting two subsidiaries related to Atlantic Broadband, was extended by an additional 18 months until July 4, 2024.
- (5) Interest rate on debt includes the applicable credit spread.
- (6) A US subsidiary of Cogeco Communications entered into interest rate swap agreements to fix the interest rate on a notional amount of US\$1.1 billion of its LIBOR based loans. These agreements have the effect of converting the floating US Libor base rate into fixed rates ranging from 2.017% to 2.262% for maturities between January 31, 2021 and November 30, 2024, under the Senior Secured Term Loan B Facility. Taking into account these agreements, the effective interest rate on the Senior Secured Term Loan B Facility is 4.24%.

B) Lease liabilities

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

The weighted average interest rate on lease liabilities was approximately 3.86% as at November 30, 2019.

	November 30, 2019 \$
Lease liabilities	65,276
Less current portion	5,865
	59,411

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12. SHARE CAPITAL

A) AUTHORIZED

Unlimited number of:

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

Multiple voting shares, 20 votes per share.

Subordinate voting shares, 1 vote per share.

B) ISSUED AND PAID

	November 30, 2019	August 31, 2019
	\$	\$
1,812,860 multiple voting shares	12	12
14,285,005 subordinate voting shares (14,308,445 at August 31, 2019)	116,008	116,198
	116,020	116,210
62,850 subordinate voting shares held in trust under the Incentive Share Unit Plan (63,075 at August 31, 2019)	(5,124)	(4,577)
68,536 subordinate voting shares held in trust under the Performance Share Unit Plan (72,691 at August 31, 2019)	(5,456)	(5,527)
	105,440	106,106

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

	Number of shares	Amount \$
Balance at August 31, 2019	14,308,445	116,198
Purchase and cancellation of subordinate voting shares ⁽¹⁾	(23,440)	(190)
Balance at November 30, 2019	14,285,005	116,008

(1) During the first three months of fiscal 2020, Cogeco purchased and cancelled 23,440 subordinate voting shares with an average stated value of \$0.2 million, for consideration of \$2.3 million. The excess of the purchase price over the average stated value of the shares totaled \$2.1 million and was charged to retained earnings.

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

	Number of shares	Amount \$
Balance at August 31, 2019	63,075	4,577
Subordinate voting shares acquired	18,150	1,880
Subordinate voting shares distributed to employees	(18,375)	(1,333)
Balance at November 30, 2019	62,850	5,124

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

	Number of shares	Amount \$
Balance at August 31, 2019	72,691	5,527
Subordinate voting shares acquired	8,888	921
Subordinate voting shares distributed to employees	(13,043)	(992)
Balance at November 30, 2019	68,536	5,456

C) DIVIDENDS

For the three-month period ended November 30, 2019, a quarterly eligible dividend of \$0.475 per share for a total of \$7.6 million, was paid to the holders of multiple and subordinate voting shares, compared to a quarterly eligible dividend of \$0.43 per share, for a total of \$7 million, for the three-month period ended November 30, 2018.

For the three-month period ended November 30, 2019, a quarterly eligible dividend of \$0.58 per share, for a total of \$19.4 million, was paid by the Corporation's subsidiary, Cogeco Communications, to non-controlling interest, compared to a quarterly eligible dividend of \$0.525 per share, for a total of \$17.7 million for the three-month period ended November 30, 2018.

	Three months ended November 30,	
	2019	2018
	\$	\$
Attributable to owners of the Corporation		
Dividends on multiple voting shares	861	780
Dividends on subordinate voting shares	6,738	6,199
	7,599	6,979
Attributable to non-controlling interest		
Dividends on subordinate voting shares	19,420	17,683

At its January 14, 2020 meeting, the Board of Directors of Cogeco declared a quarterly eligible dividend of \$0.475 per share for multiple and subordinate voting shares, payable on February 11, 2020 to shareholders of record on January 28, 2020.

D) SHARE-BASED PAYMENT PLANS

The Corporation and its subsidiary, Cogeco Communications, offer Employee Stock Purchase Plans for the benefit of their employees and those of their subsidiaries, and Stock Option Plans for their executive officers and designated employees. No more than 10% of the outstanding subordinate voting shares are available for issuance under these plans. Furthermore, the Corporation and its subsidiary, Cogeco Communications, offer Incentive Share Unit Plans ("ISU Plans") and Performance Share Unit Plans ("PSU Plans") for their executive officers and designated employees, and Deferred Share Unit Plans ("DSU Plans") for members of the Board of Directors. A detailed description of these plans can be found in the 2019 annual consolidated financial statements of the Corporation.

For the three-month period ended November 30, 2019, no stock options were granted to employees by Cogeco under the Stock Option Plan of the Corporation and no options were outstanding at November 30, 2019 and August 31, 2019.

Under the Stock Option Plan of Cogeco Communications, the following options were granted and are outstanding at November 30, 2019:

	Options	Weighted average exercise price \$
Outstanding at August 31, 2019	715,614	65.93
Granted ⁽¹⁾	205,150	114.30
Exercised ⁽²⁾	(64,700)	69.47
Cancelled	(4,260)	70.48
Outstanding at November 30, 2019	851,804	77.29
Exercisable at November 30, 2019	330,984	59.04

(1) During the three-month period ended November 30, 2019, Cogeco Communications granted 110,875 stock options to Cogeco's executive officers as executive officers of Cogeco Communications.

(2) The weighted average share price for options exercised during the period was \$113.83.

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A compensation expense of \$469,000 (\$557,000 in 2018) was recorded for the three-month period ended November 30, 2019 related to this plan.

The weighted average fair value of stock options granted by Cogeco Communications for the three-month period ended November 30, 2019 was \$18.46 per option. The weighted average fair value of each option granted was estimated at the grant date for purposes of determining share-based payment expense using the Black-Scholes option pricing model based on the following weighted-average assumptions:

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

Under the ISU Plan of the Corporation, the following ISUs were granted and are outstanding at November 30, 2019:

Outstanding at August 31, 2019	63,075
Granted	18,150
Distributed	(18,375)
Outstanding at November 30, 2019	62,850

Under the ISU Plan of Cogeco Communications, the following ISUs were granted and are outstanding at November 30, 2019:

Outstanding at August 31, 2019	71,825
Granted	26,975
Distributed	(20,784)
Cancelled	(2,725)
Outstanding at November 30, 2019	75,291

A compensation expense of \$707,000 (\$902,000 in 2018) was recorded for the three-month period ended November 30, 2019 related to these plans.

Under the PSU Plan of the Corporation, the following PSUs were granted and are outstanding at November 30, 2019:

Outstanding at August 31, 2019	72,515
Granted	17,575
Distributed	(13,043)
Cancelled	(9,773)
Dividend equivalents	308
Outstanding at November 30, 2019	67,582

Under the PSU Plan of Cogeco Communications, the following PSUs were granted and are outstanding at November 30, 2019:

Outstanding at August 31, 2019	107,551
Granted ⁽¹⁾	38,900
Distributed	(28,569)
Cancelled	(3,228)
Dividend equivalents	569
Outstanding at November 30, 2019	115,223

(1) During the three-month period ended November 30, 2019, Cogeco Communications granted 14,375 PSUs to Cogeco's executive officers as executive officers of Cogeco Communications.

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A compensation expense of \$952,000 (\$1,083,000 in 2018) was recorded for the three-month period ended November 30, 2019 related to these plans.

Under the DSU Plan of the Corporation, the following DSUs were issued and are outstanding at November 30, 2019:

Outstanding at August 31, 2019	32,877
Dividend equivalents	151
Outstanding at November 30, 2019	33,028

Under the DSU Plan of Cogeco Communications, the following DSUs were issued and are outstanding at November 30, 2019:

Outstanding at August 31, 2019	42,679
Dividend equivalents	212
Outstanding at November 30, 2019	42,891

A compensation expense of \$1,091,000 (compensation expense reduction of \$91,000 in 2018) was recorded for the three-month period ended November 30, 2019 related to these plans.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

	Cash flow hedge reserve	Foreign currency translation	Total
	\$	\$	\$
Balance at August 31, 2018	8,166	28,169	36,335
Other comprehensive income	635	2,641	3,276
Balance at November 30, 2018	8,801	30,810	39,611
Balance at August 31, 2019	(10,740)	20,856	10,116
Other comprehensive income (loss)	3,544	(95)	3,449
Balance at November 30, 2019	(7,196)	20,761	13,565

14. ADDITIONAL CASH FLOW INFORMATION

CHANGES IN NON-CASH OPERATING ACTIVITIES

	Three months ended November 30,	
	2019	2018
	\$	\$
Trade and other receivables	(7,988)	(4,416)
Prepaid expenses and other	(13,770)	(12,462)
Other assets	(2,756)	(2,361)
Trade and other payables	(63,404)	(80,300)
Provisions	(1,827)	576
Contract liabilities and other liabilities	3,089	3,573
	(86,656)	(95,390)

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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 November 30,	
	2019	2018
	\$	\$
Defined benefit plans		
Recognized in operating expenses (salaries, employee benefits and outsourced services)		
Current service cost	947	781
Administrative expense	75	119
Recognized in financial expense (other)		
Net interest	135	(42)
Defined contribution and collective registered retirement saving plans		
Recognized in operating expenses (salaries, employee benefits and outsourced services)	2,596	2,646
	3,753	3,504

16. FINANCIAL INSTRUMENTS

A) FINANCIAL RISK MANAGEMENT

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

Liquidity risk

At November 30, 2019, the Corporation had used \$20.9 million of its \$100 million Term Revolving Facility and an amount of \$0.6 million was used from Cogeco Communications' Term Revolving Facility of \$800 million, for remaining availabilities of \$79.1 million and \$799.4 million, respectively. In addition, two subsidiaries of Cogeco Communications also benefit from a Senior Secured Revolving Facility of \$199.3 million (US\$150 million), of which \$3.2 million (US\$2.4 million) was used at November 30, 2019 for a remaining availability of \$196.1 million (US\$147.6 million).

Interest rate risk

The Corporation and its subsidiary, Cogeco Communications, are exposed to interest rate risk on their floating interest rate instruments. Interest rate fluctuations will have an effect on the repayment of these instruments. At November 30, 2019, all of the Corporation's and Cogeco Communications' long-term debt were at fixed rate, except for the amounts drawn under the Corporation's Term Revolving Facility and Cogeco Communications' First Lien Credit Facilities which are subject to floating interest rates.

To reduce the risk on the floating interest rate instruments, Cogeco Communications' US subsidiary entered into interest rate swap agreements. The following table shows the interest rate swaps outstanding at November 30, 2019:

Type of hedge	Notional amount	Receive interest rate	Pay interest rate	Maturity	Hedged item
Cash flow	US\$1.1 billion	US Libor base rate	2.017% - 2.262%	January 2021 - November 2024	Senior Secured Term Loan B

The sensitivity of the Corporation's annual financial expense to an increase of 1% in the interest rate applicable to the unhedged portion of these facilities would represent an increase of approximately \$7.8 million based on the outstanding debt at November 30, 2019.

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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 \$11.7 million based on the outstanding debt at November 30, 2019.

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

The following table shows the aggregate investments in foreign operations attributable to owners of Cogeco Communications and the notional amount of debt borrowed to hedge these investments at November 30, 2019:

Type of hedge	Notional amount of debt	Aggregate investments	Hedged item
Net investments	US\$390 million	US\$1,016 million	Net investments in foreign operations in US dollar

The exchange rate used to convert the US dollar currency into Canadian dollars for the statement of financial position accounts at November 30, 2019 was \$1.3289 (\$1.3295 at August 31, 2019) per US dollar. A 10% decrease in the exchange rate of the US dollar into Canadian dollars would decrease other comprehensive income by approximately \$83.2 million.

Market risk

The Corporation and its subsidiary, Cogeco Communications, use derivative instruments to manage the cash flow exposure to the risk of changes in the price of their subordinate voting shares under the DSU plans. As such, the Corporation and Cogeco Communications use equity swap agreements to economically hedge the market price appreciation risk of their subordinate voting shares. As at November 30, 2019 the fair value of the equity swaps was \$0.7 million and recognized as an asset. A 5% increase in the market price of the subordinate voting shares at November 30, 2019 would result in a gain of approximately \$0.4 million due to the equity swaps fair value appreciation, offset by a \$0.4 million increase in the DSU plans expense.

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:

	November 30, 2019		August 31, 2019	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Long-term debt, excluding lease liabilities	3,455,846	3,561,344	3,462,023	3,580,480

C) CAPITAL MANAGEMENT

At November 30, 2019 and August 31, 2019, the Corporation and Cogeco Communications were in compliance with all of their debt covenants and were not subject to any other externally imposed capital requirements.

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

	November 30, 2019	August 31, 2019
Net secured indebtedness ⁽¹⁾ / adjusted EBITDA ⁽²⁾	2.6	2.6
Net indebtedness ⁽³⁾ / adjusted EBITDA ⁽²⁾	2.7	2.6
Adjusted EBITDA ⁽²⁾ / financial expense ⁽²⁾	6.7	6.3

- (1) Net secured indebtedness is defined as the total of bank indebtedness and principal on long-term debt, less cash and cash equivalents and principal on Unsecured Debentures.
- (2) Calculation based on adjusted EBITDA and financial expense for the twelve-month period ended November 30, 2019 and for the year ended August 31, 2019.
- (3) Net indebtedness is defined as the total of bank indebtedness, balance due on business combinations and principal on long-term debt, less cash and cash equivalents.

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

	November 30, 2019	August 31, 2019
Net indebtedness ⁽¹⁾ / adjusted EBITDA ⁽²⁾	2.6	2.6
Adjusted EBITDA ⁽²⁾ / financial expense ⁽²⁾	6.7	6.3

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

(2) Calculation based on adjusted EBITDA and financial expense for the twelve-month period ended November 30, 2019 and for the year ended August 31, 2019.

17. RELATED PARTY TRANSACTIONS

Cogeco provides executive, administrative, financial and strategic planning services and additional services to Cogeco Communications under a Management Services Agreement (the "Agreement"). The methodology used to establish the management fees is based on the costs incurred by Cogeco plus a reasonable mark-up. This cost-plus methodology became effective on May 1, 2019 and was introduced to avoid future variations of the management fee percentage due to frequent changes to Cogeco Communications' consolidated revenue pursuant to business acquisitions and divestitures. Provision is made for future adjustment upon the request of either Cogeco Communications or the Corporation from time to time during the term of the Agreement. For the three-month period ended November 30, 2019, management fees paid to Cogeco amounted to \$5.4 million, compared to \$4.8 million for the same period of fiscal 2019.

No direct remuneration is payable to Cogeco's executive officers by Cogeco Communications. However, during the three-month periods ended November 30, 2019 and 2018, Cogeco Communications granted stock options and PSUs to these executive officers, as executive officers of Cogeco Communications, as shown in the following table:

	Three months ended November 30,	
	2019	2018
Stock options	110,875	97,725
PSUs	14,375	14,625

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

	Three months ended November 30,	
	2019	2018
	\$	\$
Stock options	309	298
ISUs	13	15
PSUs	312	200
DSUs	132	260
	766	773

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

18. SUBSEQUENT EVENT

On January 10, 2020, Cogeco Communications announced that its subsidiary Atlantic Broadband had signed a definitive agreement to purchase Thames Valley Communications, a broadband services company operating in Southeastern Connecticut, for US\$50 million. The transaction is subject to customary regulatory approvals and is expected to close within three months. Upon closing of the transaction, Atlantic Broadband will add approximately 10,000 customers to its operations.