COGECO COMMUNICATIONS

SHAREHOLDERS' REPORT

Three and six-month periods ended February 28, 2017

FINANCIAL HIGHLIGHTS

(in thousands of dollars, except percentages and per share data)	Quarters ended February 28, 2017 $	February 29, 2016 $	Change %	Six months ended February 28, 2017 $	February 29, 2016 $	Change %
Operations						
Revenue	560,875	551,523	1.7	1,109,965	1,091,836	1.7
Adjusted EBITDA[1]	253,839	248,382	2.2	503,542	492,524	2.2
Operating margin[1]	45.3%	45.0%	—	45.4%	45.1%	—
Integration, restructuring and acquisition costs	—	4,320	—	—	6,350	—
Profit for the period	76,663	62,042	23.6	151,687	123,148	23.2
Cash flow						
Cash flow from operating activities	245,550	205,954	19.2	369,011	302,047	22.2
Acquisitions of property, plant and equipment, intangible and other assets	86,199	116,732	(26.2)	182,693	263,051	(30.5)
Free cash flow[1]	116,787	74,698	56.3	218,166	114,740	90.1
Financial condition[2]						
Cash and cash equivalents	—	—	—	45,835	62,286	(26.4)
Property, plant and equipment	—	—	—	1,952,414	1,989,720	(1.9)
Total assets	—	—	—	5,287,767	5,333,249	(0.9)
Indebtedness[3]	—	—	—	2,783,501	2,929,108	(5.0)
Shareholders' equity	—	—	—	1,500,467	1,379,915	8.7
Capital intensity[1]	15.4%	21.2%	—	16.5%	24.1%	—
Per Share Data[4]						
Earnings per share						
Basic	1.56	1.27	22.8	3.09	2.52	22.6
Diluted	1.55	1.26	23.0	3.06	2.49	22.9
Dividends	0.43	0.39	10.3	0.86	0.78	10.3

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

(2) At February 28, 2017 and August 31, 2016. Total assets and shareholders' equity were restated for the year ended August 31, 2016 as reported in note 2 of the Condensed Interim Consolidated Financial Statements.

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

(4) Per multiple and subordinate voting share.

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

Three and six-month periods ended February 28, 2017

1. FORWARD-LOOKING STATEMENTS

Certain statements contained in this Management's Discussion and Analysis ("MD&A") may constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to Cogeco Communications Inc.'s ("Cogeco Communications" or the "Corporation") future outlook and anticipated events, business, operations, financial performance, financial condition or results and, in some cases, can be identified by terminology such as "may"; "will"; "should"; "expect"; "plan"; "anticipate"; "believe"; "intend"; "estimate"; "predict"; "potential"; "continue"; "foresee", "ensure" or other similar expressions concerning matters that are not historical facts. Particularly, statements regarding the Corporation's financial guidelines, future operating results and economic performance, objectives and strategies are forward-looking statements. These statements are based on certain factors and assumptions including expected growth, results of operations, performance and business prospects and opportunities, which Cogeco Communications believes are reasonable as of the current date. Refer in particular to the "Corporate Objectives and Strategies" and "Fiscal 2017 Financial Guidelines" sections of the Corporation's 2016 annual MD&A for a discussion of certain key economic, market and operational assumptions we have made in preparing forward-looking statements. While Management considers these assumptions to be reasonable based on information currently available to the Corporation, they may prove to be incorrect. Forward-looking information is also subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what Cogeco Communications currently expects. These factors include risks such as competitive risks, business risks, regulatory risks, technology risks, financial risks, economic conditions, ownership risks, human-caused and natural threats to our network, infrastructure and systems and litigation risks, many of which are beyond the Corporation's control. For more exhaustive information on these risks and uncertainties, the reader should refer to the "Uncertainties and Main Risk Factors" section of the Corporation's 2016 annual MD&A and the present MD&A. These factors are not intended to represent a complete list of the factors that could affect Cogeco Communications and future events and results may vary significantly from what Management currently foresees. The reader should not place undue importance on forward-looking information contained in this MD&A which represent Cogeco Communications' expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made) and are subject to change after such date. While Management may elect to do so, the Corporation is under no obligation (and expressly disclaims any such obligation) and does not undertake to update or alter this information at any particular time, whether as a result of new information, future events or otherwise, except as required by law.

All amounts are stated in Canadian dollars unless otherwise indicated. This report should be read in conjunction with the Corporation's condensed interim consolidated financial statements and the notes thereto for the three and six-month periods ended February 28, 2017 prepared in accordance with the International Financial Reporting Standards ("IFRS") and the MD&A included in the Corporation's 2016 Annual Report.

2. CORPORATE OBJECTIVES AND STRATEGIES

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

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

The Corporation measures its performance, with regard to these objectives by monitoring revenue, adjusted EBITDA(1), operating margin(1), free cash flow(1) and capital intensity(1).

2.1 KEY PERFORMANCE INDICATORS

REVENUE

For the six-month period ended February 28, 2017, revenue increased by $18.1 million, or 1.7%, to reach $1.11 billion compared to $1.09 billion for the same period of fiscal 2016 mainly driven by growths of 3.7% in the American broadband services segment and 2.1% in the Canadian broadband services segment, partly offset by a decrease of 4.1% in the Business ICT services segment.

ADJUSTED EBITDA AND OPERATING MARGIN

For the six-month period ended February 28, 2017, adjusted EBITDA increased by $11.0 million, or 2.2%, to reach $503.5 million compared to $492.5 million for the same period of fiscal 2016 essentially attributable to the improvement in the Canadian and American broadband services segments, partly offset by a decrease in the Business ICT services segment.

Cogeco Communications' operating margin increased from 45.1% to 45.4% resulting from a higher margin in the Canadian broadband services segment, partly offset by a slightly lower margin in the American broadband services and a decline in the Business ICT services segments.

FREE CASH FLOW

For the six-month period ended February 28, 2017, Cogeco Communications reported free cash flow of $218.2 million, an increase of $103.4 million, or 90.1%, compared to $114.7 million for the same period of the prior year. The increase is mostly attributable to lower acquisitions of property, plant and equipment, intangible and other assets resulting from the timing of certain initiatives mainly in the Canadian broadband services segment and a greater focus on capital expenditure optimization in the Business ICT services segment. The improvement of the adjusted EBITDA and the decrease in integration, restructuring and acquisition costs also contributed to the increase in free cash flow.

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

During the six-month period ended February 28, 2017, the acquisitions of property, plant and equipment, intangible and other assets amounted to $182.7 million and revenue to $1.11 billion for a capital intensity ratio of 16.5% compared to 24.1% in the same period of the prior year resulting from lower acquisitions of property, plant and equipment, intangible and other assets. Despite lower capital expenditures in the first six months of fiscal 2017, the Corporation expects annual capital expenditures to be within fiscal 2017 guidelines.

In the Canadian broadband services segment, the acquisitions of property, plant and equipment, intangible and other assets amounted to $97.3 million compared to $150.5 million for the same period of fiscal 2016. The decrease resulted mainly from a timing difference for purchases of customer premise equipment ("CPE") as well as lower line extension and scalable infrastructure due to the timing of certain initiatives.

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

In the American broadband services segment, the acquisitions of property, plant and equipment, intangible and other assets amounted to $67.1 million compared to $60.2 million for the same period of fiscal 2016. The increase is mainly due to additional CPE acquisitions resulting from primary service units ("PSU")[1] growth and the increase in line extensions as a result of the ongoing growth in the commercial sector combined with the network expansion in some of the areas we serve. The increase in capital expenditures was partly offset by the depreciation of the US dollar against the Canadian dollar compared to the same period of fiscal 2016.

In the Business ICT services segment, the acquisitions of property, plant and equipment, intangible and other assets amounted to $18.3 million compared to $52.4 million for the same period of fiscal 2016. The decrease is due to a greater focus on capital expenditure optimization combined with the timing of certain initiatives. In addition, capital expenditures were higher in the comparable period of fiscal 2016 due to the completion of strategic investments at the Kirkland data centre facility.

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

3. OPERATING AND FINANCIAL RESULTS

3.1 OPERATING RESULTS

	Quarters ended			Six months ended		
	February 28, 2017	February 29, 2016	Change	**February 28, 2017**	February 29, 2016	Change
(in thousands of dollars, except percentages)	**$**	$	%	**$**	$	%
Revenue	**560,875**	551,523	1.7	**1,109,965**	1,091,836	1.7
Operating expenses	**302,231**	298,428	1.3	**596,930**	590,011	1.2
Management fees – Cogeco Inc.	**4,805**	4,713	2.0	**9,493**	9,301	2.1
Adjusted EBITDA	**253,839**	248,382	2.2	**503,542**	492,524	2.2
Operating margin	**45.3%**	45.0%		**45.4%**	45.1%	

REVENUE

Fiscal 2017 second-quarter revenue amounted to $560.9 million, an increase of $9.4 million, or 1.7%, compared to the same period of the prior year driven by growths of 3.1% in the Canadian broadband services segment and 0.7% in the American broadband services segment, partly offset by a decrease of 1.8% in the Business ICT services segment.

For the first six months months of fiscal 2017, revenue amounted to $1.11 billion, an increase of $18.1 million, or 1.7%, compared to the same period of the prior year driven by growths of 3.7% in the American broadband services segment and of 2.1% in the Canadian broadband services segment, partly offset by a decrease of 4.1% in the Business ICT services segment.

For further details on the Corporation's revenue, please refer to the "Segmented operating results" section.

OPERATING EXPENSES AND MANAGEMENT FEES

Fiscal 2017 second-quarter operating expenses amounted to $302.2 million, an increase of $3.8 million, or 1.3%, compared to the same period of the prior year. For the first six months of fiscal 2017, operating expenses amounted to $596.9 million, an increase of $6.9 million, or 1.2%, compared to the same period of the prior year. For both periods, operating expenses increased in the Canadian and American broadband services segments and remained stable, except for the second quarter during which operating expenses increased, in the Business ICT services segment. For further details on the Corporation's operating expenses, please refer to the "Segmented operating results" section.

For the three and six-month periods ended February 28, 2017, management fees paid to Cogeco Inc. amounted to $4.8 million and $9.5 million, respectively, compared to $4.7 million and $9.3 million for the same periods of fiscal 2016. For further details on the Corporation's management fees, please refer to the "Related party transactions" section.

ADJUSTED EBITDA AND OPERATING MARGIN

For the three and six-month periods ended February 28, 2017, adjusted EBITDA increased by $5.5 million, or 2.2%, to reach $253.8 million, and by $11.0 million, or 2.2%, to reach $503.5 million, respectively. The increase in the second quarter resulted from the improvement in the Canadian broadband services segment combined with a stable adjusted EBITDA in the American broadband services segment as a result of unfavorable foreign exchange rates compared to the same period of the prior year, partly offset by a decline of adjusted EBITDA in the Business ICT services segment. The increase in the first six months resulted from the improvement of adjusted EBITDA in the Canadian and American broadband services segments, partly offset by a decline in the Business ICT service segment.

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

For the three and six-month periods ended February 28, 2017, operating margin increased from 45.0% to 45.3% and from 45.1% to 45.4% compared to the same periods of fiscal 2016 as a result of higher margins in the Canadian broadband services segment, partly offset by a slightly lower margin in the American broadband services and a decline in the Business ICT services segments.

For further details on the Corporation's adjusted EBITDA and operating margin, please refer to the "Segmented operating results" section.

3.2 FIXED CHARGES

	Quarters ended			Six months ended		
	February 28, 2017	February 29, 2016	Change	February 28, 2017	February 29, 2016	Change
(in thousands of dollars, except percentages)	$	$	%	$	$	%
Depreciation and amortization	119,253	129,067	(7.6)	238,329	254,736	(6.4)
Financial expense	32,475	35,839	(9.4)	64,565	69,192	(6.7)

For the three and six-month periods ended February 28, 2017, depreciation and amortization expense decreased by $9.8 million, or 7.6%, to reach $119.3 million and by $16.4 million, or 6.4%, to reach $238.3 million, respectively, compared to the same periods of prior year. The decreases for both periods resulted mainly from lower acquisitions of property, plant and equipment, the depreciation of the US dollar against the Canadian dollar, certain assets being fully amortized and from the impairment of intangible assets recognized in the third quarter of fiscal 2016.

For the three and six-month periods ended February 28, 2017, financial expense decreased by $3.4 million, or 9.4%, to reach $32.5 million, and by $4.6 million, or 6.7%, to reach $64.6 million, respectively, compared to the same periods of the prior year mainly as a result of a lower level of Indebtedness as well as the depreciation of the US dollar against the Canadian dollar.

3.3 INCOME TAXES

For the three and six-month periods ended February 28, 2017, income taxes increased by $8.3 million and $9.9 million, or 48.7% and 25.2%, to reach $25.4 million and $49.0 million, respectively, compared to the same periods of the prior year. The increase is mostly attributable to the improvement of the profit before income taxes as well as the higher effective tax rate related to investments in foreign operations, partly offset by the impact on deferred income taxes as a result of changes in substantively enacted tax rates.

On March 26, 2015, in its 2015 budget, the Quebec government announced that the corporate tax rate would be gradually reduced by 0.1% per year from 11.9% in 2017 to 11.5% in 2020. These rate reductions were substantively enacted on November 15, 2016 and have reduced the deferred tax liabilities and the deferred income taxes by approximately $1.7 million for the six-month period ended February 28, 2017. In addition, on July 8, 2015, the United Kingdom government announced corporate tax rate reductions from 20% to 19% on April 1, 2017 and to 18% on April 1, 2020. These rate reductions were substantively enacted on October 26, 2015 and have reduced the deferred tax assets and increased the deferred income taxes by approximately $1.6 million during the first half of fiscal 2016.

3.4 PROFIT FOR THE PERIOD

For the three-month period ended February 28, 2017, profit for the period amounted to $76.7 million, or $1.56 per share compared to $62.0 million, or $1.27 per share for the same period of the prior year resulting from the decrease in depreciation and amortization combined with the improvement of adjusted EBITDA, partly offset by the increase in income taxes.

For the six-month period ended February 28, 2017, profit for the period amounted to $151.7 million, or $3.09 per share compared to $123.1 million, or $2.52 per share for the same period of the prior year mainly from the decrease in depreciation and amortization, the improvement of adjusted EBITDA combined with the decrease in integration, restructuring and acquisition costs, partly offset by the increase in income taxes.

3.5 CUSTOMER STATISTICS

	February 28, 2017			Net additions (losses) Quarters ended		Net additions (losses) Six months ended	
	Consolidated	**Canada**	**United States**	February 28, 2017	February 29, 2016	February 28, 2017 (2)	February 29, 2016
PSU(1)	2,536,876	1,934,496	602,380	9,274	4,158	26,879	17,435
Video service customers	976,997	737,975	239,022	(4,685)	(7,761)	(7,397)	(13,324)
Internet service customers	1,023,519	759,152	264,367	15,909	14,022	35,346	32,686
Telephony service customers	536,360	437,369	98,991	(1,950)	(2,103)	(1,070)	(1,927)

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

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

VIDEO

For the three and six-month periods ended February 28, 2017, video service customers net losses stood at 4,685 and 7,397, respectively, compared to 7,761 and 13,324 for the same periods of fiscal 2016. The loss reduction resulted mainly from the customers' interest in the video product offering, including TiVo's digital advanced video services both in Canada and in the United States, as well as bundles with fast Internet offerings, partly offset by competitive offers in the industry, service category maturity in Canada and the changing video consumption environment.

INTERNET

For the three and six-month periods ended February 28, 2017, Internet service customers net additions amounted to 15,909 and 35,346, respectively, compared to 14,022 and 32,686 for the same periods of fiscal 2016. The net additions stemmed from the customers' ongoing interest in high speed offerings and in TiVo's services which requires an Internet subscription, the growth in the business sector and the positive impact of the bundle offers.

TELEPHONY

For the three and six-month periods ended February 28, 2017, telephony service customers net losses stood at 1,950 and 1,070, respectively, compared to 2,103 and 1,927 for the same periods of fiscal 2016. The net losses are mainly explained by increasing mobile penetration and various unlimited offers in Canada launched by mobile operators causing customers to cancel their landline telephony services for mobile telephony services only, partly offset by the continued growth in the residential and business sectors in the United States.

For further details on the Corporation’s customer statistics, please refer to the “Segmented operating results" section.

4. RELATED PARTY TRANSACTIONS

Cogeco Communications is a subsidiary of Cogeco Inc. ("Cogeco"), which holds 31.7% of the Corporation’s equity shares, representing 82.3% of the Corporation’s voting shares.

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

No direct remuneration is payable to Cogeco's executive officers by the Corporation. However, during the first six months of fiscal 2017, the Corporation granted 81,350 (69,750 in 2016) stock options, did not grant any Incentive Share Units (“ISUs”) and granted 12,150 (11,150 in 2016) Performance Share Units (“PSUs”) to these executive officers as executive officers of Cogeco Communications. During the three and six-month periods ended February 28, 2017, the Corporation charged Cogeco $139,000 and $302,000 ($136,000 and $280,000 in 2016), $2,000 and $35,000 ($66,000 and $179,000 in 2016) and $170,000 and $306,000 ($105,000 and $229,000 in 2016), respectively, with regards to the Corporation’s stock options, ISUs and PSUs granted to these executive officers.

On August 2, 2016 an intercompany loan agreement was concluded between the Corporation and Cogeco, by which a revolving credit facility was established in favour of the Corporation. The maximum principal amount of the facility is set at $40 million and the full amount was advanced to the Corporation as of the signing date and remained outstanding as of February 28, 2017. The credit facility is payable on demand and the interest is calculated on the daily outstanding balance at an annual rate equivalent to the Corporation’s Canadian Revolving Facility.

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

5. CASH FLOW ANALYSIS

	Quarters ended		Six months ended	
	February 28, 2017	February 29, 2016	**February 28, 2017**	February 29, 2016
(in thousands of dollars)	**$**	$	**$**	$
Cash flow from operating activities	**245,550**	205,954	**369,011**	302,047
Cash flow from investing activities	**(85,824)**	(115,798)	**(175,030)**	(261,818)
Cash flow from financing activities	**(157,348)**	(96,639)	**(211,102)**	(172,873)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**(84)**	(473)	**670**	196
Net change in cash and cash equivalents	**2,294**	(6,956)	**(16,451)**	(132,448)
Cash and cash equivalents, beginning of the period	**43,541**	37,674	**62,286**	163,166
Cash and cash equivalents, end of the period	**45,835**	30,718	**45,835**	30,718

5.1 OPERATING ACTIVITIES

Fiscal 2017 second-quarter cash flow from operating activities reached $245.6 million, representing an increase of $39.6 million, or 19.2%, compared to the same period of the prior year mainly as a result of the following:

- the improvement of $5.5 million in adjusted EBITDA;
- the decrease of $21.5 million in income taxes paid as a result of the timing of payments related to the deferral of income tax installments pursuant to a corporate structure reorganization of the Canadian broadband services segment subsidiaries; and
- the increase of $8.4 million in changes in non-cash operating activities primarily due to changes in working capital.

For the first six months of fiscal 2017, cash flow from operating activities reached $369.0 million, representing an increase of $67.0 million, or 22.2%, compared to the same period of the prior year mainly as a result of the following:

- the improvement of $11.0 million in adjusted EBITDA;
- the decrease of $59.6 million in income taxes paid as a result of the timing of payments related to the deferral of income tax installments pursuant to a corporate structure reorganization of the Canadian broadband services segment subsidiaries; and
- the decrease of $6.4 million in integration, restructuring and acquisition costs; partly offset by
- the decrease of $14.4 million in changes in non-cash operating activities primarily due to changes in working capital.

5.2 INVESTING ACTIVITIES

For the three and six-month periods ended February 28, 2017, investing activities decreased by $30.0 million, or 25.9%, to reach $85.8 million, and by $86.8 million, or 33.1%, to reach $175.0 million, respectively, compared to the same periods of fiscal 2016. The decrease is mainly explained by lower acquisitions of property, plant and equipment, intangible and other assets as explained below.

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

Investing activities, including acquisition of property, plant and equipment segmented according to the *National Cable Television Association* ("NCTA") standard reporting categories, are as follows:

	Quarters ended		Six months ended	
	February 28, 2017	February 29, 2016	**February 28, 2017**	February 29, 2016
(in thousands of dollars)	**$**	$	**$**	$
Customer premise equipment(1)	**32,411**	33,623	**69,766**	99,773
Scalable infrastructure(2)	**12,327**	11,798	**29,490**	34,643
Line extensions	**11,580**	12,397	**21,538**	32,314
Upgrade / Rebuild	**3,940**	5,727	**7,284**	9,030
Support capital	**13,970**	16,410	**28,648**	27,241
Acquisition of property, plant and equipment - Canadian and American broadband services	**74,228**	79,955	**156,726**	203,001
Acquisition of property, plant and equipment - Business ICT services	**7,915**	30,618	**16,379**	48,976
Acquisition of property, plant and equipment - Head office	**—**	8	**—**	26
Acquisitions of property, plant and equipment	**82,143**	110,581	**173,105**	252,003
Acquisition of intangible and other assets - Canadian and American broadband services	**3,568**	3,712	**7,667**	7,654
Acquisition of intangible and other assets - Business ICT services	**488**	2,439	**1,921**	3,394
Acquisitions of intangible and other assets	**4,056**	6,151	**9,588**	11,048
	86,199	116,732	**182,693**	263,051

(1) Includes mainly home terminal devices as well as new and replacement drops.
(2) Includes mainly head-end equipment, digital video, telephony and Internet equipments.

For the three and six-month periods ended February 28, 2017, acquisitions of property, plant and equipment amounted to $82.1 million and $173.1 million, respectively, compared to $110.6 million and $252.0 million for the same periods of the prior year.

For the three and six-month periods ended February 28, 2017, acquisitions of intangible and other assets amounted to $4.1 million and $9.6 million, respectively, compared to $6.2 million and $11.0 million for the same periods of the prior year.

The most significant variances are as follows:

CANADIAN BROADBAND SERVICES SEGMENT

- Fiscal 2017 second-quarter and first six months acquisitions of property, plant and equipment amounted to $44.1 million and $92.0 million, respectively, representing decreases of $10.3 million and $52.8 million, or 18.9% and 36.5%, compared to the same periods of the prior year. The decrease for both periods resulted mainly from a timing difference for purchases of customer premise equipment ("CPE"), line extension and scalable infrastructure due to the timing of certain initiatives;
- For the three and six-month periods ended February 28, 2017, acquisitions of intangible and other assets amounted to $2.4 million and $5.3 million, respectively, compared to $2.6 million and $5.7 million for the same periods of fiscal 2016; and
- For the six-month period ended February 28, 2017, capital intensity reached 15.1% compared to 23.9% for the same period of fiscal 2016 mainly as a result of a decrease in acquisitions of capital expenditures and revenue growth.

AMERICAN BROADBAND SERVICES SEGMENT

- Fiscal 2017 second-quarter and first six months acquisitions of property, plant and equipment amounted to $30.1 million and $64.8 million, respectively, representing increases of $4.5 million and $6.5 million, or 17.7% and 11.2%, compared to the same periods of the prior year. The increase for both period is mainly due to CPE acquisitions resulting from PSU growth and the increase in line extensions as a result of the ongoing growth in the commercial sector combined with the network expansion in some of the areas we serve. The increase in capital expenditures was partly offset by the depreciation of the US dollar against the Canadian dollar compared to the same period of fiscal 2016;
- For the three and six-month periods ended February 28, 2017, acquisitions of intangible and other assets amounted to $1.2 million and $2.3 million, respectively, compared to $1.2 million and $1.9 million for the same periods of fiscal 2016; and
- For the six-month period ended February 28, 2017, capital intensity reached 21.0% compared to 19.5% for the same period of the prior year as a result of capital expenditures growth exceeding revenue growth.

BUSINESS ICT SERVICES SEGMENT

- Fiscal 2017 second-quarter and first six months acquisitions of property, plant and equipment amounted to $7.9 million and $16.4 million, respectively, representing decreases of $22.7 million and $32.6 million, or 74.1% and 66.6%, compared to the same periods of the prior year. The decrease for both periods is due to a greater focus on capital expenditure optimization combined with the timing of certain initiatives. In addition, capital expenditures were higher in the comparable periods of fiscal 2016 due to strategic investments at the Kirkland data centre facility;
- For the three and six-month periods ended February 28, 2017, acquisitions of intangible and other assets amounted to $0.5 million and $1.9 million, respectively compared to $2.4 million and $3.4 million the same periods of fiscal 2016; and
- For the six-month period ended February 28, 2017, capital intensity reached 12.3% compared to 33.6% for the same period of the prior year mainly as a result of a decrease in acquisitions of property, plant and equipment, intangible and other assets, partly offset by a decline in revenue.

BUSINESS COMBINATION IN FISCAL 2017

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

5.3 FREE CASH FLOW AND FINANCING ACTIVITIES

FREE CASH FLOW

Fiscal 2017 second-quarter free cash flow amounted to $116.8 million, an increase of $42.1 million, or 56.3%, compared to $74.7 million for the same period of the prior year mainly due to the following:

- the decrease of $30.5 million in acquisitions of property, plant and equipment, intangible and other assets resulting from the timing of certain initiatives mainly in the Canadian broadband services segment combined with a greater focus on capital expenditure optimization in the Business ICT services segment; and
- the improvement of $5.5 million in adjusted EBITDA.

For the first six months ended February 28, 2017, free cash flow amounted to $218.2 million, an increase of $103.4 million, or 90.1%, compared to $114.7 million during the same period of the prior year mainly due to the following:

- the decrease of $80.4 million in acquisitions of property, plant and equipment, intangible and other assets resulting from the timing of certain initiatives in the Canadian broadband services segment combined with a greater focus on capital expenditure optimization in the Business ICT services segment;
- the improvement of $11.0 million in adjusted EBITDA; and
- the decrease of $6.4 million in integration, restructuring and acquisition costs.

FINANCING ACTIVITIES

For the three and six-month periods ended February 28, 2017, lower Indebtedness levels resulting from debt repayments led to cash decreases of $138.6 million and $169.5 million, respectively, compared to cash decreases of $80.9 million and $134.3 million, respectively, for the same periods of fiscal 2016.

	Quarters ended			Six months ended			
	February 28, 2017	February 29, 2016	Change	**February 28, 2017**	February 29, 2016	Change	Explanations
(in thousands of dollars)	**$**	$	$	**$**	$	$	
Increase (decrease) in bank indebtedness	**(16,465)**	(14,657)	(1,808)	**1,295**	23,329	(22,034)	Related to the timing of payments made to suppliers.
Net increases (decreases) under the revolving facilities	**(121,902)**	(59,848)	(62,054)	**(152,997)**	73,697	(226,694)	Repayments of the revolving facilities in both periods in fiscal 2017 as a result of generated free cash flow. Repayments of the revolving facilities during the second quarter of fiscal 2016 as a result of generated free cash flow. Increase under the revolving facilities for the first six months of fiscal 2016 mainly as a result of the repayment of the US$190 million Senior Secured Notes Series A maturing in October 2015.
Repayments of long-term debt and settlement of derivative financial instruments	**(205)**	(6,425)	6,220	**(17,843)**	(231,290)	213,447	Repayments of long-term debt during the second quarter of fiscal 2017. Repayments on the First Lien Credit Facilities for the first six months of fiscal 2017. Repayments on the First Lien Credit Facilities in the second quarter and first six months of fiscal 2016. For the first six months of fiscal 2016, repayments of the US$190 million Senior Secured Notes Series A maturing in October 2015 and settlement of the related derivative financial instruments.
	(138,572)	(80,930)	(57,642)	**(169,545)**	(134,264)	(35,281)	

DIVIDENDS

During the second quarter of fiscal 2017, a quarterly eligible dividend of $0.43 per share was paid to the holders of multiple and subordinate voting shares, for a total paid of $21.2 million compared to a quarterly eligible dividend paid of $0.39, or $19.1 million in the second quarter of fiscal 2016. Dividends payments in the first six months totaled $0.86 per share, or $42.3 million, compared to $0.78 per share, or $38.2 million, in the prior year.

5.4 DIVIDEND DECLARATION

At its April 6, 2017 meeting, the Board of Directors of Cogeco Communications declared a quarterly eligible dividend of $0.43 per share for multiple and subordinate voting shares, payable on May 4, 2017 to shareholders of record on April 20, 2017. The declaration, amount and date of any future dividend will continue to be considered and approved by the Board of Directors of the Corporation based upon the Corporation's financial condition, results of operations, capital requirements and such other factors as the Board of Directors, at its sole discretion, deems relevant. There is therefore no assurance that dividends will be declared, and if declared, the amount and frequency may vary.

6. FINANCIAL POSITION

6.1 WORKING CAPITAL

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

The variations are as follows:

(in thousands of dollars)	February 28, 2017 $	August 31, 2016 $	Change $	Explanations
Current assets				
Cash and cash equivalents	**45,835**	62,286	(16,451)	Timing of payments made to suppliers combined with repayments of long-term debt, partly offset by excess cash flow generated from operations.
Trade and other receivables	**118,314**	115,435	2,879	Non significant.
Income taxes receivable	**8,698**	12,701	(4,003)	Non significant.
Prepaid expenses and other	**23,251**	16,208	7,043	Increase in prepayment of annual maintenance agreements.
Derivative financial instrument	**263**	1,040	(777)	Non significant.
	196,361	207,670	(11,309)	
Current liabilities				
Bank indebtedness	**5,410**	4,115	1,295	Non significant.
Trade and other payables	**221,321**	289,668	(68,347)	Timing of payments made to suppliers.
Provisions	**33,109**	30,688	2,421	Non significant.
Income tax liabilities	**63,231**	26,680	36,551	Timing of payments of income taxes related to the deferral of income tax installments pursuant to a corporate structure reorganization of the Canadian broadband services segment subsidiaries.
Deferred and prepaid revenue	**61,202**	61,316	(114)	Non significant.
Balance due on a business combination	**955**	—	955	Non significant.
Intercompany note payable	**40,000**	40,000	—	No change.
Current portion of long-term debt	**21,551**	22,516	(965)	Non significant.
	446,779	474,983	(28,204)	
Working capital deficiency	**(250,418)**	(267,313)	16,895	

6.2 OTHER SIGNIFICANT CHANGES

(in thousands of dollars)	February 28, 2017 $	August 31, 2016 $	Change $	Explanations
Non-current assets				
Property, plant and equipment	1,952,414	1,989,720	(37,306)	Depreciation expense exceeding capital expenditures combined with the depreciation of the British Pound against the Canadian dollar, party offset by the appreciation of the US dollar against the Canadian dollar.
Intangible assets	2,053,010	2,059,548	(6,538)	Amortization expense exceeding acquisitions of intangible assets and the depreciation of the British Pound against the Canadian dollar, partly offset by the appreciation of the US dollar against the Canadian dollar.
Goodwill	1,070,507	1,060,780	9,727	Appreciation of the US dollar against the Canadian dollar, partly offset by the depreciation of the British Pound against the Canadian dollar.
Non-current liabilities				
Long-term debt	2,694,395	2,838,130	(143,735)	Repayments on the Term Revolving Facility and First Lien Credit Facilities, partly offset by the appreciation of the US dollar against the Canadian dollar.
Pension plan liabilities and accrued employee benefits	2,355	8,809	(6,454)	Actuarial gains recorded in the first six months.
Deferred tax liabilities	611,544	601,127	10,417	Appreciation of the US dollar against the Canadian dollar.

6.3 OUTSTANDING SHARE DATA

A description of Cogeco Communications’ share data at March 31, 2017 is presented in the table below. Additional details are provided in Note 11 of the consolidated financial statements.

(in thousands of dollars, except number of shares/options)	Number of shares/options	Amount $
Common shares		
Multiple voting shares	15,691,100	98,346
Subordinate voting shares	33,765,620	930,230
Options to purchase subordinate voting shares		
Outstanding options	703,417	
Exercisable options	245,843	

6.4 FINANCING

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

On December 9, 2016, the Corporation amended its Term Revolving Facility resulting in the extension of the maturity date by an additional year until January 24, 2022.

On February 28, 2017, the Corporation had used $7.3 million of its $800 million Term Revolving Facility for a remaining availability of $792.7 million. In addition, two subsidiaries related to Atlantic Broadband benefit from a Revolving Facility of $199.2 million (US$150 million), of which $75.0 million (US$56.5 million) was used at February 28, 2017 for a remaining availability of $124.2 million (US$93.5 million).

6.5 CREDIT RATINGS

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

6.6 FINANCIAL MANAGEMENT

Interest rate risk

The Corporation is exposed to interest rate risk on its floating interest rate instruments. Interest rate fluctuations will have an effect on the repayment of these instruments. At February 28, 2017, all of the Corporation's long-term debt was at fixed rate, except for the amounts drawn under the intercompany note payable and First Lien Credit Facilities.

To reduce such risk, the Corporation entered into interest rate swap agreements. The following table shows the interest rate swaps outstanding at February 28, 2017:

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

The sensitivity of the Corporation's annual financial expense to an increase of 1% in the interest rate applicable to the unhedged portion of these facilities would represent an increase of approximately $6.3 million based on the outstanding debt at February 28, 2017.

Foreign exchange risk

The Corporation is exposed to foreign exchange risk related to its long-term debt denominated in US dollars that is not designated as a hedge on its US dollar net investments. The Corporation has established guidelines whereby cross-currency swap agreements can be used to fix the exchange rate applicable to its US dollar denominated long-term debt. All such agreements are exclusively used for hedging purposes.

The Corporation is also exposed to foreign exchange risk with respect to the interest associated with its long-term debt denominated in US dollars. The impact of an increase of 10% in the exchange rate of the US dollar into Canadian dollars would increase financial expense by approximately $7.3 million based on the outstanding debt at February 28, 2017.

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

The following table shows the net investments in foreign operations outstanding at February 28, 2017:

Type of hedge	Notional amount of debt	Aggregate investments	Hedged item
Net investment	US$790 million	US$896.2 million	Net investments in foreign operations in US dollar
N/A	£—	£30 million	N/A

The exchange rates used to convert the US dollar currency and British Pound currency into Canadian dollar for the statement of financial position accounts at February 28, 2017 was $1.3281 ($1.3116 at August 31, 2016) per US dollar and $1.6480 ($1.7223 at August 31, 2016) per British Pound. A 10% decrease in the exchange rates of the US dollar and British Pound into Canadian dollars would decrease comprehensive income by approximately $19.1 million.

For the three and six-month periods ended February 28, 2017, the average rates prevailing used to convert the operating results of the American broadband services and a portion of the Business ICT services segments were as follows:

	Quarters ended			Six months ended		
	February 28, 2017	February 29, 2016	Change	**February 28, 2017**	February 29, 2016	Change
	$	$	%	**$**	$	%
US dollar vs Canadian dollar	**1.3210**	1.3908	(5.0)	**1.3238**	1.3557	(2.4)
British Pound vs Canadian dollar	**1.6439**	2.0236	(18.8)	**1.6597**	2.0213	(17.9)

The following tables highlights in Canadian dollars, the impact of a 10% increase in the US dollar and British Pound against the Canadian dollar on Cogeco Communications' segmented and consolidated operating results for the three and six-month periods ended February 28, 2017:

	Canadian broadband services		American broadband services		Business ICT services		Consolidated	
Quarter ended February 28, 2017	As reported	Exchange rate impact	As reported	Exchange rate impact	As reported	Exchange rate impact	As reported (1)	Exchange rate impact
(in thousands of dollars)	$	$	$	$	$	$	$	$
Revenue	325,790	—	159,894	15,989	76,112	3,803	560,875	19,792
Operating expenses	156,088	628	92,184	9,219	51,289	2,082	302,231	11,929
Management fees - Cogeco Inc.	—	—	—	—	—	—	4,805	—
Adjusted EBITDA	169,702	(628)	67,710	6,770	24,823	1,721	253,839	7,863
Acquisitions of property, plant and equipment, intangible and other assets	46,482	865	31,314	3,127	8,403	475	86,199	4,467
Free cash flow	—	—	—	—	—	—	116,787	1,629

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

	Canadian broadband services		American broadband services		Business ICT services		Consolidated	
Six months ended February 28, 2017	As reported	Exchange rate impact	As reported	Exchange rate impact	As reported	Exchange rate impact	As reported (1)	Exchange rate impact
(in thousands of dollars)	$	$	$	$	$	$	$	$
Revenue	642,625	—	319,875	31,987	149,320	7,595	1,109,965	39,582
Operating expenses	307,871	1,516	182,340	18,235	101,528	4,619	596,930	24,370
Management fees - Cogeco Inc.	—	—	—	—	—	—	9,493	—
Adjusted EBITDA	334,754	(1,516)	137,535	13,752	47,792	2,976	503,542	15,212
Acquisitions of property, plant and equipment, intangible and other assets	97,283	2,940	67,110	6,702	18,300	1,092	182,693	10,734
Free cash flow	—	—	—	—	—	—	218,166	921

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

7. SEGMENTED OPERATING RESULTS

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

7.1 CANADIAN BROADBAND SERVICES

CUSTOMER STATISTICS

		Net additions (losses)				% of penetration[2]	
		Quarters ended		Six months ended			
	February 28, 2017	February 28, 2017	February 29, 2016	February 28, 2017 [1]	February 29, 2016	February 28, 2017	February 29, 2016
PSU	1,934,496	3,587	(1,184)	18,232	5,801		
Video service customers	737,975	(2,880)	(5,843)	(2,787)	(9,992)	42.9	44.6
Internet service customers	759,152	9,877	7,802	24,643	19,824	44.2	42.7
Telephony service customers	437,369	(3,410)	(3,143)	(3,624)	(4,031)	25.5	26.7

(1) Excludes 2,247 PSU (1,439 video services and 808 Internet services) from a business combination completed in the first quarter of fiscal 2017.
(2) As a percentage of homes passed.

VIDEO

For the three and six-month periods ended February 28, 2017, video service customers net losses stood at 2,880 and 2,787, respectively, compared to 5,843 and 9,992 for the same periods of the prior year. The lower decrease is mainly due to the customers' ongoing interest in video product offering, including TiVo's digital advanced video services, as well as bundles with fast Internet offerings, in spite of competitive offers in the industry, service category maturity and the changing video consumption environment.

INTERNET

For the three and six-month periods ended February 28, 2017, Internet service customers net additions stood at 9,877 and 24,643, respectively, compared to 7,802 and 19,824 for the same periods of the prior year as a result of customers' ongoing interest in high speed offerings and in TiVo's digital advanced video services which requires an Internet subscription, growth in the business sector and the positive impact of the bundle offers.

TELEPHONY

For the three and six-month periods ended February 28, 2017, telephony service customers net losses amounted to 3,410 and 3,624, respectively, compared to 3,143 and 4,031 for the same periods of the prior year. The telephony service customer losses are mainly due to the increasing mobile penetration in North America and various unlimited offers launched by mobile operators causing customers to cancel their landline telephony services for mobile telephony services only.

DISTRIBUTION OF CUSTOMERS

At February 28, 2017, 72% (71% in 2016) of the Canadian broadband services customers subscribed to two or more services. The distribution of customers by number of services for the Canadian broadband services were: 28% who subscribe to the single play (29% in 2016), 39% to the double-play (37% in 2016) and 33% to the triple-play (34% in 2016).

OPERATING RESULTS

	Quarters ended			Six months ended		
	February 28, 2017	February 29, 2016	Change	February 28, 2017	February 29, 2016	Change
(in thousands of dollars, except percentages)	$	$	%	$	$	%
Revenue	325,790	316,112	3.1	642,625	629,659	2.1
Operating expenses	156,088	153,010	2.0	307,871	304,133	1.2
Adjusted EBITDA	169,702	163,102	4.0	334,754	325,526	2.8
Operating margin	52.1%	51.6%		52.1%	51.7%	

REVENUE

For the three and six-month periods ended February 28, 2017, revenue increased by $9.7 million and $13.0 million, or 3.1% and 2.1%, to reach $325.8 million and $642.6 million, respectively, compared to the same periods of the prior year. The increase for both periods is mainly due to the impact of the timing of rate increases implemented in December 2016 compared to rate increases implemented in February 2016 in the comparable period of the prior year. Revenue also benefited from the continued growth in the Internet customer base combined with the movement of customers to higher value packages, partly offset by a decline in video and telephony customers as well as the impact of the interim decision of the CRTC, on October 6, 2016, to reduce significantly the third party Internet access ("TPIA") capacity rates.

OPERATING EXPENSES

For the three and six-month periods ended February 28, 2017, operating expense increased by $3.1 million and $3.7 million, or 2.0% and 1.2%, to reach $156.1 million and $307.9 million, respectively, compared to the same periods of the prior year. The increase for both periods resulted mainly from programming rate increases, higher PSU and additional costs related to the implementation of a new Customer Relations Management system, partly offset by a shift in product mix to higher margin Internet services from traditional video services.

ADJUSTED EBITDA AND OPERATING MARGIN

For the three and six-month periods ended February 28, 2017, adjusted EBITDA increased by $6.6 million, or 4.0%, and by $9.2 million, or 2.8% to reach $169.7 million and $334.8 million, respectively, compared to the same periods of the prior year mainly as a result of revenue growth exceeding operating expenses growth for both periods. Consequently, operating margins increased from 51.6% to 52.1% and from 51.7% to 52.1%, respectively, compared to the same periods of fiscal 2016.

7.2 AMERICAN BROADBAND SERVICES

CUSTOMER STATISTICS

		Net additions (losses)				% of penetration[1]	
		Quarters ended		Six months ended			
	February 28, 2017	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
PSU	602,380	5,687	5,342	8,647	11,634		
Video service customers	239,022	(1,805)	(1,918)	(4,610)	(3,332)	40.4	41.7
Internet service customers	264,367	6,032	6,220	10,703	12,862	44.7	41.1
Telephony service customers	98,991	1,460	1,040	2,554	2,104	16.7	15.9

(1) As a percentage of homes passed.

VIDEO

For the three and six-month periods ended February 28, 2017, video service customers net losses stood at 1,805 and 4,610, respectively, compared to 1,918 and 3,332 for the same periods of the prior year. The net losses for the first six months resulted mainly from higher churn following the implementation of rate increases in September 2016 combined with the changing video consumption environment for both periods. In addition, the net losses for both periods was partly offset by the customers' ongoing interest in TiVo's digital advanced video services.

INTERNET

For the three and six-month periods ended February 28, 2017, Internet service customers net additions stood at 6,032 and 10,703, respectively, compared to 6,220 and 12,862 for the same periods of the prior year. The net additions stemmed from the customers' ongoing interest in high speed offerings and the continued growth of TiVo's digital video services which requires an Internet subscription, growth in the business sector and the positive impact of the bundle offers.

TELEPHONY

For the three and six-month periods ended February 28, 2017, telephony service customers net additions stood at 1,460 and 2,554, respectively, compared to 1,040 and 2,104 for the same periods of the prior year mainly as a result of the continued growth in the residential and business sectors.

DISTRIBUTION OF CUSTOMERS

At February 28, 2017, 55% (57% in 2016) of the American broadband services customers subscribed to two or more services. The distribution of customers by number of services for the American broadband services were: 45% (43% in 2016) who subscribe to the single play, 35% (36% in 2016) to the double-play and 20% (21% in 2016) to the triple-play.

OPERATING RESULTS

(in thousands of dollars, except percentages)	February 28, 2017 $	February 29, 2016 $	Change %	February 28, 2017 $	February 29, 2016 $	Change %
Revenue	159,894	158,831	0.7	319,875	308,404	3.7
Operating expenses	92,184	90,860	1.5	182,340	175,062	4.2
Adjusted EBITDA	67,710	67,971	(0.4)	137,535	133,342	3.1
Operating margin	42.3%	42.8%		43.0%	43.2%	

REVENUE

For the three and six-month periods ended February 28, 2017, revenue increased by $1.1 million, or 0.7%, to reach $159.9 million and by $11.5 million, or 3.7%, to reach $319.9 million, respectively, compared to the same periods of the prior year. Revenue increased for both periods primarily as a result of the PSU progression, growth in the commercial sector combined with rate increases implemented in September 2016. In addition, revenue progression has been negatively impacted by the depreciation of the US dollar against the Canadian dollar compared to the same periods of the prior year and higher churn following the implementation of the rate increases.

For the three and six-month periods ended February 28, 2017, revenue in local currency amounted to US$121.0 million and US$241.6 million, respectively, compared to US$114.2 million and US$227.5 million for the same periods of fiscal 2016, representing increases of US$6.8 million and US$14.2 million, or 6.0% and 6.2%.

OPERATING EXPENSES

For the three and six-month periods ended February 28, 2017, operating expenses increased by $1.3 million, or 1.5%, to reach $92.2 million, and by $7.3 million, or 4.2%, to reach $182.3 million, respectively, compared to the same periods of the prior year. The increase for both periods is mainly due to programming rate increases, costs to serve additional PSU, additional marketing initiatives to improve PSU growth combined with costs to support the business sector development, partly offset by the depreciation of the US dollar against the Canadian dollar.

For the three and six-month periods ended February 28, 2017, operating expenses in local currency amounted to US$69.8 million and US$137.7 million, respectively, compared to US$65.3 million and US$129.1 million for the same periods of fiscal 2016, representing increases of US$4.5 million and US$8.7 million, or 6.8% and 6.7%.

ADJUSTED EBITDA AND OPERATING MARGIN

Fiscal 2017 second-quarter adjusted EBITDA remained essentially the same at $67.7 million compared to $68.0 million for the same period of the prior year due to the depreciation of the US dollar against the Canadian dollar. For the first six months of fiscal 2017, adjusted EBITDA increased by $4.2 million, or 3.1% to reach $137.5 million compared to the same period of last year. As a result of operating expenses growth exceeding revenue growth for the three and six-month periods ended February 28, 2017, operating margins decreased slightly to 42.3% from 42.8% and to 43.0% from 43.2%, respectively, compared to the same periods of fiscal 2016.

For the three and six-month periods ended February 28, 2017, adjusted EBITDA in local currency amounted to US$51.3 million and US$103.9 million, respectively, compared to US$48.9 million and US$98.4 million for the same periods of the prior year, representing increases of US$2.4 million and US$5.5 million, or 4.8% and 5.6%.

7.3 BUSINESS ICT SERVICES

OPERATING RESULTS

	Quarters ended			Six months ended		
(in thousands of dollars, except percentages)	February 28, 2017 $	February 29, 2016 $	Change %	February 28, 2017 $	February 29, 2016 $	Change %
Revenue	76,112	77,538	(1.8)	149,320	155,640	(4.1)
Operating expenses	51,289	50,244	2.1	101,528	102,102	(0.6)
Adjusted EBITDA	24,823	27,294	(9.1)	47,792	53,538	(10.7)
Operating margin	32.6%	35.2%		32.0%	34.4%	

REVENUE

For the three and six-month periods ended February 28, 2017, revenue decreased by $1.4 million, or 1.8%, and by $6.3 million, or 4.1%, to reach $76.1 million and $149.3 million, respectively, compared to the same periods of fiscal 2016.

The decrease for the quarter is primarily due to the depreciation of the US dollar and British Pound currency against the Canadian dollar compared to the same period of the prior year, partly offset by the recognition of a $2 million in non-recurring revenue related to an Indefeasible rights of use ("IRU") agreement concluded in the second quarter of fiscal 2017.

The decrease for the first six months is primarily due to competitive pricing pressures on the hosting and network connectivity services and the depreciation of the US dollar and British Pound currency against the Canadian dollar compared to the same period of the prior year, partly offset by the recognition of a $2 million in non-recurring revenue related to an IRU agreement.

OPERATING EXPENSES

For the three and six-month periods ended February 28, 2017, operating expenses increased by $1.0 million, or 2.1%, and decreased by $0.6 million, or 0.6%, to reach $51.3 million and $101.5 million, respectively, compared to the same periods of the prior year.

The increase for the quarter resulted mainly from higher facilities costs mostly related to the Kirkland data centre, additional software licenses and IT expenses as well as marketing initiatives and non-recurring items such as severance costs and costs related to an IRU agreement. The increase for the quarter was partly offset by the depreciation of the US dollar and British Pound currency against the Canadian dollar compared to the same period of the prior year and to lower fees paid to third parties as a result of a decline in revenue.

The decrease for the first six months is mainly due to a $1.8 million gain on disposal of property, plant and equipment in the first quarter of fiscal 2017 combined with the depreciation of the US dollar and British Pound currency against the Canadian dollar compared to the same period of the prior year and lower fees paid to third parties as a result of a decline in revenue, partly offset by additional facilities costs and software licenses and IT expenses.

ADJUSTED EBITDA AND OPERATING MARGIN

For the three and six-month periods ended February 28, 2017, adjusted EBITDA decreased by $2.5 million, or 9.1%, and by $5.7 million, or 10.7%, to reach $24.8 million and $47.8 million, respectively, compared to the same periods of the prior year mainly as a result of revenue decline. Consequently, operating margins decreased to 32.6% from 35.2% and to 32.0% from 34.4%, respectively, compared to the same periods of fiscal 2016.

8. CONTROLS AND PROCEDURES

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

The CEO and CFO, supported by Management, evaluated the design of the Corporation's DC&P and ICFR at February 28, 2017, and concluded that they are adequate. Furthermore, no significant changes to the internal controls over financial reporting occurred during the three and six-month periods ended February 28, 2017.

9. UNCERTAINTIES AND MAIN RISK FACTORS

A detailed description of the uncertainties and main risk factors faced by Cogeco Communications can be found in the 2016 Annual Report, available at www.sedar.com and corpo.cogeco.com. The following update should be read together with the uncertainties and main risk factors described in the 2016 Annual Report, which are hereby incorporated by reference.

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

On December 21, 2016, the CRTC issued its decision and determined that broadband internet access is now considered a basic telecommunications service for all Canadians. It is creating a new fund to support projects aiming to build or upgrade infrastructure for fixed and mobile broadband internet access services in order to meet specific targets. The fund will make available up to $750 million over the first five years. While the Commission does not intend to remove the existing subsidy regime for local telephone service unless reliable broadband Internet access service is available, the current contribution-subsidy regime for local telephone service will largely be transitioned to the new funding mechanism. Furthermore, the current funding will be expanded to include both retail Internet access and texting services revenues. This change to the calculation of the revenue-percent charge will take effect in the first year of implementation of the new fund and it is expected, according to the Commission, that the revenue-percent charge will be approximately the same as the current revenue-percent charge of 0.63%. A follow-up proceeding will be initiated in 2017 to examine all matters related to the new funding mechanism and how the existing local subsidy regime should be phased out.

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

10. ACCOUNTING POLICIES

10.1 NEW ACOUNTING STANDARDS

A number of new standards, interpretations and amendments to existing standards were issued by the *International Accounting Standards Board* ("IASB") that are mandatory but not yet effective for the three and six-month periods ended February 28, 2017 and have not been applied in preparing the condensed interim consolidated financial statements. These standards are described under the "Future accounting developments in Canada" section in the Corporation's 2016 Annual Report available on the SEDAR website at www.sedar.com or on the Corporation's website at corpo.cogeco.com.

10.2 CHANGES IN CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

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

	As previously reported	Effect of change in accounting policy	As currently reported
	$	$	$
Balance at August 31, 2015			
Deferred tax assets	12,086	(4,093)	7,993
Deferred tax liabilities	514,194	112,134	626,328
Retained earnings	660,999	(116,227)	544,772
Balance at August 31, 2016			
Deferred tax assets	11,680	(4,093)	7,587
Deferred tax liabilities	488,993	112,134	601,127
Retained earnings	389,720	(116,227)	273,493

11. NON-IFRS FINANCIAL MEASURES

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

Non-IFRS measure	Application	Calculation	Most comparable IFRS measures
Free cash flow	Management and investors use free cash flow to measure Cogeco Communications' ability to repay debt, distribute capital to its shareholders and finance its growth.	Free cash flow: - Cash flow from operating activities add: - Amortization of deferred transaction costs and discounts on long-term debt; - Changes in non-cash operating activities; - Income taxes paid; and - Financial expense paid deduct: - Current income taxes; - Financial expense; - Acquisition of property, plant and equipment; and - Acquisition of intangible and other assets.	Cash flow from operating activities
Adjusted EBITDA and Operating margin	Adjusted EBITDA and operating margin are key measures commonly reported and used in the telecommunications industry, as they allow comparisons between companies that have different capital structures and are more current measures since they exclude the impact of historical investments in assets. Adjusted EBITDA is one of the key metrics employed by the financial community to value a business and its financial strength. Adjusted EBITDA for Cogeco Communications' business units is equal to the segment profit (loss) reported in note 3 of the Condensed Interim Consolidated Financial Statements.	Adjusted EBITDA: - Profit for the period add: - Income taxes; - Financial expense; - Depreciation and amortization; and - Integration, restructuring and acquisition costs.	Profit for the period
		Operating margin: - Adjusted EBITDA divided by: - Revenue	No comparable IFRS measure
Capital intensity	Capital intensity is used by Cogeco Communications’ management and investors to assess the Corporation’s investment in capital expenditures in order to support a certain level of revenue.	Capital intensity: - Acquisition of property, plant and equipment; and - Acquisition of intangible and other assets divided by: - Revenue	No comparable IFRS measure

11.1 FREE CASH FLOW RECONCILIATION

	Quarters ended		Six months ended	
	February 28, 2017	February 29, 2016	**February 28, 2017**	February 29, 2016
(in thousands of dollars)	**$**	$	**$**	$
Cash flow from operating activities	**245,550**	205,954	**369,011**	302,047
Amortization of deferred transaction costs and discounts on long-term debt	**2,207**	2,349	**4,398**	4,648
Changes in non-cash operating activities	**(8,321)**	99	**72,071**	57,673
Income taxes paid	**1,428**	22,912	**5,089**	64,725
Current income taxes	**(24,290)**	(21,990)	**(45,715)**	(46,107)
Financial expense paid	**18,887**	17,945	**60,570**	63,997
Financial expense	**(32,475)**	(35,839)	**(64,565)**	(69,192)
Acquisition of property, plant and equipment	**(82,143)**	(110,581)	**(173,105)**	(252,003)
Acquisition of intangible and other assets	**(4,056)**	(6,151)	**(9,588)**	(11,048)
Free cash flow	**116,787**	74,698	**218,166**	114,740

11.2 ADJUSTED EBITDA AND OPERATING MARGIN RECONCILIATION

	Quarters ended		Six months ended	
	February 28, 2017	February 29, 2016	**February 28, 2017**	February 29, 2016
(in thousands of dollars, except percentages)	**$**	$	**$**	$
Profit for the period	**76,663**	62,042	**151,687**	123,148
Income taxes	**25,448**	17,114	**48,961**	39,098
Financial expense	**32,475**	35,839	**64,565**	69,192
Depreciation and amortization	**119,253**	129,067	**238,329**	254,736
Integration, restructuring and acquisition costs	**—**	4,320	**—**	6,350
Adjusted EBITDA	**253,839**	248,382	**503,542**	492,524
Revenue	**560,875**	551,523	**1,109,965**	1,091,836
Operating margin	**45.3%**	45.0%	**45.4%**	45.1%

11.3 CAPITAL INTENSITY RECONCILIATION

	Quarters ended		Six months ended	
	February 28, 2017	February 29, 2016	**February 28, 2017**	February 29, 2016
(in thousands of dollars, except percentages)	**$**	$	**$**	$
Acquisition of property, plant and equipment	**82,143**	110,581	**173,105**	252,003
Acquisition of intangible and other assets	**4,056**	6,151	**9,588**	11,048
Total acquisitions of property, plant and equipment, intangible and other assets	**86,199**	116,732	**182,693**	263,051
Revenue	**560,875**	551,523	**1,109,965**	1,091,836
Capital intensity	**15.4%**	21.2%	**16.5%**	24.1%

12. SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION

Quarters ended	February 28,	February 29,	November 30,		August 31,		May 31,	
(in thousands of dollars, except percentages and per share data)	**2017**	2016	**2016**	2015	2016	2015	2016	2015
	$	$	**$**	$	$	$	$	$
Revenue	**560,875**	551,523	**549,090**	540,313	544,056	520,419	540,257	516,426
Adjusted EBITDA	**253,839**	248,382	**249,703**	244,142	247,810	240,592	243,115	239,763
Operating margin	**45.3%**	45.0%	**45.5%**	45.2%	45.5%	46.2%	45.0%	46.4%
Integration, restructuring and acquisition costs	**—**	4,320	**—**	2,030	1,326	6,942	1,126	5,669
Claims and litigations	**—**	—	**—**	—	292	(27,431)	10,499	—
Impairment of goodwill and intangible assets	**—**	—	**—**	—	—	—	450,000	—
Profit (loss) for the period	**76,663**	62,042	**75,024**	61,106	74,581	77,986	(387,357)	64,149
Cash flow from operating activities	**245,550**	205,954	**123,461**	96,093	261,623	271,328	181,498	197,279
Acquisitions of property, plant and equipment, intangible and other assets	**86,199**	116,732	**96,494**	146,319	110,017	129,946	94,442	103,718
Free cash flow	**116,787**	74,698	**101,379**	40,042	81,594	72,047	84,664	75,845
Capital intensity	**15.4%**	21.2%	**17.6%**	27.1%	20.2%	25.0%	17.5%	20.1%
Earnings (loss) per share[(1)]								
Basic	**1.56**	1.27	**1.53**	1.25	1.52	1.59	(7.89)	1.31
Diluted	**1.55**	1.26	**1.52**	1.24	1.52	1.58	(7.89)	1.30
Dividends per share	**0.43**	0.39	**0.43**	0.39	0.39	0.35	0.39	0.35

(1) Per multiple and subordinate voting share.

12.1 SEASONAL VARIATIONS

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

13. ADDITIONAL INFORMATION

This MD&A was prepared on April 6, 2017. Additional information relating to the Corporation, including its Annual Report and Annual Information Form, is available on the SEDAR website at www.sedar.com or on the Corporation's website at corpo.cogeco.com.

/s/ Jan Peeters
Jan Peeters
Chairman of the Board

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

Cogeco Communications Inc.
Montréal, Québec
April 6, 2017

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and six-month periods ended February 28, 2017

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

		Three months ended		Six months ended	
	Notes	**February 28, 2017**	February 29, 2016	**February 28, 2017**	February 29, 2016
(In thousands of Canadian dollars, except per share data)		**$**	$	**$**	$
Revenue	*3*	**560,875**	551,523	**1,109,965**	1,091,836
Operating expenses	*5*	**302,231**	298,428	**596,930**	590,011
Management fees – Cogeco Inc.	*16*	**4,805**	4,713	**9,493**	9,301
Integration, restructuring and acquisition costs		**—**	4,320	**—**	6,350
Depreciation and amortization	*6*	**119,253**	129,067	**238,329**	254,736
Financial expense	*7*	**32,475**	35,839	**64,565**	69,192
Income taxes	*8*	**25,448**	17,114	**48,961**	39,098
Profit for the period		**76,663**	62,042	**151,687**	123,148
Earnings per share					
Basic	*9*	**1.56**	1.27	**3.09**	2.52
Diluted	*9*	**1.55**	1.26	**3.06**	2.49

COGECO COMMUNICATIONS INC.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Three months ended		Six months ended	
	February 28, 2017	February 29, 2016	**February 28, 2017**	February 29, 2016
(In thousands of Canadian dollars)	**$**	$	**$**	$
Profit for the period	**76,663**	62,042	**151,687**	123,148
Other comprehensive income				
Items to be subsequently reclassified to profit or loss				
Cash flow hedging adjustments				
Net change in fair value of hedging derivative financial instruments	**578**	(2,432)	**1,605**	(50,601)
Net change in fair value of hedging derivative financial instruments reclassified to financial expense	**—**	—	**—**	48,108
Related income taxes	**(135)**	533	**(407)**	600
	443	(1,899)	**1,198**	(1,893)
Foreign currency translation adjustments				
Net foreign currency translation differences on net investments in foreign operations	**(8,864)**	10,646	**7,186**	23,425
Net changes on translation of long-term debt designated as hedges of net investments in foreign operations	**7,458**	(6,731)	**(6,275)**	(14,856)
Related income taxes	**(65)**	—	**(251)**	—
	(1,471)	3,915	**660**	8,569
	(1,028)	2,016	**1,858**	6,676
Items not to be subsequently reclassified to profit or loss				
Defined benefit plans actuarial adjustments				
Remeasurement of net defined benefit liability	**3,929**	(2,681)	**8,027**	(2,130)
Related income taxes	**(1,041)**	721	**(2,127)**	573
	2,888	(1,960)	**5,900**	(1,557)
Other comprehensive income for the period	**1,860**	56	**7,758**	5,119
Comprehensive income for the period	**78,523**	62,098	**159,445**	128,267

COGECO COMMUNICATIONS INC.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited)

(In thousands of Canadian dollars)	Share capital	Share-based payment reserve	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity
	$	$	$	$	$
	(Note 11)		*(Note 12)*	*(restated, Note 2)*	
Balance at August 31, 2015	1,001,618	12,535	83,820	544,772	1,642,745
Profit for the period	—	—	—	123,148	123,148
Other comprehensive income (loss) for the period	—	—	6,676	(1,557)	5,119
Comprehensive income for the period	—	—	6,676	121,591	128,267
Issuance of subordinate voting shares under the Stock Option Plan	4,601	—	—	—	4,601
Share-based payment	—	3,599	—	—	3,599
Share-based payment previously recorded in share-based payment reserve for options exercised	1,129	(1,129)	—	—	—
Dividends on multiple voting shares (Note 11 C))	—	—	—	(12,239)	(12,239)
Dividends on subordinate voting shares (Note 11 C))	—	—	—	(25,956)	(25,956)
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	(4,575)	—	—	—	(4,575)
Distribution to employees of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	4,363	(3,615)	—	(748)	—
Total contributions by (distributions to) shareholders	5,518	(1,145)	—	(38,943)	(34,570)
Balance at February 29, 2016	1,007,136	11,390	90,496	627,420	1,736,442
Balance at August 31, 2016	**1,008,467**	**13,328**	**84,627**	**273,493**	**1,379,915**
Profit for the period	**—**	**—**	**—**	**151,687**	**151,687**
Other comprehensive income for the period	**—**	**—**	**1,858**	**5,900**	**7,758**
Comprehensive income for the period	**—**	**—**	**1,858**	**157,587**	**159,445**
Issuance of subordinate voting shares under the Stock Option Plan	**4,632**	**—**	**—**	**—**	**4,632**
Share-based payment	**—**	**2,224**	**—**	**—**	**2,224**
Share-based payment previously recorded in share-based payment reserve for options exercised	**964**	**(964)**	**—**	**—**	**—**
Dividends on multiple voting shares (Note 11 C))	**—**	**—**	**—**	**(13,494)**	**(13,494)**
Dividends on subordinate voting shares (Note 11 C))	**—**	**—**	**—**	**(28,819)**	**(28,819)**
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	**(3,436)**	**—**	**—**	**—**	**(3,436)**
Distribution to employees of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	**3,867**	**(3,655)**	**—**	**(212)**	**—**
Total contributions by (distributions to) shareholders	**6,027**	**(2,395)**	**—**	**(42,525)**	**(38,893)**
Balance at February 28, 2017	**1,014,494**	**10,933**	**86,485**	**388,555**	**1,500,467**

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

(In thousands of Canadian dollars)	*Notes*	**February 28, 2017** $	August 31, 2016 $
			(restated, Note 2)
Assets			
Current			
Cash and cash equivalents	*13 B)*	**45,835**	62,286
Trade and other receivables		**118,314**	115,435
Income taxes receivable		**8,698**	12,701
Prepaid expenses and other		**23,251**	16,208
Derivative financial instrument		**263**	1,040
		196,361	207,670
Non-current			
Other assets		**6,343**	7,944
Property, plant and equipment		**1,952,414**	1,989,720
Intangible assets		**2,053,010**	2,059,548
Goodwill		**1,070,507**	1,060,780
Derivative financial instrument		**1,177**	—
Deferred tax assets		**7,955**	7,587
		5,287,767	5,333,249
Liabilities and Shareholders' equity			
Liabilities			
Current			
Bank indebtedness		**5,410**	4,115
Trade and other payables		**221,321**	289,668
Provisions		**33,109**	30,688
Income tax liabilities		**63,231**	26,680
Deferred and prepaid revenue		**61,202**	61,316
Balance due on a business combination	*4*	**955**	—
Intercompany note payable - Cogeco Inc.	*16*	**40,000**	40,000
Current portion of long-term debt	*10*	**21,551**	22,516
		446,779	474,983
Non-current			
Long-term debt	*10*	**2,694,395**	2,838,130
Derivative financial instruments		**—**	165
Deferred and prepaid revenue and other liabilities		**32,227**	30,120
Pension plan liabilities and accrued employee benefits		**2,355**	8,809
Deferred tax liabilities		**611,544**	601,127
		3,787,300	3,953,334
Shareholders' equity			
Share capital	*11 B)*	**1,014,494**	1,008,467
Share-based payment reserve		**10,933**	13,328
Accumulated other comprehensive income	*12*	**86,485**	84,627
Retained earnings		**388,555**	273,493
		1,500,467	1,379,915
		5,287,767	5,333,249

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

		Three months ended		Six months ended	
	Notes	**February 28, 2017**	February 29, 2016	**February 28, 2017**	February 29, 2016
(In thousands of Canadian dollars)		**$**	$	**$**	$
Cash flow from operating activities					
Profit for the period		**76,663**	62,042	**151,687**	123,148
Adjustments for:					
Depreciation and amortization	*6*	**119,253**	129,067	**238,329**	254,736
Financial expense	*7*	**32,475**	35,839	**64,565**	69,192
Income taxes	*8*	**25,448**	17,114	**48,961**	39,098
Share-based payment	*11 D)*	**1,715**	1,700	**2,736**	3,603
Loss (gain) on disposals of property, plant and equipment		**1,370**	661	**(490)**	958
Defined benefit plans contributions, net of expense		**620**	487	**953**	(2,293)
		257,544	246,910	**506,741**	488,442
Changes in non-cash operating activities	*13 A)*	**8,321**	(99)	**(72,071)**	(57,673)
Financial expense paid		**(18,887)**	(17,945)	**(60,570)**	(63,997)
Income taxes paid		**(1,428)**	(22,912)	**(5,089)**	(64,725)
		245,550	205,954	**369,011**	302,047
Cash flow from investing activities					
Acquisition of property, plant and equipment		**(82,143)**	(110,581)	**(173,105)**	(252,003)
Acquisition of intangible and other assets		**(4,056)**	(6,151)	**(9,588)**	(11,048)
Business combination, net of cash and cash equivalents acquired		**—**	—	**(804)**	—
Proceeds on disposals of property, plant and equipment		**375**	—	**8,467**	299
Other		**—**	934	**—**	934
		(85,824)	(115,798)	**(175,030)**	(261,818)
Cash flow from financing activities					
Increase (decrease) in bank indebtedness		**(16,465)**	(14,657)	**1,295**	23,329
Net increases (decreases) under the revolving facilities		**(121,902)**	(59,848)	**(152,997)**	73,697
Repayments of long-term debt and settlement of derivative financial instruments		**(205)**	(6,425)	**(17,843)**	(231,290)
Increase in deferred transaction costs		**(440)**	(440)	**(440)**	(440)
Issuance of subordinate voting shares	*11 B)*	**2,820**	3,837	**4,632**	4,601
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	*11 B)*	**—**	—	**(3,436)**	(4,575)
Dividends paid on multiple voting shares	*11 C)*	**(6,747)**	(6,119)	**(13,494)**	(12,239)
Dividends paid on subordinate voting shares	*11 C)*	**(14,409)**	(12,987)	**(28,819)**	(25,956)
		(157,348)	(96,639)	**(211,102)**	(172,873)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		**(84)**	(473)	**670**	196
Net change in cash and cash equivalents		**2,294**	(6,956)	**(16,451)**	(132,448)
Cash and cash equivalents, beginning of the period		**43,541**	37,674	**62,286**	163,166
Cash and cash equivalents, end of the period		**45,835**	30,718	**45,835**	30,718

NATURE OF OPERATIONS

Cogeco Communications Inc. ("Cogeco Communications" or the "Corporation") is a Canadian public communications corporation whose subordinate voting shares are listed on the Toronto Stock Exchange ("TSX") under the trading symbol "CCA". Operating in Canada under Cogeco Connexion Inc. ("Cogeco Connexion") in Québec and Ontario, and in the United States under Atlantic Broadband LLC ("Atlantic Broadband") in western Pennsylvania, southern Florida, Maryland/Delaware, South Carolina and eastern Connecticut. Cogeco Communications provides residential and business customers with video, Internet and telephony services through its two-way broadband fibre networks. Through its subsidiary Cogeco Peer 1 Inc. ("Cogeco Peer 1"), the Corporation provides its business customers with a suite of information technology services (colocation, network connectivity, hosting, cloud services and managed services), through its 16 data centres, extensive FastFiber Network™ and more than 50 points of presence in North America and Europe.

The Corporation is a subsidiary of Cogeco Inc. ("Cogeco"), which holds 31.7% of the Corporation's equity shares, representing 82.3% of the votes attached to the Corporation's voting shares.

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 2016 annual consolidated financial statements.

These condensed interim consolidated financial statements have been prepared with the accounting policies the Corporation adopted in its 2016 annual consolidated financial statements, except as mentioned in Note 2. The accounting policies have been applied consistently to all periods presented in the condensed interim consolidated financial statements unless otherwise indicated.

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

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

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

The condensed interim consolidated financial statements were approved by the Board of Directors of the Corporation at its meeting held on April 6, 2017.

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

2. CHANGE IN ACCOUNTING POLICY

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

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

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

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

	As previously reported	Effect of change in accounting policy	As currently reported
	$	$	$
Balance at August 31, 2015			
Deferred tax assets	12,086	(4,093)	7,993
Deferred tax liabilities	514,194	112,134	626,328
Retained earnings	660,999	(116,227)	544,772
Balance at August 31, 2016			
Deferred tax assets	11,680	(4,093)	7,587
Deferred tax liabilities	488,993	112,134	601,127
Retained earnings	389,720	(116,227)	273,493

3. OPERATING SEGMENTS

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

The Canadian and American broadband services segments provide a wide range of video, Internet and telephony services primarily to residential customers and also provide business services to small and medium sized businesses across their coverage areas. The Canadian broadband services activities are carried out by Cogeco Connexion in the Provinces of Québec and Ontario and the American broadband services activities are carried out by Atlantic Broadband in western Pennsylvania, southern Florida, Maryland/Delaware, South Carolina and eastern Connecticut.

The Business ICT services segment provides colocation, network connectivity, hosting, cloud and a rich portfolio of managed services primarily in Canada, the United States and Europe to small, medium and large enterprises around the globe. Cogeco Peer 1 provides these services in the following key vertical markets: online retail, financial services, technology, public sector, education, health care, business services, manufacturing, media and online gaming. Cogeco Peer 1 provides its services through 16 data centres and more than 50 points of presence in North America and Europe. The activities of the Business ICT services segment are carried out across Canada (British Columbia, Ontario, Québec), the United States (California, Texas, Virginia, Florida and Georgia) and Europe (London and Southampton, United Kingdom ("UK") and France).

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

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

					Three months ended February 28, 2017
	Canadian broadband services	American broadband services	Business ICT services	Inter-segment eliminations and other	Consolidated
	$	$	$	$	$
Revenue (1)	325,790	159,894	76,112	(921)	560,875
Operating expenses	156,088	92,184	51,289	2,670	302,231
Management fees – Cogeco Inc.	—	—	—	4,805	4,805
Segment profit (loss)	169,702	67,710	24,823	(8,396)	253,839
Depreciation and amortization	58,695	34,417	26,066	75	119,253
Financial expense					32,475
Income taxes					25,448
Profit for the period					76,663
Acquisition of property, plant and equipment	44,081	30,147	7,915	—	82,143
Acquisition of intangible and other assets	2,401	1,167	488	—	4,056

(1) Revenue by geographic market includes $371,077 in Canada, $181,817 in the United States and $7,981 in Europe.

					Three months ended February 29, 2016
	Canadian broadband services	American broadband services	Business ICT services	Inter-segment eliminations and other	Consolidated
	$	$	$	$	$
Revenue (1)	316,112	158,831	77,538	(958)	551,523
Operating expenses	153,010	90,860	50,244	4,314	298,428
Management fees – Cogeco Inc.	—	—	—	4,713	4,713
Segment profit (loss)	163,102	67,971	27,294	(9,985)	248,382
Integration, restructuring and acquisition costs (2)	2,752	141	1,427	—	4,320
Depreciation and amortization	61,373	33,978	33,641	75	129,067
Financial expense					35,839
Income taxes					17,114
Profit for the period					62,042
Acquisition of property, plant and equipment	54,346	25,609	30,618	8	110,581
Acquisition of intangible and other assets	2,560	1,152	2,439	—	6,151

(1) Revenue by geographic market includes $355,946 in Canada, $185,328 in the United States and $10,249 in Europe.

(2) Comprised of acquisition and integration costs in the American broadband services segment and restructuring costs in the Canadian broadband services and Business ICT services segments.

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

	Six months ended February 28, 2017				
	Canadian broadband services	American broadband services	Business ICT services	Inter-segment eliminations and other	Consolidated
	$	$	$	$	$
Revenue [1]	642,625	319,875	149,320	(1,855)	1,109,965
Operating expenses	307,871	182,340	101,528	5,191	596,930
Management fees – Cogeco Inc.	—	—	—	9,493	9,493
Segment profit (loss)	334,754	137,535	47,792	(16,539)	503,542
Depreciation and amortization	117,031	67,743	53,405	150	238,329
Financial expense					64,565
Income taxes					48,961
Profit for the period					151,687
Property, plant and equipment	1,085,463	460,909	405,438	604	1,952,414
Intangible assets	990,869	971,116	91,025	—	2,053,010
Goodwill	4,662	794,552	271,293	—	1,070,507
Acquisition of property, plant and equipment	91,950	64,776	16,379	—	173,105
Acquisition of intangible and other assets	5,333	2,334	1,921	—	9,588

(1) Revenue by geographic market includes $729,767 in Canada, $364,158 in the United States and $16,040 in Europe.

	Six months ended February 29, 2016				
	Canadian broadband services	American broadband services	Business ICT services	Inter-segment eliminations and other	Consolidated
	$	$	$	$	$
Revenue [1]	629,659	308,404	155,640	(1,867)	1,091,836
Operating expenses	304,133	175,062	102,102	8,714	590,011
Management fees – Cogeco Inc.	—	—	—	9,301	9,301
Segment profit (loss)	325,526	133,342	53,538	(19,882)	492,524
Integration, restructuring and acquisition costs [2]	2,752	573	3,025	—	6,350
Depreciation and amortization	122,453	65,476	66,657	150	254,736
Financial expense					69,192
Income taxes					39,098
Profit for the period					123,148
Property, plant and equipment [3]	1,106,192	444,666	438,108	754	1,989,720
Intangible assets [3]	988,957	970,790	99,801	—	2,059,548
Goodwill [3]	4,662	784,680	271,438	—	1,060,780
Acquisition of property, plant and equipment	144,756	58,245	48,976	26	252,003
Acquisition of intangible and other assets	5,705	1,949	3,394	—	11,048

(1) Revenue by geographic market includes $709,710 in Canada, $361,901 in the United States and $20,225 in Europe.

(2) Comprised of acquisition and integration costs in the American broadband services segment and restructuring costs in the Canadian broadband services and Business ICT services segments.

(3) At August 31, 2016.

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

The following tables set out certain geographic market information at February 28, 2017 and August 31, 2016:

				At February 28, 2017
	Canada	United States	Europe	Total
	$	$	$	$
Property, plant and equipment	1,406,095	512,981	33,338	1,952,414
Intangible assets	1,048,485	999,615	4,910	2,053,010
Goodwill	221,867	834,441	14,199	1,070,507

				At August 31, 2016
	Canada	United States	Europe	Total
	$	$	$	$
Property, plant and equipment	1,450,350	502,357	37,013	1,989,720
Intangible assets	1,051,192	1,002,134	6,222	2,059,548
Goodwill	221,867	824,074	14,839	1,060,780

4. BUSINESS COMBINATION

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

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

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

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

5. OPERATING EXPENSES

	Three months ended		Six months ended	
	February 28, 2017	February 29, 2016	**February 28, 2017**	February 29, 2016
	$	$	**$**	$
Salaries, employee benefits and outsourced services	**90,927**	89,824	**178,194**	177,489
Service delivery costs (1)	**166,224**	165,792	**328,969**	323,741
Customer related costs (2)	**16,721**	15,075	**33,946**	33,059
Other external purchases (3)	**28,359**	27,737	**55,821**	55,722
	302,231	298,428	**596,930**	590,011

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

6. DEPRECIATION AND AMORTIZATION

	Three months ended		Six months ended	
	February 28, 2017	February 29, 2016	**February 28, 2017**	February 29, 2016
	$	$	**$**	$
Depreciation of property, plant and equipment	**103,746**	110,784	**207,324**	218,835
Amortization of intangible assets	**15,507**	18,283	**31,005**	35,901
	119,253	129,067	**238,329**	254,736

7. FINANCIAL EXPENSE

	Three months ended		Six months ended	
	February 28, 2017	February 29, 2016	**February 28, 2017**	February 29, 2016
	$	$	**$**	$
Interest on long-term debt	**30,940**	34,109	**62,453**	67,717
Net foreign exchange losses (gains)	**308**	281	**(189)**	(1,389)
Amortization of deferred transaction costs	**633**	630	**1,246**	1,222
Capitalized borrowing costs (1)	**(705)**	(443)	**(1,359)**	(809)
Other	**1,299**	1,262	**2,414**	2,451
	32,475	35,839	**64,565**	69,192

(1) For the three and six-month periods ended February 28, 2017 and February 29, 2016, the weighted average interest rate used in the capitalization of borrowing costs was 4.5%.

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

8. INCOME TAXES

	Three months ended		Six months ended	
	February 28, 2017	February 29, 2016	**February 28, 2017**	February 29, 2016
	$	$	**$**	$
Current	**24,290**	21,990	**45,715**	46,107
Deferred	**1,158**	(4,876)	**3,246**	(7,009)
	25,448	17,114	**48,961**	39,098

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

	Three months ended		Six months ended	
	February 28, 2017	February 29, 2016	**February 28, 2017**	February 29, 2016
	$	$	**$**	$
Profit before income taxes	**102,111**	79,156	**200,648**	162,246
Combined Canadian income tax rate	**26.50%**	26.69%	**26.50%**	26.67%
Income taxes at combined Canadian income tax rate	**27,060**	21,129	**53,172**	43,274
Adjustment for losses or profit subject to lower or higher tax rates	**2,449**	1,978	**5,489**	3,955
Revaluation of deferred tax assets	**(112)**	—	**264**	—
Impact on deferred taxes as a result of changes in substantively enacted tax rates	**—**	(44)	**(1,714)**	1,637
Impact on income taxes arising from non-deductible expenses and non-taxable profit	**168**	149	**95**	382
Tax impacts related to investments in foreign operations	**(4,205)**	(5,827)	**(8,435)**	(11,193)
Other	**88**	(271)	**90**	1,043
Income taxes at effective income tax rate	**25,448**	17,114	**48,961**	39,098

9. EARNINGS PER SHARE

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

	Three months ended		Six months ended	
	February 28, 2017	February 29, 2016	**February 28, 2017**	February 29, 2016
	$	$	**$**	$
Profit for the period	**76,663**	62,042	**151,687**	123,148
Weighted average number of multiple and subordinate voting shares outstanding	**49,190,249**	48,969,487	**49,167,153**	48,959,652
Effect of dilutive stock options (1)	**143,001**	162,110	**123,300**	180,685
Effect of dilutive incentive share units	**107,420**	186,913	**119,591**	203,237
Effect of dilutive performance share units	**118,747**	87,023	**107,421**	75,280
Weighted average number of diluted multiple and subordinate voting shares outstanding	**49,559,417**	49,405,533	**49,517,465**	49,418,854
Earnings per share				
Basic	**1.56**	1.27	**3.09**	2.52
Diluted	**1.55**	1.26	**3.06**	2.49

(1) For the three and six-month periods ended February 28, 2017, 1,100 and 129,860 stock options (174,800 and 164,700 in 2016) were excluded from the calculation of diluted earnings per share as the exercise price of the options was greater than the average share price of the subordinate voting shares.

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

10. LONG-TERM DEBT

	Maturity	Interest rate		February 28, 2017	August 31, 2016
		%		$	$
Corporation					
Term Revolving Facility [(1)]					
Canadian Revolving Facility					
Revolving loan – US$59.5 million at August 31, 2016	January 2022	—		—	78,040
Revolving loan – £23.6 million at August 31, 2016	January 2022	—		—	40,646
UK Revolving Facility – £4.4 million at August 31, 2016	January 2022	—		—	7,578
Senior Secured Notes					
Series A – US$25 million	September 2024	4.14		33,085	32,665
Series B - US$150 million	September 2026	4.29		198,468	195,961
Senior Secured Notes Series B	October 2018	7.60		54,887	54,853
Senior Secured Notes - US$215 million	June 2025	4.30		284,392	280,787
Senior Secured Debentures Series 2	November 2020	5.15		199,264	199,174
Senior Secured Debentures Series 3	February 2022	4.93		198,970	198,878
Senior Secured Debentures Series 4	May 2023	4.18		297,933	297,788
Senior Unsecured Debenture	March 2018	5.94		99,959	99,939
Senior Unsecured Notes – US$400 million	May 2020	4.88		527,371	520,201
Subsidiaries					
First Lien Credit Facilities					
Term Loan A-2 Facility – US$96.2 million (US$98.2 million at August 31, 2016)	September 2019	2.66	(2) (3)	126,443	127,146
Term Loan A-3 Facility - US$120.6 million (US$124.6 million at August 31, 2016)	September 2019	2.66	(2) (3)	158,382	161,284
Term Loan B Facility – US$355.4 million (US$362.6 million at August 31, 2016)	December 2019	3.28	(2)	463,746	466,024
Revolving Facility – US$55 million (US$76 million at August 31, 2016)	September 2019	2.66	(2)	73,046	99,682
				2,715,946	2,860,646
Less current portion				21,551	22,516
				2,694,395	2,838,130

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

(2) Interest rate on debt includes applicable margin.

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

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

11. SHARE CAPITAL

A) AUTHORIZED

Unlimited number of:

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

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

Multiple voting shares, 10 votes per share.

Subordinate voting shares, 1 vote per share.

B) ISSUED AND PAID

	February 28, 2017	August 31, 2016
	$	$
15,691,100 multiple voting shares	98,346	98,346
33,765,175 subordinate voting shares (33,673,541 at August 31, 2016)	930,196	924,600
	1,028,542	1,022,946
108,335 subordinate voting shares held in trust under the Incentive Share Unit Plan (160,323 at August 31, 2016)	(5,970)	(8,527)
122,913 subordinate voting shares held in trust under the Performance Share Unit Plan (89,632 at August 31, 2016)	(8,078)	(5,952)
	1,014,494	1,008,467

During the first six months of fiscal 2017, subordinate voting share transactions were as follows:

	Number of shares	Amount
		$
Balance at August 31, 2016	33,673,541	924,600
Shares issued for cash under the Stock Option Plan	91,634	4,632
Share-based payment previously recorded in share-based payment reserve for options exercised	—	964
Balance at February 28, 2017	33,765,175	930,196

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

	Number of shares	Amount
		$
Balance at August 31, 2016	160,323	8,527
Subordinate voting shares acquired	19,391	1,240
Subordinate voting shares distributed to employees	(71,379)	(3,797)
Balance at February 28, 2017	108,335	5,970

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

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

	Number of shares	Amount
		$
Balance at August 31, 2016	**89,632**	**5,952**
Subordinate voting shares acquired	**34,344**	**2,196**
Subordinate voting shares distributed to employees	**(1,063)**	**(70)**
Balance at February 28, 2017	**122,913**	**8,078**

C) DIVIDENDS

For the six-month period ended February 28, 2017, quarterly eligible dividends of $0.43 per share, for a total of $0.86 per share, were paid to the holders of multiple and subordinate voting shares, totaling $42.3 million, compared to quarterly eligible dividends of $0.39 per share for a total of $0.78 per share or $38.2 million for the six-month period ended February 29, 2016.

At its April 6, 2017 meeting, the Board of Directors of Cogeco Communications declared a quarterly eligible dividend of $0.43 per share for multiple and subordinate voting shares, payable on May 4, 2017 to shareholders of record on April 20, 2017.

D) SHARE-BASED PAYMENT PLANS

The Corporation offers an Employee Stock Purchase Plan for the benefit of its employees and those of its subsidiaries and a Stock Option Plan to its executive officers and designated employees. No more than 10% of the outstanding subordinate voting shares are available for issuance under these plans. Furthermore, the Corporation offers an Incentive Share Unit Plan ("ISU Plan") and a Performance Share Unit Plan ("PSU Plan") for executive officers and designated employees, and a Deferred Share Unit Plan ("DSU Plan") for members of the Board of Directors. A detailed description of these plans can be found in the 2016 annual consolidated financial statements of the Corporation.

Under the Stock Option Plan, the following options were granted by the Corporation and are outstanding at February 28, 2017:

	Options	Weighted average exercise price
		$
Outstanding at August 31, 2016	**645,626**	**53.67**
Granted (1)	**205,375**	**62.12**
Exercised (2)	**(91,634)**	**50.55**
Cancelled	**(53,505)**	**60.21**
Outstanding at February 28, 2017	**705,862**	**56.04**
Exercisable at February 28, 2017	**246,288**	**47.16**

(1) During the six-month period ended February 28, 2017, the Corporation granted 81,350 stock options to Cogeco's executive officers as executive officers of the Corporation.

(2) The weighted average share price for options exercised during the period was $67.32.

A compensation expense of $149,000 and $256,000 ($53,000 and $259,000 in 2016) was recorded for the three and six-month periods ended February 28, 2017 related to this plan.

The weighted average fair value of stock options granted for the six-month period ended February 28, 2017 was $8.91 ($11.39 in 2016) per option. The weighted average fair value of each option granted was estimated at the grant date for purposes of determining share-based payment expense using the Black-Scholes option pricing model based on the following weighted-average assumptions:

	2017	2016
	%	%
Expected dividend yield	**2.52**	2.08
Expected volatility	**21.30**	22.36
Risk-free interest rate	**0.80**	0.97
Expected life (in years)	**6.1**	6.1

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

Under the ISU Plan, the following ISUs were granted by the Corporation and are outstanding at February 28, 2017:

Outstanding at August 31, 2016	144,623
Granted [(1)]	40,275
Distributed	(71,379)
Cancelled	(7,766)
Outstanding at February 28, 2017	**105,753**

(1) During the six-month period ended February 28, 2017, the Corporation did not grant ISUs to Cogeco's executive officers as executive officers of the Corporation.

A compensation expense of $507,000 and $950,000 ($1,108,000 and $2,125,000 in 2016) was recorded for the three and six-month periods ended February 28, 2017 related to this plan.

Under the PSU Plan, the following PSUs were granted by the Corporation and are outstanding at February 28, 2017:

Outstanding at August 31, 2016	81,376
Granted [(1)]	49,325
Distributed	(1,063)
Cancelled	(15,198)
Dividend equivalents	1,506
Outstanding at February 28, 2017	**115,946**

(1) During the six-month period ended February 28, 2017, the Corporation granted 12,150 PSUs to Cogeco's executive officers as executive officers of the Corporation.

A compensation expense of $324,000 and $375,000 ($273,000 and $527,000 in 2016) was recorded for the three and six-month periods ended February 28, 2017 related to this plan.

Under the DSU Plan, the following DSUs were issued by the Corporation and are outstanding at February 28, 2017:

Outstanding at August 31, 2016	32,483
Issued	7,097
Dividend equivalents	454
Outstanding at February 28, 2017	**40,034**

A compensation expense of $424,000 and $512,000 (compensation expense reduction of $41,000 and compensation expense of $4,000 in 2016) was recorded for the three and six-month periods ended February 28, 2017 related to this plan.

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

	Cash flow hedge reserve	Foreign currency translation	Total
	$	$	$
Balance at August 31, 2015	1,330	82,490	83,820
Other comprehensive income (loss)	(1,893)	8,569	6,676
Balance at February 29, 2016	(563)	91,059	90,496
Balance at August 31, 2016	(121)	84,748	84,627
Other comprehensive income	1,198	660	1,858
Balance at February 28, 2017	**1,077**	**85,408**	**86,485**

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

13. STATEMENTS OF CASH FLOWS

A) CHANGES IN NON-CASH OPERATING ACTIVITIES

	Three months ended		Six months ended	
	February 28, 2017	February 29, 2016	**February 28, 2017**	February 29, 2016
	$	$	**$**	$
Trade and other receivables	**4,416**	1,492	**(2,629)**	15,921
Prepaid expenses and other	**461**	3,081	**(6,508)**	(3,577)
Trade and other payables	**2,749**	(2,962)	**(66,532)**	(71,148)
Provisions	**(94)**	295	**1,925**	499
Deferred and prepaid revenue and other liabilities	**789**	(2,005)	**1,673**	632
	8,321	(99)	**(72,071)**	(57,673)

B) CASH AND CASH EQUIVALENTS

At February 28, 2017 and August 31, 2016, the Corporation had no cash equivalents.

14. EMPLOYEE BENEFITS

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

The total expense related to these plans is as follows:

	Three months ended		Six months ended	
	February 28, 2017	February 29, 2016	**February 28, 2017**	February 29, 2016
	$	$	**$**	$
Defined benefit plans				
Recognized in operating expenses (salaries, employee benefits and outsourced services)				
Current service cost	**750**	560	**1,323**	1,120
Administrative expense	**74**	49	**130**	98
Recognized in financial expense (other)				
Net interest	**93**	22	**116**	44
Defined contribution and collective registered retirement saving plans				
Recognized in operating expenses (salaries, employee benefits and outsourced services)	**2,385**	2,369	**4,600**	4,490
	3,302	3,000	**6,169**	5,752

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

15. FINANCIAL INSTRUMENTS

A) FINANCIAL RISK MANAGEMENT

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

Liquidity risk

At February 28, 2017, the Corporation had used $7.3 million of its $800 million Term Revolving Facility for a remaining availability of $792.7 million. In addition, two subsidiaries related to Atlantic Broadband benefit from a Revolving Facility of $199.2 million (US$150 million), of which $75 million (US$56.5 million) was used at February 28, 2017 for a remaining availability of $124.2 million (US$93.5 million).

Interest rate risk

The Corporation is exposed to interest rate risk on its floating interest rate instruments. Interest rate fluctuations will have an effect on the repayment of these instruments. At February 28, 2017, all of the Corporation's long-term debt was at fixed rate, except for the amounts drawn under the intercompany note payable and First Lien Credit Facilities.

To reduce such risk, the Corporation entered into interest rate swap agreements. The following table shows the interest rate swaps outstanding at February 28, 2017:

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

The sensitivity of the Corporation's annual financial expense to an increase of 1% in the interest rate applicable to the unhedged portion of these facilities would represent an increase of approximately $6.3 million based on the outstanding debt at February 28, 2017.

Foreign exchange risk

The Corporation is exposed to foreign exchange risk related to its long-term debt denominated in US dollars that is not designated as a hedge on its US dollar net investments. The Corporation has established guidelines whereby cross-currency swap agreements can be used to fix the exchange rate applicable to its US dollar denominated long-term debt. All such agreements are exclusively used for hedging purposes.

The Corporation is also exposed to foreign exchange risk with respect to the interest associated with its long-term debt denominated in US dollars. The impact of an increase of 10% in the exchange rate of the US dollar into Canadian dollars would increase financial expense by approximately $7.3 million based on the outstanding debt at February 28, 2017.

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

The following table shows the net investments in foreign operations outstanding at February 28, 2017:

Type of hedge	Notional amount of debt	Aggregate investments	Hedged item
Net investment	US$790 million	US$896.2 million	Net investments in foreign operations in US dollar
N/A	£—	£30 million	N/A

The exchange rates used to convert the US dollar currency and British Pound currency into Canadian dollars for the statement of financial position accounts at February 28, 2017 was $1.3281 ($1.3116 at August 31, 2016) per US dollar and $1.6480 ($1.7223 at August 31, 2016) per British Pound. A 10% decrease in the exchange rates of the US dollar and British Pound into Canadian dollars would decrease other comprehensive income by approximately $19.1 million.

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

B) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	February 28, 2017		August 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value
	$	$	$	$
Long-term debt	2,715,946	2,826,471	2,860,646	2,975,511

C) CAPITAL MANAGEMENT

At February 28, 2017 and August 31, 2016, the Corporation was in compliance with all of its debt covenants and was not subject to any other externally imposed capital requirements.

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

	February 28, 2017	August 31, 2016
Net secured indebtedness (1) / adjusted EBITDA (2)	2.1	2.3
Net indebtedness (3) / adjusted EBITDA (2)	2.8	2.9
Adjusted EBITDA (2) / financial expense (2)	7.5	7.2

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

(2) Calculation based on adjusted EBITDA and financial expense for the twelve-month periods ended February 28, 2017 and August 31, 2016.

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

16. RELATED PARTY TRANSACTIONS

Cogeco provides executive, administrative, financial and strategic planning services and other services to the Corporation under a Management Services Agreement. Under the Agreement, management fees are payable on a monthly basis, representing 0.85% of the consolidated revenue of the Corporation. In addition, provision is made for future adjustment upon the request of either Cogeco or the Corporation should the level of management fees no longer align with the costs, time and resources committed by Cogeco. The Corporation reimburses Cogeco's out-of-pocket expenses incurred with respect to services provided to the Corporation under the Agreement. For the three and six-month periods ended February 28, 2017, management fees paid to Cogeco amounted to $4.8 million and $9.5 million, respectively, compared to $4.7 million and $9.3 million for the same periods of fiscal 2016.

No direct remuneration is payable to Cogeco's executive officers by the Corporation. However, during the six-month period ended February 28, 2017, the Corporation granted 81,350 (69,750 in 2016) stock options, did not grant any ISUs and granted 12,150 (11,150 in 2016) PSUs to these executive officers as executive officers of Cogeco Communications. During the three and six-month periods ended February 28, 2017, the Corporation charged Cogeco $139,000 and $302,000 ($136,000 and $280,000 in 2016), $2,000 and $35,000 ($66,000 and $179,000 in 2016) and $170,000 and $306,000 ($105,000 and $229,000 in 2016), respectively, with regards to the Corporation's stock options, ISUs and PSUs granted to these executive officers.

On August 2, 2016 an intercompany loan agreement was concluded between the Corporation and Cogeco, by which a revolving credit facility was established in favour of the Corporation. The maximum principal amount of the facility is set at $40 million and the full amount was advanced to the Corporation as of the signing date and remained outstanding as of February 28, 2017. The credit facility is payable on demand and the interest is calculated on the daily outstanding balance at an annual rate equivalent to the Corporation's Canadian Revolving Facility.

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

CUSTOMER STATISTICS

	February 28, 2017	November 30, 2016	August 31, 2016	May 31, 2016	February 29, 2016
CONSOLIDATED					
Primary service units	**2,536,876**	**2,527,602**	2,507,750	2,511,799	2,515,137
Video service customers	**976,997**	**981,682**	982,955	992,409	1,001,337
Internet service customers	**1,023,519**	**1,007,610**	987,365	977,538	967,156
Telephony service customers	**536,360**	**538,310**	537,430	541,852	546,644
CANADA					
Primary service units	**1,934,496**	**1,930,909**	1,914,017	1,921,799	1,932,343
Video service customers	**737,975**	**740,855**	739,323	747,257	755,366
Penetration as a percentage of homes passed	**42.9%**	**43.3%**	43.4%	43.9%	44.6%
Internet service customers	**759,152**	**749,275**	733,701	728,086	724,379
Penetration as a percentage of homes passed	**44.2%**	**43.8%**	43.0%	42.8%	42.7%
Telephony service customers	**437,369**	**440,779**	440,993	446,456	452,598
Penetration as a percentage of homes passed	**25.5%**	**25.8%**	25.9%	26.3%	26.7%
UNITED STATES					
Primary service units	**602,380**	**596,693**	593,733	590,000	582,794
Video service customers	**239,022**	**240,827**	243,632	245,152	245,971
Penetration as a percentage of homes passed	**40.4%**	**40.7%**	41.2%	41.4%	41.7%
Internet service customers	**264,367**	**258,335**	253,664	249,452	242,777
Penetration as a percentage of homes passed	**44.7%**	**43.7%**	42.9%	42.1%	41.1%
Telephony service customers	**98,991**	**97,531**	96,437	95,396	94,046
Penetration as a percentage of homes passed	**16.7%**	**16.5%**	16.3%	16.1%	15.9%