



SHAREHOLDERS' REPORT

Three-month period ended November 30, 2019

FINANCIAL HIGHLIGHTS

	Three months ended				
	November 30, 2019	November 30, 2018	Change	Change in constant currency ⁽¹⁾	Foreign exchange impact ⁽¹⁾
<i>(in thousands of dollars, except percentages and per share data)</i>	\$	\$	%	%	\$
Operations					
Revenue	618,469	607,361	1.8	1.4	2,836
Adjusted EBITDA	290,509	276,201	5.2	4.7	1,197
Integration, restructuring and acquisition costs ⁽²⁾	80	7,034	(98.9)		
Profit for the period from continuing operations	94,216	82,767	13.8		
Loss for the period from discontinued operations	—	(3,622)	(100.0)		
Profit for the period	94,216	79,145	19.0		
Profit for the period from continuing operations attributable to owners of the Corporation	31,284	27,314	14.5		
Profit for the period attributable to owners of the Corporation	31,284	26,168	19.6		
Cash flow					
Cash flow from operating activities	151,071	103,119	46.5		
Acquisitions of property, plant and equipment ⁽³⁾	122,030	101,149	20.6	19.7	914
Free cash flow	108,893	112,922	(3.6)	(3.5)	(51)
Financial condition⁽⁴⁾					
Cash and cash equivalents	541,117	559,393	(3.3)		
Total assets	7,187,536	7,125,037	0.9		
Indebtedness ⁽⁵⁾	3,580,689	3,514,185	1.9		
Equity attributable to owners of the Corporation	773,615	754,768	2.5		
Per Share Data⁽⁶⁾					
Earnings (loss) per share					
Basic					
From continuing operations	1.96	1.68	16.7		
From discontinued operations	—	(0.07)	(100.0)		
From continuing and discontinued operations	1.96	1.61	21.7		
Diluted					
From continuing operations	1.94	1.67	16.2		
From discontinued operations	—	(0.07)	(100.0)		
From continuing and discontinued operations	1.94	1.60	21.3		
Dividends	0.475	0.43	10.5		

(1) Key performance indicators presented on a constant currency basis are obtained by translating financial results of the current period denominated in US dollars at the foreign exchange rate of the comparable period of the prior year. For the three-month period ended November 30, 2018, the average foreign exchange rate used for translation was 1.3082 USD/CDN.

(2) For the three-month period ended November 30, 2019, integration, restructuring and acquisition costs were mostly due to acquisition and integration costs in the American broadband services operations and integration costs in the Corporation's subsidiary, Cogeco Media. Fiscal 2019 integration, restructuring and acquisition costs were related to an operational optimization program in the Canadian broadband services operations, the FiberLight acquisition in the American broadband services operations and the acquisition of 10 regional radio stations by Cogeco Media.

(3) For the three-month period ended November 30, 2019, acquisitions of property, plant and equipment in constant currency amounted to \$121.1 million.

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

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

(6) Per multiple and subordinate voting shares.



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

Three-month period ended November 30, 2019

1. FORWARD-LOOKING STATEMENTS

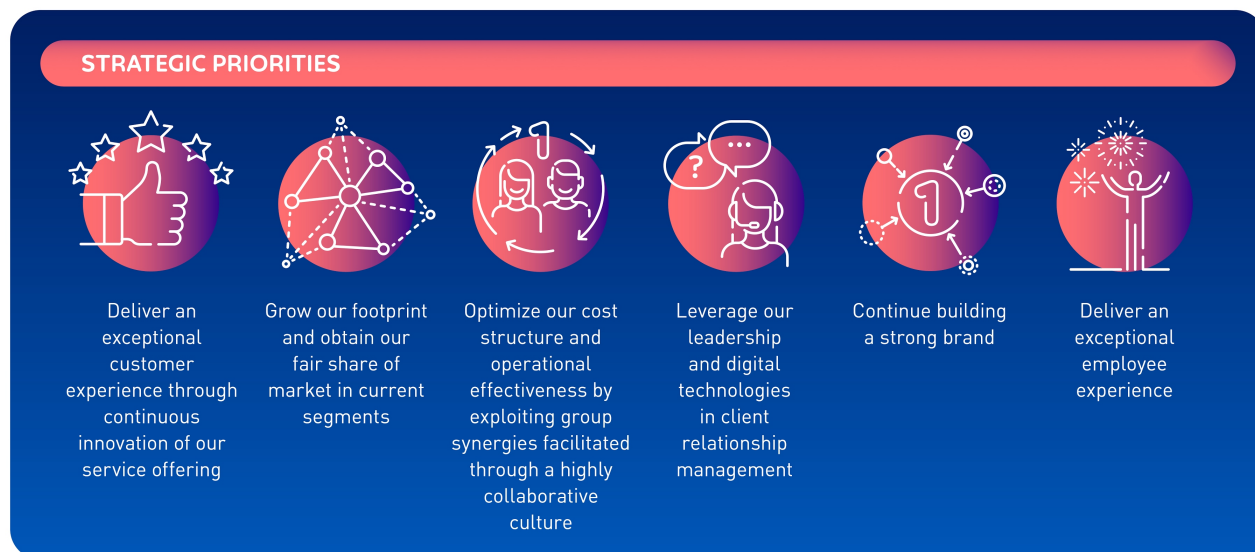
Certain statements contained in this Management's Discussion and Analysis ("MD&A") may constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to Cogeco Inc.'s ("Cogeco" or the "Corporation") future outlook and anticipated events, business, operations, financial performance, financial condition or results and, in some cases, can be identified by terminology such as "may"; "will"; "should"; "expect"; "plan"; "anticipate"; "believe"; "intend"; "estimate"; "predict"; "potential"; "continue"; "foresee", "ensure" or other similar expressions concerning matters that are not historical facts. Particularly, statements regarding the Corporation's financial guidelines, future operating results and economic performance, objectives and strategies are forward-looking statements. These statements are based on certain factors and assumptions including expected growth, results of operations, performance and business prospects and opportunities, which Cogeco believes are reasonable as of the current date. Refer in particular to the "Corporate Objectives and Strategies" and "Fiscal 2020 Financial Guidelines" sections of the Corporation's 2019 annual MD&A for a discussion of certain key economic, market and operational assumptions we have made in preparing forward-looking statements. While Management considers these assumptions to be reasonable based on information currently available to the Corporation, they may prove to be incorrect. Forward-looking information is also subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what Cogeco currently expects. These factors include risks such as competitive risks, business risks, regulatory risks, technology risks, financial risks, economic conditions, human-caused and natural threats to our network, infrastructure and systems, community acceptance risks, ethical behavior risks, ownership risks and litigation risks, many of which are beyond the Corporation's control. For more exhaustive information on these risks and uncertainties, the reader should refer to the "Uncertainties and Main Risk Factors" section of the Corporation's 2019 annual MD&A and the present MD&A. These factors are not intended to represent a complete list of the factors that could affect Cogeco and future events and results may vary significantly from what Management currently foresees. The reader should not place undue importance on forward-looking information contained in this MD&A which represent Cogeco's expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made) and are subject to change after such date. While Management may elect to do so, the Corporation is under no obligation (and expressly disclaims any such obligation) and does not undertake to update or alter this information at any particular time, whether as a result of new information, future events or otherwise, except as required by law.

All amounts are stated in Canadian dollars unless otherwise indicated. This report should be read in conjunction with the Corporation's condensed interim consolidated financial statements and the notes thereto for the three-month period ended November 30, 2019 prepared in accordance with the International Financial Reporting Standards ("IFRS") and the MD&A in the Corporation's 2019 Annual Report.

2. CORPORATE OBJECTIVES AND STRATEGIES

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

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



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

COMMUNICATIONS SEGMENT

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

Canadian broadband services

Delivering organic growth by introducing value added services for residential customers and by growing our business customer base

Optimizing the return on investments by delivering our services more efficiently and improving loyalty through a differentiated customer experience strategy

Exploring a potential wireless service in a profitable manner and within our financial means

Enabling business transformation through modern talent management practices that will provide meaningful and engaging employee experiences

American broadband services

Delivering exceptional customer experience while fostering team member engagement

Leveraging Internet superiority and advanced video platform to promote growth and customer satisfaction

Focusing on growth in the business market and continuing Florida expansion efforts while actively pursuing acquisition opportunities

Driving unit growth and customer satisfaction through product marketing and brand positioning

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

MEDIA ACTIVITIES

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

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

2.1 KEY PERFORMANCE INDICATORS

REVENUE

Fiscal 2020 first-quarter revenue increased by 1.8% (1.4% in constant currency) mainly due to growth of 1.8% (1.3% in constant currency) in the Communications segment and of 3.1% in the Other segment.

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

ADJUSTED EBITDA

Fiscal 2020 first-quarter adjusted EBITDA increased by 5.2% (4.7% in constant currency) mostly attributable to higher adjusted EBITDA in the Communications segment as a result of increases in both the American and Canadian broadband services operations.

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

FREE CASH FLOW

Fiscal 2020 first-quarter free cash flow decreased by 3.6% (3.5% in constant currency) mainly as a result of:

- the increase in acquisitions of property, plant and equipment resulting mostly from the Canadian broadband services operations;
- the increase in current income taxes expense; partly offset by
- higher adjusted EBITDA; and
- the decreases in financial expense and integration, restructuring and acquisition costs.

FISCAL 2020 FINANCIAL GUIDELINES

Cogeco maintained its fiscal 2020 financial guidelines as issued on October 30, 2019. Please consult the "Fiscal 2020 financial guidelines" section of the Corporation's 2019 Annual Report for further details.

3. BUSINESS DEVELOPMENTS

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.

4. OPERATING AND FINANCIAL RESULTS

4.1 OPERATING RESULTS

	Three months ended				
	November 30, 2019 ⁽¹⁾	November 30, 2018	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Revenue	618,469	607,361	1.8	1.4	2,836
Operating expenses	327,960	331,160	(1.0)	(1.5)	1,639
Adjusted EBITDA	290,509	276,201	5.2	4.7	1,197

(1) For the three-month period ended November 30, 2019, the average foreign exchange rate used for translation was 1.3223 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3082 USD/CDN.

REVENUE

Fiscal 2020 first-quarter revenue increased by 1.8% (1.4% in constant currency) mainly due to:

- an increase of 1.8% (1.3% in constant currency) in the Communications segment mostly as a result of growth in the American broadband services operations; and
- an increase of 3.1% in the Other segment due to the acquisition of 10 regional radio stations on November 26, 2018 from RNC Média inc. (the "RNC Média acquisition") by Cogeco Media during the first quarter of fiscal 2019, offset by a soft advertising market and increased competition in the media activities.

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

OPERATING EXPENSES

Fiscal 2020 first-quarter operating expenses decreased by 1.0% (1.5% in constant currency) compared to the same period of the prior year, which was mostly attributable to the Communications segment.

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

ADJUSTED EBITDA

Fiscal 2020 first-quarter adjusted EBITDA increased by 5.2% (4.7% in constant currency), which was mostly attributable to higher adjusted EBITDA in the Communications segment as a result of increases in the American and Canadian broadband services operations.

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

4.2 INTEGRATION, RESTRUCTURING AND ACQUISITION COSTS

Fiscal 2020 first-quarter integration, restructuring and acquisition costs amounted to \$0.1 million. Fiscal 2019 first-quarter integration, restructuring and acquisition costs amounted to \$7.0 million mostly due to restructuring costs incurred in the Canadian broadband services operations in relation to an operational optimization program put in place during the first half of fiscal 2019. The workforce reduction strategy, which included a voluntary departure program focused on support functions, aimed at creating a leaner, more efficient and agile organization pursuant to its digital transformation. In addition, acquisition and integration costs were incurred by the American broadband services operations related to the acquisition of the south Florida fibre network previously owned by FiberLight, LLC (the "FiberLight acquisition") and by the Corporation's subsidiary, Cogeco Media, in relation to the acquisition of 10 regional radio stations on November 26, 2018.

4.3 DEPRECIATION AND AMORTIZATION

	Three months ended		
	November 30, 2019	November 30, 2018	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%
Depreciation of property, plant and equipment ⁽¹⁾	109,955	106,701	3.0
Amortization of intangible assets	14,308	13,964	2.5
	124,263	120,665	3.0

(1) The depreciation of right-of-use assets amounted to \$2.0 million for the three-month period ended November 30, 2019.

Fiscal 2020 first-quarter depreciation and amortization expense increased by 3.0% due to additional depreciation from the acquisitions of property, plant and equipment during the quarter and the impact of IFRS 16 adoption combined with the appreciation of the US dollar against the Canadian dollar compared to the same period of the prior year.

4.4 FINANCIAL EXPENSE

	Three months ended		
	November 30, 2019	November 30, 2018	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%
Interest on long-term debt, excluding interest on lease liabilities	40,832	45,982	(11.2)
Interest on lease liabilities	647	—	—
Net foreign exchange losses (gains)	(4)	209	—
Amortization of deferred transaction costs	485	456	6.4
Capitalized borrowing costs	(151)	(120)	25.8
Other	(1,407)	636	—
	40,402	47,163	(14.3)

Fiscal 2020 first-quarter financial expense decreased by 14.3% mainly due to:

- lower debt outstanding under the Canadian Revolving Facility following the sale of Cogeco Peer 1 in fiscal 2019;
- lower debt outstanding and interest rates on the First Lien Credit Facilities; and
- interest revenue resulting from investments of excess cash; partly offset by
- the appreciation of the US dollar against the Canadian dollar compared to the same period of the prior year.

4.5 INCOME TAXES

	Three months ended		
	November 30, 2019	November 30, 2018	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%
Current	25,300	13,841	82.8
Deferred	6,248	4,731	32.1
	31,548	18,572	69.9

	Three months ended		
	November 30, 2019	November 30, 2018	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%
Profit before income taxes	125,764	101,339	24.1
Combined Canadian income tax rate	26.5%	26.5%	—
Income taxes at combined Canadian income tax rate	33,327	26,855	24.1
Difference in operations' statutory income tax rates	814	817	(0.4)
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)	(3.7)
Other	4,237	(2,320)	—
	31,548	18,572	69.9

Fiscal 2020 first-quarter income taxes expense increased by 69.9% compared to the same period of the prior year mainly attributable to:

- the increase in profit before income taxes in both the Canadian and American broadband services operations;
- a non-recurring \$6 million current income tax charge related to a tax reorganization; and
- the appreciation of the US dollar against the Canadian dollar compared to the same period of the prior year.

4.6 PROFIT FOR THE PERIOD

	Three months ended		
	November 30, 2019	November 30, 2018	Change
<i>(in thousands of dollars, except percentages and earnings per share)</i>	\$	\$	%
Profit for the period from continuing operations	94,216	82,767	13.8
Profit for the period	94,216	79,145	19.0
Profit for the period from continuing operations attributable to owners of the Corporation	31,284	27,314	14.5
Profit for the period attributable to owners of the Corporation	31,284	26,168	19.6
Profit for the period attributable to non-controlling interest ⁽¹⁾	62,932	52,977	18.8
Basic earnings per share from continuing operations	1.96	1.68	16.7
Basic earnings earnings per share	1.96	1.61	21.7

(1) The non-controlling interest relates to a participation of approximately 68.2% in Cogeco Communications' profit for the year attributable to owners of the Corporation in addition to the 21% ownership of Caisse de dépôt et placement du Québec ("CDPQ") in Cogeco Communications' Atlantic Broadband subsidiary.

Fiscal 2020 first-quarter profit for the period from continuing operations and profit for the period from continuing operations attributable to owners of the Corporation increased by 13.8% and 14.5%, respectively, as a result of:

- higher adjusted EBITDA;
- the decrease in financial expense; and
- the decrease in integration, restructuring and acquisition costs; partly offset by
- the increase in income taxes.

Fiscal 2020 first-quarter profit for the period and profit for the period attributable to owners of the Corporation increased by 19.0% and 19.6%, respectively, mainly due discontinued operations which generated a loss of \$3.6 million for the same period of the prior year in addition to the elements mentioned above.

5. RELATED PARTY TRANSACTIONS

Cogeco holds 31.8% of Cogeco Communications' equity shares, representing 82.3% of Cogeco Communications' voting shares.

Cogeco provides executive, administrative, financial and strategic planning services and additional services to Cogeco Communications under a Management Services Agreement (the "Agreement"). The methodology used to establish the management fees is based on the costs incurred by Cogeco plus a reasonable mark-up. This cost-plus methodology became effective on May 1, 2019 and was introduced to avoid future variations of the management fee percentage due to frequent changes to Cogeco Communications' consolidated revenue pursuant to business acquisitions and divestitures. Provision is made for future adjustment upon the request of either Cogeco Communications or the Corporation from time to time during the term of the Agreement. For the three-month period ended November 30, 2019, management fees paid by Cogeco Communications Inc. 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 first quarter of fiscal 2020, Cogeco Communications granted stock options and performance share units ("PSUs") to these executive officers, as executive officers of Cogeco Communications, as shown in the following table:

	Three months ended	
	November 30, 2019	November 30, 2018
<i>(in number of units)</i>		
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, incentive share units ("ISUs") and PSUs granted to these executive officers, as well as deferred share units ("DSUs") issued to Board directors of Cogeco:

	Three months ended	
	November 30, 2019	November 30, 2018
<i>(in thousands of dollars)</i>	\$	\$
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.

6. CASH FLOW ANALYSIS

	Three months ended		
	November 30, 2019	November 30, 2018	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%
Cash flow from operating activities	149,506	103,119	45.0
Cash flow from investing activities	(121,835)	(156,823)	(22.3)
Cash flow from financing activities	(46,046)	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)	57.0
Net change in cash and cash equivalent from discontinued operations	—	(3,172)	(100.0)
Cash and cash equivalents, beginning of the period	559,393	86,352	—
Cash and cash equivalents, end of the period	542,682	71,540	—

6.1 OPERATING ACTIVITIES

Fiscal 2020 first-quarter cash flow from operating activities increased by 45.0% compared to the same period of the prior year mainly from:

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

6.2 INVESTING ACTIVITIES

Fiscal 2020 first-quarter investing activities decreased by 22.3% compared to the same period of the prior year mainly due to:

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

BUSINESS COMBINATION

Acquisition of 10 regional radio stations

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

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

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

ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT

Fiscal 2020 first-quarter acquisitions of property, plant and equipment increased by 20.6% (19.7% in constant currency) compared to the same period of fiscal 2019 mainly due to the increase of capital expenditures in the Communications segment.

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

6.3 FREE CASH FLOW

Fiscal 2020 first-quarter free cash flow decreased by 3.6% (3.5% in constant currency) compared to the same period of the prior year mainly as a result of the following:

- the increase in acquisitions of property, plant and equipment resulting mostly from the Canadian broadband services operations;
- the increase in current income taxes expense; partly offset by
- higher adjusted EBITDA; and
- the decreases in financial expense and integration, restructuring and acquisition costs.

6.4 FINANCING ACTIVITIES

Fiscal 2020 first-quarter changes in cash flows from financing activities are mainly explained as follows:

	November 30, 2019	November 30, 2018	Explanations
<i>(in thousands of dollars)</i>	\$	\$	
Increase in bank indebtedness	13,137	2,090	Related to the timing of payments made to suppliers.
Net increase (decrease) under the revolving facilities	(1,335)	128,572	Increased drawings of \$65 million and of US\$53 million under the Canadian Revolving Facility during the first quarter of fiscal 2019.
Repayments of long-term debt	(5,648)	(60,658)	Quarterly repayment of the Senior Secured Term Loan B Facility during fiscal 2020 and 2019. Reimbursement of the \$55 million Senior Secured Notes Series B maturing in October 2018.
Repayment of lease liabilities	(1,565)	—	
Repayment of balance due on business combinations	(3,228)	—	Partial repayment of the balance related to the FiberLight acquisition.
	1,361	70,004	

DIVIDENDS

During the first quarter of fiscal 2020, a quarterly eligible dividend of \$0.475 per share, was paid to the holders of multiple and subordinate voting shares, totalling \$7.6 million, compared to a quarterly eligible dividend of \$0.43 per share, or \$7.0 million, in the first quarter of fiscal 2019.

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

During the first quarter of fiscal 2020, Cogeco purchased and cancelled 23,440 subordinate voting shares with an average price per share repurchased of \$98.74 for a total consideration of \$2.3 million compared to 60,790 subordinate voting shares with an average price per share repurchased of \$59.97 for a total consideration of \$3.6 million for the same period of the prior year.

NCIB - Cogeco Communications Inc.

During the first quarter of fiscal 2020, Cogeco Communications purchased and cancelled 143,100 subordinate voting shares with an average price per share repurchased of \$109.64 for a total consideration of \$15.7 million. In the comparable period of fiscal 2019, Cogeco Communications did not purchase and cancel subordinate voting shares as the NCIB program started in the third quarter of fiscal 2019.

6.5 DIVIDEND DECLARATION

At its January 14, 2020 meeting, the Board of Directors of Cogeco declared a quarterly eligible dividend of \$0.475 per share for multiple voting and subordinate voting shares, payable on February 11, 2020 to shareholders of record on January 28, 2020. The declaration, amount and date of any future dividend will continue to be considered and approved by the Board of Directors of the Corporation based upon the Corporation's financial condition, results of operations, capital requirements and such other factors as the Board of Directors, at its sole discretion, deems relevant. There is therefore no assurance that dividends will be declared, and if declared, the amount and frequency may vary.

7. COMMUNICATIONS SEGMENT

7.1 OPERATING RESULTS

	Three months ended				
	November 30, 2019 ⁽¹⁾	November 30, 2018	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Revenue	586,827	576,673	1.8	1.3	2,836
Operating expenses	299,332	304,027	(1.5)	(2.1)	1,639
Management fees – Cogeco Inc.	5,390	4,795	12.4	12.4	—
Adjusted EBITDA	282,105	267,851	5.3	4.9	1,197
Adjusted EBITDA margin	48.1%	46.4%			

(1) For the three-month period ended November 30, 2019, the average foreign exchange rate used for translation was 1.3223 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3082 USD/CDN.

REVENUE

	Three months ended				
	November 30, 2019 ⁽¹⁾	November 30, 2018	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Canadian broadband services	320,807	322,465	(0.5)	(0.5)	—
American broadband services	266,020	254,208	4.6	3.5	2,836
	586,827	576,673	1.8	1.3	2,836

(1) For the three-month period ended November 30, 2019, the average foreign exchange rate used for translation was 1.3223 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3082 USD/CDN.

Fiscal 2020 first-quarter revenue increased by 1.8% (1.3% in constant currency) resulting from:

- organic growth in the American broadband services operations mainly as a result of:
 - growth in both residential and business Internet service customers; and
 - rate increases mostly implemented during the fourth quarter of fiscal 2019; partly offset by
 - a decrease in video service customers; and
 - lower political advertising revenue.
- a decrease in the Canadian broadband services operations mainly due to:
 - a decline in video service customers partly due to the trailing impact of the implementation of a new customer management system which was in stabilization phase at the beginning of fiscal 2019; and
 - lower net pricing from consumer sales; partly offset by
 - customers' transition to higher value offerings; and
 - continued growth in Internet service customers.

OPERATING EXPENSES

	Three months ended				
	November 30, 2019 ⁽¹⁾	November 30, 2018	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Canadian broadband services	149,845	159,326	(6.0)	(6)	107
American broadband services	144,370	136,932	5.4	4.3	1,531
Inter-segment eliminations and other	5,117	7,769	(34.1)	(34.1)	1
	299,332	304,027	(1.5)	(2.1)	1,639

(1) For the three-month period ended November 30, 2019, the average foreign exchange rate used for translation was 1.3223 USD/CND.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3082 USD/CND.

Fiscal 2020 first-quarter operating expenses decreased by 1.5% (2.1% in constant currency) mainly from:

- a decrease in the Canadian broadband services operations due to:
 - lower programming costs resulting from lower video service customers;
 - lower compensation expenses resulting from an operational optimization program implemented in the first half of fiscal 2019;
 - additional costs of \$4.5 million incurred in the first quarter of fiscal 2019 to support the stabilization phase of the new customer management system implemented in the third quarter of fiscal 2018;
 - retroactive costs of \$3.2 million incurred in the first quarter of fiscal 2019 related to higher than expected rates established by the Copyright Board of Canada for the retransmission of distant Canadian and American television signals in Canada for the period from 2014 to 2018; and
 - the impact of IFRS 16 adoption; partly offset by
 - higher marketing initiatives.
- lower costs in Inter-segment eliminations and other resulting from the timing of corporate projects and initiatives; partly offset by
- additional costs in the American broadband services operations resulting mainly from:
 - higher marketing initiatives; and
 - higher compensation expenses due to additional headcount to support growth; partly offset by
 - the impact of IFRS 16 adoption.

MANAGEMENT FEES

Fiscal 2020 first-quarter management fees paid to Cogeco Inc. reached \$5.4 million compared to \$4.8 million for the same period of fiscal 2019. For further details on Cogeco Communications' management fees, please refer to the "Related party transactions" section.

ADJUSTED EBITDA

	Three months ended				
	November 30, 2019 ⁽¹⁾	November 30, 2018	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Canadian broadband services	170,962	163,139	4.8	4.9	(107)
American broadband services	121,650	117,276	3.7	2.6	1,305
Inter-segment eliminations and other	(10,507)	(12,564)	(16.4)	(16.4)	(1)
	282,105	267,851	5.3	4.9	1,197

(1) For the three-month period ended November 30, 2019, the average foreign exchange rate used for translation was 1.3223 USD/CND.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3082 USD/CND.

Fiscal 2020 first-quarter adjusted EBITDA increased by 5.3% (4.9% in constant currency) as a result of:

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

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

Fiscal 2020 first-quarter acquisitions of property, plant and equipment increased by 20.6% (19.7% in constant currency) mainly as follows:

- In the Canadian broadband services operations, fiscal 2020 first-quarter capital expenditures increased by 28.5% (27.8% in constant currency) resulting from:
 - higher purchases of customer premise equipment due to the timing of certain initiatives; and
 - higher costs related to the new Internet protocol television ("IPTV") platform to be launched in fiscal 2020.
- In the American broadband services operations, fiscal 2020 first-quarter capital expenditures increased by 8.9% (7.7% in constant currency), mainly due to higher purchases of customer premise equipments due to the timing of certain initiatives.

7.2 CUSTOMER STATISTICS

	November 30, 2019			Net additions (losses)	
	Consolidated	Canada	United States	Three months ended	
				November 30, 2019	November 30, 2018
Primary service units ⁽¹⁾	2,722,302	1,818,732	903,570	10,490	(39,451)
Internet service customers	1,246,358	794,895	451,463	11,978	(2,623)
Video service customers	954,964	646,326	308,638	(7,174)	(17,622)
Telephony service customers	520,980	377,511	143,469	5,686	(19,206)

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

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

Variations of each services are also explained as follows:

INTERNET

Fiscal 2020 first-quarter Internet service customers net additions amounted to 11,978 compared to net losses of 2,623 for the same period of fiscal 2019. The variations were due to:

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

VIDEO

Fiscal 2020 first-quarter video service customers net losses amounted to 7,174 compared to 17,622 for the same period of fiscal 2019. The variations were due to:

- a changing video consumption environment; and
- competitive offers in the industry; partly offset by
- seasonal disconnects from the Maine and New Hampshire areas which were lower than the comparable period of the prior year in the United States;
- customers' ongoing interest in digital advanced video services; and
- customers' interest in video services bundled with fast Internet offerings.

TELEPHONY

Fiscal 2020 first-quarter telephony service customers net additions amounted to 5,686 compared to net losses of 19,206 for the same period fiscal 2019. The variations were due to:

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

8. FINANCIAL POSITION

8.1 WORKING CAPITAL

As part of the usual conduct of its business, Cogeco generally maintains a working capital deficiency due to a low level of trade and other receivables as a large proportion of the Corporation's customers pay before their services are rendered, while trade and other payables are paid after products are delivered or services are rendered, enabling the Corporation to use the resulting cash and cash equivalents to reduce Indebtedness. However, the Corporation had a working capital surplus at August 31, 2019 and November 30, 2019 due to the increase in cash and cash equivalents resulting from the sale of Cogeco Peer 1.

The variations are as follows:

	November 30, 2019	August 31, 2019	Change	Explanations
<i>(in thousands of dollars)</i>	\$	\$	\$	
Current assets				
Cash and cash equivalents	541,117	559,393	(18,276)	Please refer to the "Cash flow analysis" section.
Trade and other receivables	106,716	98,375	8,341	Mostly related to revenue growth.
Income taxes receivable	20,495	18,767	1,728	Not significant.
Prepaid expenses and other	37,962	24,184	13,778	Increase in prepayments for annual maintenance agreements.
Derivative financial instrument	639	109	530	Not significant.
	706,929	700,828	6,101	
Current liabilities				
Bank indebtedness	13,137	—	13,137	Timing of payments made to suppliers.
Trade and other payables	210,639	276,782	(66,143)	Timing of payments made to suppliers.
Provisions	35,299	36,803	(1,504)	Not significant.
Income tax liabilities	14,280	16,693	(2,413)	Related to the payment of income taxes installments during the first quarter of fiscal 2020.
Contract liabilities and other liabilities	43,633	43,768	(135)	Not significant.
Balance due on business combinations	3,280	6,520	(3,240)	Partial repayment of the balance related to the FiberLight acquisition.
Derivative financial instruments	25	—	25	Non significant.
Current portion of long-term debt	228,252	22,624	205,628	Related to the Senior Secured Debentures Series 2 maturing in November 2020 combined with the recognition of the current portion of lease liabilities following the adoption of IFRS 16.
	548,545	403,190	145,355	
Working capital surplus	158,384	297,638	(139,254)	

8.2 OTHER SIGNIFICANT CHANGES

	November 30, 2019	August 31, 2019	Change	Explanations
<i>(in thousands of dollars)</i>	\$	\$	\$	
Non-current assets				
Property, plant and equipment	2,096,189	2,024,173	72,016	Recognition of right-of-use assets following the adoption of IFRS 16 combined with acquisitions of property, plant and equipment during the first quarter of fiscal 2020.
Intangible assets	2,921,788	2,938,116	(16,328)	Related to the amortization of intangible assets during the first quarter of fiscal 2020.
Goodwill	1,400,834	1,400,334	500	Not significant.
Non-current liabilities				
Long-term debt	3,292,870	3,439,399	(146,529)	Related to the Senior Secured Debentures Series 2 maturing in November 2020 and long-term debt repayment, partly offset by the recognition of the long-term portion of lease liabilities following the adoption of IFRS 16.
Derivative financial instruments	30,915	46,044	(15,129)	Lower fair value of the interest rate swap agreements hedging US\$1.1 billion of the US\$1.7 billion Senior Secured Term Loan B due to an increase in long-term interest rate.
Shareholders' equity				
Equity attributable to non-controlling interest ⁽¹⁾	1,913,317	1,869,111	44,206	Mostly related to the participation of 68.2% in Cogeco Communications' profit for the period attributable to owners of the Corporation.

(1) The non-controlling interest relates to a participation of approximately 68.2% in Cogeco Communications' equity attributable to owners of the Corporation in addition to the 21% ownership of CDPQ in Cogeco Communications' Atlantic Broadband subsidiary.

8.3 OUTSTANDING SHARE DATA

A description of Cogeco's share data at December 31, 2019 is presented in the table below. Additional details are provided in note 12 of the condensed interim consolidated financial statements.

<i>(in thousands of dollars, except number of shares)</i>	Number of shares	Amount \$
Common shares		
Multiple voting shares	1,812,860	12
Subordinate voting shares	14,269,629	115,882

8.4 FINANCING

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

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

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

At 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).

8.5 COGECO COMMUNICATIONS CREDIT RATINGS

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

At November 30, 2019	S&P	DBRS	Moody's
Cogeco Communications			
Senior Secured Notes and Debentures	BBB-	BBB (low)	NR
Atlantic Broadband			
First Liens Credit Facilities	BB-	NR	B1

NR : Not rated

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

8.6 FINANCIAL MANAGEMENT

Interest rate risk

The Corporation and its subsidiary, Cogeco Communications, are exposed to interest rate risk on their floating interest rate instruments. Interest rate fluctuations will have an effect on the repayment of these instruments. At 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.

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 deferred share unit ("DSU") plans. As such, the Corporation and Cogeco Communications use equity swap agreements to economically hedge the market price appreciation risk of their subordinate voting shares. As at 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.

8.7 FOREIGN CURRENCY

For the three-month period ended November 30, 2019, the average rates prevailing used to convert the operating results of the Communications segment were as follows:

	November 30, 2019	November 30, 2018	Change	Change
	\$	\$	\$	%
US dollar vs Canadian dollar	1.3223	1.3082	0.01	1.1

The following table highlights in Canadian dollars, the impact of a \$0.01 variation of the Canadian dollar against the US dollar on the Communications segment's results for the three-month period ended November 30, 2019:

	Communications segment
Three month ended November 30, 2019	Exchange rate impact
(in thousands of dollars)	\$
Revenue	2,836
Operating expenses	1,639
Management fees - Cogeco Inc.	—
Adjusted EBITDA	1,197
Acquisitions of property, plant and equipment	914
Free cash flow	(51)

9. CONTROLS AND PROCEDURES

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

The CEO and CFO, supported by Management, evaluated the design of the Corporation's DC&P and ICFR at November 30, 2019, and concluded that they are adequate. Furthermore, no significant changes to the internal controls over financial reporting occurred during the three-month period ended November 30, 2019.

10. UNCERTAINTIES AND MAIN RISK FACTORS

A detailed description of the uncertainties and main risk factors faced by Cogeco can be found in the 2019 Annual Report, available at www.sedar.com and corpo.cogeco.com. The following update should be read together with the uncertainties and main risk factors described in the 2019 Annual Report, which are hereby incorporated by reference.

On August 15, 2019, the Canadian Radio-television and Telecommunications Commission ("CRTC") issued its costing decision setting new rates for aggregated wholesale Internet services for resellers, significantly lowering the interim rates it had previously fixed in 2016 and applying the new rates on a retroactive basis. On September 13, 2019, Cogeco Communications, along with other telecommunications service providers (the "Cable Carriers"), jointly filed an application for leave to appeal the CRTC order to the Federal Court of Appeal ("FCA") and to suspend its effect pending the Court decision to hear the matter. On November 22, 2019, the FCA granted leave to appeal the CRTC decision and stayed the order pending final judgement, with the result that operators do not have to implement the new rates nor to make the retroactive payments. In addition to the FCA appeal, on November 13, 2019, the Cable Carriers filed a petition with the Governor in Council, asking Cabinet to refer the CRTC order back to the CRTC for reconsideration in conjunction with the CRTC's planned review of its regulatory framework for wireline wholesale services and in accordance with specific policy considerations. The Cabinet petition was gazetted on December 13, 2019 and set the deadline for interested parties to file comments to February 12, 2020. Furthermore, on December 13, 2019, the Cable Carriers submitted to the CRTC an application for review and variance of the CRTC order, based on substantial doubt as to the correctness of the rate setting methodology relied upon by the CRTC in the order. The Corporation has therefore not recorded the impact of the new reduced rates in the financial statements for the three-month period ended November 30, 2019.

11. ACCOUNTING POLICIES

11.1 ADOPTION OF NEW ACCOUNTING STANDARD AND INTERPRETATION

IFRS 16

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

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

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

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

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

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

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

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

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

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

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

IFRIC 23

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

12. NON-IFRS FINANCIAL MEASURES

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

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

Non-IFRS measure	Application	Calculation	Most comparable IFRS measure
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 ⁽¹⁾ ; and - Repayment of lease liabilities.	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 Cogeco's business units is equal to the segment profit reported in note 4 of the condensed interim consolidated financial statements.	Adjusted EBITDA: - Profit for the period from continuing operations; add: - Income taxes; - Financial expense; - Depreciation and amortization; and - Integration, restructuring and acquisition costs.	Profit for the period from continuing operations
Constant currency basis	Revenue, operating expenses, adjusted EBITDA, acquisitions of property, plant and equipment and free cash flow are measures presented on a constant currency basis to enable an improved understanding of the Corporation's underlying financial performance, undistorted by the effects of changes in foreign exchange rates.	Constant currency basis are obtained by translating financial results from the current periods denominated in US dollars at the foreign exchange rates of the comparable periods of the prior year. The average foreign exchange rate during the three-month period ended November 30, 2018 was 1.3082 USD/CDN.	No comparable IFRS measure

(1) Excludes the acquisition of right-of-use assets and the purchases of Spectrum licenses.

12.1 FREE CASH FLOW RECONCILIATION

	Three months ended	
	November 30, 2019	November 30, 2018
<i>(in thousands of dollars)</i>	\$	\$
Cash flow from operating activities	151,071	103,119
Amortization of deferred transaction costs and discounts on long-term debt	2,558	2,153
Changes in non-cash operating activities	86,656	95,390
Income taxes paid	17,221	27,471
Current income taxes	(25,300)	(13,841)
Financial expense paid	40,684	46,942
Financial expense	(40,402)	(47,163)
Acquisition of property, plant and equipment	(122,030)	(101,149)
Repayment of lease liabilities	(1,565)	—
Free cash flow	108,893	112,922

12.2 ADJUSTED EBITDA RECONCILIATION

	Three months ended	
	November 30, 2019	November 30, 2018
<i>(in thousands of dollars)</i>	\$	\$
Profit for the period from continuing operations	94,216	82,767
Income taxes	31,548	18,572
Financial expense	40,402	47,163
Depreciation and amortization	124,263	120,665
Integration, restructuring and acquisition costs	80	7,034
Adjusted EBITDA	290,509	276,201

13. SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION

Three months ended	November 30,		August 31,		May 31,		February 28,	
	2019	2018	2019	2018	2019	2018	2019	2018
(in thousands of dollars, except per share data)	\$	\$	\$	\$	\$	\$	\$	\$
Operations								
Revenue	618,469	607,361	610,510	592,277	617,617	598,877	608,574	554,143
Adjusted EBITDA	290,509	276,201	280,981	268,942	289,935	277,397	284,863	252,879
Integration, restructuring and acquisition costs	80	7,034	839	1,812	1,155	2,260	3,823	15,999
Profit for the period from continuing operations	94,216	82,767	95,193	78,340	102,559	76,116	87,646	161,914
Profit (loss) for the period from discontinued operations	—	(3,622)	1,920	(1,052)	82,451	(5,365)	(5,369)	(16,079)
Profit for the period	94,216	79,145	97,113	77,288	185,010	70,751	82,277	145,835
Profit for the period from continuing operations attributable to owners of the Corporation	31,284	27,314	30,798	25,498	33,744	26,854	27,366	51,710
Profit for the period attributable to owners of the Corporation	31,284	26,168	31,445	25,165	59,883	25,155	25,667	46,618
Cash flow								
Cash flow from operating activities	151,071	103,119	314,905	268,679	267,388	171,757	204,665	202,362
Acquisitions of property, plant and equipment	122,030	101,149	146,599	164,472	97,169	98,950	94,138	112,886
Free cash flow	108,893	112,922	87,611	51,354	140,393	109,446	128,229	59,726
Earnings (loss) per share⁽¹⁾								
Basic								
From continuing operations	1.96	1.68	1.91	1.56	2.09	1.64	1.69	3.16
From discontinued operations	—	(0.07)	0.04	(0.02)	1.62	(0.10)	(0.10)	(0.31)
From continuing and discontinued operations	1.96	1.61	1.95	1.54	3.71	1.54	1.58	2.85
Diluted								
From continuing operations	1.94	1.67	1.89	1.55	2.07	1.63	1.67	3.13
From discontinued operations	—	(0.07)	0.04	(0.02)	1.61	(0.10)	(0.10)	(0.31)
From continuing and discontinued operations	1.94	1.60	1.93	1.52	3.68	1.52	1.57	2.82
Dividends per share	0.475	0.43	0.43	0.39	0.43	0.39	0.43	0.39

(1) Per multiple and subordinate voting share.

13.1 SEASONAL VARIATIONS

Cogeco's operating results are not generally subject to material seasonal fluctuations except as follows. In the Communications segment, the number of Internet and video services customers are generally lower in the second half of the fiscal year as a result of a decrease in economic activity due to the beginning of the vacation period, the end of the television season, and students leaving their campuses at the end of the school year. Cogeco Communications offers its services in several towns with education institutions. In the United States, certain areas are also subject to seasonal fluctuations due to the winter and summer seasons.

14. ADDITIONAL INFORMATION

This MD&A was prepared on January 14, 2020. Additional information relating to the Corporation, including its Annual Report and Annual Information Form, is available on the SEDAR website at www.sedar.com or on the Corporation's website at corpo.cogeco.com.

/s/ Louis Audet
Louis Audet
Executive Chairman of the Board

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

Cogeco Inc.
Montréal, Québec
January 14, 2020



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				Equity attributable to non-controlling interest	Total shareholders' equity
	Share capital	Share-based payment reserve	Accumulated other comprehensive income	Retained earnings		
<i>(In thousands of Canadian dollars)</i>	\$	\$	\$	\$	\$	\$
	(Note 12)		(Note 13)			
Balance at August 31, 2018	108,838	9,147	36,335	556,588	1,700,783	2,411,691
Profit for the period	—	—	—	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.

(unaudited)

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

2. ACCOUNTING POLICY DEVELOPMENTS

ADOPTION OF NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

IFRS 16

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

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

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

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

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

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

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

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

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

COGECO INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2019

(unaudited)

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

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
	\$	\$	\$	\$	\$
Residential ⁽¹⁾	514,068	507,649	—	—	514,068
Commercial ⁽²⁾	65,963	61,551	—	—	65,963
Other ⁽³⁾	6,796	7,473	31,642	30,688	38,438
	586,827	576,673	31,642	30,688	618,469

(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.
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)

	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.
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)

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.

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)

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.

COMMUNICATIONS SEGMENT CUSTOMER STATISTICS

	November 30, 2019	August 31, 2019	May 31, 2019	February 28, 2019	November 30, 2018
CONSOLIDATED					
Primary service units	2,722,302	2,711,812	2,707,227	2,703,223	2,711,932
Internet service customers	1,246,358	1,234,380	1,229,399	1,214,566	1,204,602
Video service customers	954,964	962,138	965,008	976,377	988,398
Telephony service customers	520,980	515,294	512,820	512,280	518,932
CANADA					
Primary service units	1,818,732	1,810,366	1,813,212	1,825,011	1,831,628
Internet service customers	794,895	788,243	785,703	785,004	778,996
Penetration as a percentage of homes passed	45.0%	44.7%	44.6%	44.7%	44.4%
Video service customers	646,326	649,583	657,747	668,771	675,699
Penetration as a percentage of homes passed	36.6%	36.8%	37.4%	38.1%	38.5%
Telephony service customers	377,511	372,540	369,762	371,236	376,933
Penetration as a percentage of homes passed	21.4%	21.1%	21.0%	21.1%	21.5%
UNITED STATES					
Primary service units	903,570	901,446	894,015	878,212	880,304
Internet service customers	451,463	446,137	443,696	429,562	425,606
Penetration as a percentage of homes passed	51.3%	50.8%	50.7%	49.6%	49.2%
Video service customers	308,638	312,555	307,261	307,606	312,699
Penetration as a percentage of homes passed	35.1%	35.6%	35.1%	35.5%	36.2%
Telephony service customers	143,469	142,754	143,058	141,044	141,999
Penetration as a percentage of homes passed	16.3%	16.2%	16.3%	16.3%	16.4%