



SHAREHOLDERS' REPORT

Three and nine-month periods ended May 31, 2021

FINANCIAL HIGHLIGHTS

	Three months ended May 31,					Nine months ended May 31,				
	2021	2020	Change	Change in constant currency ⁽¹⁾⁽²⁾	Foreign exchange impact ⁽¹⁾	2021	2020	Change	Change in constant currency ⁽¹⁾⁽²⁾	Foreign exchange impact ⁽¹⁾
<i>(In thousands of Canadian dollars, except percentages and per share data)</i>	\$	\$	%	%	\$	\$	\$	%	%	\$
Operations										
Revenue	649,260	626,013	3.7	9.3	(34,874)	1,948,771	1,855,279	5.0	7.5	(45,642)
Adjusted EBITDA ⁽²⁾	302,340	298,444	1.3	6.2	(14,700)	931,844	868,562	7.3	9.5	(19,402)
Integration, restructuring and acquisition costs ⁽³⁾	1,272	12	—			4,783	5,550	(13.8)		
Profit for the period	104,994	97,496	7.7			335,597	305,096	10.0		
Profit for the period attributable to owners of the Corporation	34,548	31,118	11.0			108,774	97,377	11.7		
Cash flow										
Cash flows from operating activities	269,078	292,075	(7.9)			746,229	679,263	9.9		
Acquisition of property, plant and equipment ⁽⁴⁾	126,745	123,778	2.4	11.4	(11,093)	358,984	357,030	0.5	4.5	(14,187)
Free cash flow ⁽²⁾	136,567	119,153	14.6	14.9	(386)	425,358	353,113	20.5	20.8	(1,070)
Financial condition ⁽⁵⁾										
Cash and cash equivalents						306,081	406,113	(24.6)		
Total assets						7,204,861	7,024,696	2.6		
Indebtedness ⁽⁶⁾						3,186,043	3,290,354	(3.2)		
Equity attributable to owners of the Corporation						796,507	761,501	4.6		
Per share data ⁽⁷⁾										
Earnings per share										
Basic	2.17	1.96	10.7			6.84	6.11	11.9		
Diluted	2.16	1.94	11.3			6.80	6.06	12.2		
Dividends	0.545	0.475	14.7			1.635	1.425	14.7		

- (1) Key performance indicators presented on a constant currency basis are obtained by translating financial results from the current periods denominated in US dollars at the foreign exchange rates of the comparable periods of the prior year. For the three and nine-month periods ended May 31, 2020, the average foreign exchange rates used for translation were 1.3994 USD/CND and 1.3466 USD/CND, respectively.
- (2) 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, including reconciliation to the most comparable IFRS financial measures.
- (3) For the three and nine-month periods ended May 31, 2021, integration, restructuring and acquisition costs resulted mostly from due diligence costs related to the acquisition of WideOpenWest's Ohio broadband systems, announced on June 30, 2021, and costs related to the acquisition and integration of DERYtelecom, which was completed on December 14, 2020. For the three and nine-month periods ended May 31, 2020, integration, restructuring and acquisition costs resulted primarily from organizational changes initiated across the Corporation resulting in cost optimization, as well as the acquisition and integration of Thames Valley Communications, which was completed on March 10, 2020.
- (4) For the three and nine-month periods ended May 31, 2021, acquisition of property, plant and equipment in constant currency amounted to \$137.8 million and \$373.2 million, respectively.
- (5) At May 31, 2021 and August 31, 2020.
- (6) Indebtedness is defined as the total of bank indebtedness and principal on long-term debt.
- (7) Per multiple and subordinate voting share.



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

Three and nine-month periods ended May 31, 2021

1. FORWARD-LOOKING STATEMENTS

Certain statements contained in this Management's Discussion and Analysis ("MD&A") may constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to Cogeco Inc.'s ("Cogeco" or the "Corporation") future outlook and anticipated events, business, operations, financial performance, financial condition or results and, in some cases, can be identified by terminology such as "may"; "will"; "should"; "expect"; "plan"; "anticipate"; "believe"; "intend"; "estimate"; "predict"; "potential"; "continue"; "foresee", "ensure" or other similar expressions concerning matters that are not historical facts. Particularly, statements regarding the Corporation's financial guidelines, future operating results and economic performance, objectives and strategies are forward-looking statements. These statements are based on certain factors and assumptions including expected growth, results of operations, performance and business prospects and opportunities, which Cogeco believes are reasonable as of the current date. Refer in particular to the "Corporate objectives and strategies" and "Fiscal 2021 financial guidelines" sections of the Corporation's 2020 annual MD&A, and the "Fiscal 2021 revised financial guidelines" and "Fiscal 2022 preliminary financial guidelines" sections of the current MD&A for a discussion of certain key economic, market and operational assumptions we have made in preparing forward-looking statements. While management considers these assumptions to be reasonable based on information currently available to the Corporation, they may prove to be incorrect. Forward-looking information is also subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what Cogeco currently expects. These factors include risks such as competitive risks, business risks (including potential disruption to our supply chain), regulatory risks, public health crisis and emergencies such as the current COVID-19 pandemic, technology risks (including cybersecurity risk), financial risks (including variations in currency and interest rates), economic conditions, human-caused and natural threats to our network, infrastructure and systems, community acceptance risks, ethical behavior risks, ownership risks and litigation risks, many of which are beyond the Corporation's control. Moreover, the Corporation's radio operations are significantly exposed to advertising budgets from the retail industry, which can fluctuate due to changing economic conditions. For more exhaustive information on these risks and uncertainties, the reader should refer to the "Uncertainties and main risk factors" sections of the Corporation's 2020 annual MD&A and of the current MD&A. These factors are not intended to represent a complete list of the factors that could affect Cogeco and future events and results may vary significantly from what management currently foresees. The reader should not place undue importance on forward-looking information contained in this MD&A which represent Cogeco's expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made) and are subject to change after such date. While management may elect to do so, the Corporation is under no obligation (and expressly disclaims any such obligation) and does not undertake to update or alter this information at any particular time, whether as a result of new information, future events or otherwise, except as required by law.

All amounts are stated in Canadian dollars unless otherwise indicated. This report should be read in conjunction with the Corporation's condensed interim consolidated financial statements and the notes thereto for the three and nine-month periods ended May 31, 2021 prepared in accordance with the International Financial Reporting Standards ("IFRS") and the Corporation's 2020 Annual Report.

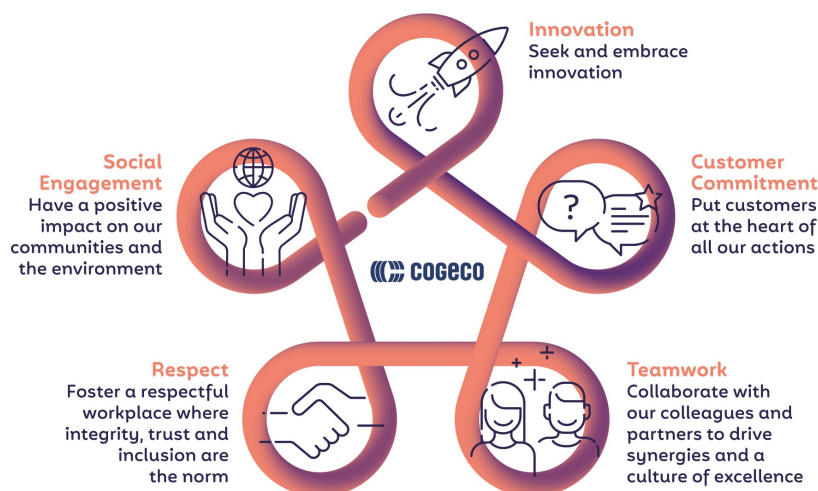
In preparing this MD&A, the Corporation has taken into account information available up to July 14, 2021, the date of this MD&A, unless otherwise indicated. Additional information relating to the Corporation, including its Annual Report and Annual Information Form, is available on the SEDAR website at www.sedar.com or on the Corporation's website at corpo.cogeco.com.

2. CORPORATE OBJECTIVES AND STRATEGIES

Our Mission

Bring people together through powerful communications and entertainment experiences

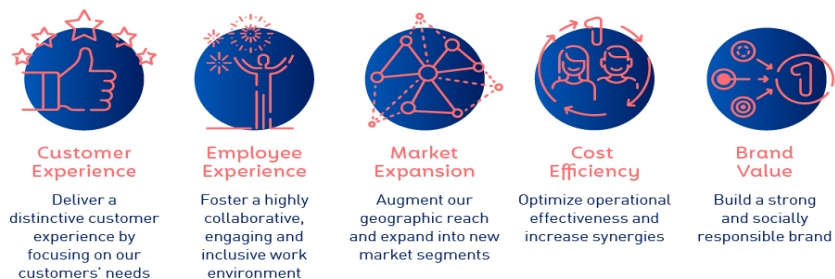
Our Values



Our Vision

Be the organization that delivers the best and most sustainable value to all our stakeholders

Cogeco will fulfill this vision by focusing on the following growth pillars



Each Business Unit of the Corporation has in turn elaborated a strategic plan that is aligned to the growth pillars defined above. For further details on the key areas of focus of those strategic plans, please refer to the Corporation's 2020 Annual Report available on www.sedar.com or on the Corporation's website at corpo.cogeco.com.

The Corporation measures its financial performance, with regards to these objectives, by monitoring revenue, adjusted EBITDA ⁽¹⁾ and free cash flow ⁽¹⁾ on a constant currency basis ⁽¹⁾.

2.1 KEY PERFORMANCE INDICATORS

Overall, fiscal 2021 third-quarter financial results were in line with Cogeco's revised financial guidelines as issued on January 14, 2021. Accordingly, Cogeco maintains its fiscal 2021 revised financial guidelines.

Please refer to the "Fiscal 2021 revised financial guidelines" section for further details.

REVENUE

For the first nine months of fiscal 2021, revenue increased by 5.0% (7.5% in constant currency) resulting from:

- growth of 3.2% (8.8% in constant currency) in the American broadband services segment; and
- an increase of 7.5% (7.5% in constant currency) in the Canadian broadband services segment, mainly from revenue generated from the DERYtelecom acquisition completed on December 14, 2020; partly offset by
- a retroactive adjustment of \$4.6 million recognized following the CRTC's decision on aggregated wholesale Internet rates during the third quarter of fiscal 2021, within the Canadian broadband services segment; and
- lower revenue in the media activities due to a decline of the radio advertising market resulting directly from the COVID-19 pandemic.

Excluding the acquisitions of DERYtelecom and Thames Valley Communications, and the impact of the \$4.6 million recognized following the CRTC's decision on aggregated wholesale Internet rates, revenue in constant currency increased by 4.6% for the first nine months of fiscal 2021.

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

ADJUSTED EBITDA ⁽¹⁾

For the first nine months of fiscal 2021, adjusted EBITDA increased by 7.3% (9.5% in constant currency) as a result of:

- an increase of 9.0% (8.8% in constant currency) in the Canadian broadband services segment, mainly resulting from revenue growth and the impact of the DERYtelecom acquisition, partly offset by a retroactive adjustment of \$4.6 million recognized as a reduction of revenue during the third quarter following the CRTC's decision on aggregated wholesale Internet rates; and
- an increase of 5.2% (10.8% in constant currency) in the American broadband services segment, mainly resulting from revenue growth and the impact of the Thames Valley Communications acquisition, partly offset by a non-recurring gain on disposal of property, plant and equipment amounting to US\$1.7 million recorded during the third quarter of fiscal 2020.

In addition, adjusted EBITDA for the first nine months of fiscal 2021 was favorably impacted by the timing of certain sales and marketing activities deferred, in both the Canadian and American broadband services segments, in the context of the COVID-19 pandemic.

Excluding the acquisitions of DERYtelecom and Thames Valley Communications, the impact of the \$4.6 million recognized following the CRTC's decision on aggregated wholesale Internet rates, and the non-recurring gain on disposal of property, plant and equipment of US\$1.7 million, adjusted EBITDA in constant currency increased by 7.2% for the first nine months of fiscal 2021.

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

ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

For the first nine months of fiscal 2021, acquisition of property, plant and equipment remained comparable to same period of the prior year, with an overall increase of 0.5% (4.5% in constant currency) resulting from:

- higher capital expenditures in the American broadband services segment in order to support the segment's revenue growth driven by increased demand for the high-speed Internet product, combined with equipment upgrades, the timing of certain initiatives and accelerated purchases of certain equipment to prevent potential supply chain shortages given the impact of the COVID-19 pandemic; partly offset by
- lower capital expenditures in the Canadian broadband services segment, resulting mainly from the timing of certain initiatives.

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

(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.

FREE CASH FLOW ⁽¹⁾

For the first nine months of fiscal 2021, free cash flow increased by 20.5% (20.8% in constant currency) mainly due to the following:

- higher adjusted EBITDA; and
- the decrease in financial expense, when excluding the fiscal 2020 non-cash gain on debt modification of \$22.9 million; partly offset by
- higher capital expenditures.

2.2 FISCAL 2021 REVISED FINANCIAL GUIDELINES AND FISCAL 2022 PRELIMINARY FINANCIAL GUIDELINES

The following sections contains forward-looking statements concerning the business outlook for Cogeco. For a description of risk factors that could cause actual results to differ materially from what Cogeco expects, please refer to the "Uncertainties and main risk factors" section of the present MD&A and of the Corporation's 2020 annual MD&A.

FISCAL 2021 REVISED FINANCIAL GUIDELINES

Cogeco and Cogeco Communications maintain their fiscal 2021 revised financial guidelines as issued on January 14, 2021.

During the first quarter of fiscal 2021, Cogeco and Cogeco Communications revised their fiscal 2021 financial guidelines as issued on October 27, 2020 to incorporate the impact from the acquisition of DERYtelecom which was completed on December 14, 2020, and considering the strong fiscal 2021 first-quarter financial results. The financial guidelines exclude the impact from the acquisition of WideOpenWest's Ohio broadband systems and related transaction costs, which is expected to close during the first quarter of fiscal 2022, and other potential acquisitions. Capital intensity and free cash flow definitions do not include the acquisition of spectrum licenses (refer to section "Non-IFRS financial measures"). The projections take into consideration the experience gained while operating during the COVID-19 pandemic so far, but exclude potential unexpected significant material impacts from it.

Cogeco

The following table outlines fiscal 2021 revised financial guidelines of Cogeco on a consolidated basis, compared to the fiscal 2021 financial guidelines as issued on October 27, 2020:

	January 14, 2021 Revised projections Fiscal 2021 (constant currency) ⁽¹⁾	October 27, 2020 Original projections Fiscal 2021 (constant currency)
Financial guidelines		
Revenue	Mid to high single-digit percentage growth ⁽²⁾	Low single-digit percentage growth
Adjusted EBITDA	Mid to high single-digit percentage growth ⁽²⁾	Remain constant
Free cash flow	High single-digit percentage growth ⁽³⁾	Low single-digit percentage growth

(1) Fiscal 2021 financial guidelines are based on a USD/CDN constant exchange rate of 1.3456 USD/CDN.

(2) The acquisition of DERYtelecom is expected to have a positive impact of approximately 3% on fiscal 2021 revenue and adjusted EBITDA.

(3) The assumed current income tax effective rate is approximately 11%.

(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.

Cogeco Communications

The following table outlines fiscal 2021 revised financial guidelines of Cogeco Communications on a consolidated basis, compared to the fiscal 2021 financial guidelines as issued on October 27, 2020:

	January 14, 2021 Revised projections	October 27, 2020 Original projections
	Fiscal 2021 (constant currency) ⁽¹⁾	Fiscal 2021 (constant currency)
Financial guidelines		
Revenue	Mid to high single-digit percentage growth ⁽²⁾	Low single-digit percentage growth
Adjusted EBITDA	Mid to high single-digit percentage growth ⁽²⁾	Low single-digit percentage growth
Capital intensity	Approximately 20%	Approximately 20%
Free cash flow	Low double-digit percentage growth ⁽³⁾	Low single-digit percentage growth

(1) Fiscal 2021 financial guidelines are based on a USD/CDN constant exchange rate of 1.3456 USD/CDN.

(2) The acquisition of DERYtelecom is expected to have a positive impact of approximately 3% on fiscal 2021 revenue and adjusted EBITDA.

(3) The assumed current income tax effective rate is approximately 11%.

FISCAL 2022 PRELIMINARY FINANCIAL GUIDELINES

The Corporation presents its preliminary financial guidelines on a constant currency basis and believes this presentation enables an improved understanding of the Corporation's underlying financial performance, undistorted by the effects of changes in a foreign currency rate. Measures on a constant currency basis are considered non-IFRS measures and do not have any standardized meaning prescribed by IFRS and therefore, may not be comparable to similar measures presented by other companies. The preliminary financial guidelines exclude the impact from the acquisition of WideOpenWest's Ohio broadband systems and related transactions costs, which is expected to close during the first quarter of fiscal 2022, and other possible acquisitions. Capital intensity and free cash flow definitions do not include the acquisition of spectrum licenses (refer to section "Non-IFRS financial measures"). The projections take into consideration the experience gained while operating during the COVID-19 pandemic so far, but exclude potential unexpected significant material impacts from it.

Cogeco

The Corporation's fiscal 2022 preliminary financial guidelines are mainly driven by those of Cogeco Communications which are described below.

The following table outlines the Corporation's fiscal 2022 preliminary financial guidelines ranges on a consolidated basis:

	Preliminary projections ⁽¹⁾
	Fiscal 2022 (constant currency)
<i>(In millions of dollars, except percentages)</i>	
Financial guidelines	
Revenue	Increase of 3.5% to 5.5% ⁽²⁾
Adjusted EBITDA	Increase of 3.5% to 5.5% ⁽²⁾
Acquisition of property, plant and equipment	\$695 to \$725 ⁽³⁾
Free cash flow	Decrease of 30% to 35% ⁽⁴⁾

(1) Fiscal 2022 preliminary financial guidelines presented as percentages reflect increases over projections for fiscal 2021.

(2) The acquisition of DERYtelecom is expected to have a positive impact of approximately 1% on fiscal 2022 revenue and adjusted EBITDA.

(3) Fiscal 2022 preliminary financial guidelines are based on a USD/CDN constant exchange rate of 1.2700 USD/CDN.

(4) The assumed current income tax effective rate is approximately 13%.

Cogeco Communications

On a constant currency and consolidated basis, Cogeco Communications expects fiscal 2022 revenue to grow between 3.5% and 5.5%, mainly as a result of organic growth in the American broadband services segment, expected continued demand for the residential Internet product resulting from the Broadband First strategy and growth in the business sector in a post-pandemic environment. In the Canadian broadband services segment, revenue growth should stem primarily from strong demand for the residential Internet product, the upselling of customers to higher tiers of service, the recent launch of the IPTV product, as well as the full-year impact of the DERYtelecom acquisition.

On a constant currency and consolidated basis, fiscal 2022 adjusted EBITDA should grow between 3.5% and 5.5%, mainly as a result of revenue growth exceeding operating expenses in both the American and Canadian broadband services segments.

Acquisition of property, plant and equipment should amount between \$690 and \$720 million, including approximately \$230 to \$240 million in network expansion projects net of government subsidies, resulting in capital intensity of approximately 27%, or 18% excluding growth-oriented network expansion projects. The Canadian broadband services segment expects higher capital intensity primarily due to government sponsored network expansion projects which will increase the Corporation's footprint in the provinces of Québec and Ontario and, to a lesser extent, investments in DERYtelecom's infrastructure in order to offer higher Internet speeds and the IPTV product. The American broadband services segment also expects higher capital intensity entirely due to network expansion projects which will increase the Corporation's footprint in several areas adjacent to its network. Since the projects will take most of the fiscal year to build, both business segments expect growth in homes passed towards the end of the year and to benefit from additional revenue in the following fiscal year.

Free cash flow on a constant currency and consolidated basis should decrease between 30% and 35%, mainly due to the growth of adjusted EBITDA more than offset by higher capital intensity, financial expense and current income taxes. Excluding the fiscal year 2022 growth-oriented network expansion projects, free cash flow on a constant currency and consolidated basis would otherwise increase between 13% and 18%.

The following table outlines Cogeco Communications' fiscal 2022 preliminary financial guidelines ranges on a consolidated basis:

	Preliminary projections ⁽¹⁾
	Fiscal 2022 (constant currency)
<i>(In millions of dollars, except percentages)</i>	
Financial guidelines	
Revenue	Increase of 3.5% to 5.5% ⁽²⁾
Adjusted EBITDA	Increase of 3.5% to 5.5% ⁽²⁾
Acquisition of property, plant and equipment	\$690 to \$720 ⁽³⁾
Capital intensity	Approximately 27%
Free cash flow	Decrease of 30% to 35% ⁽⁴⁾

(1) Fiscal 2022 preliminary financial guidelines presented as percentages reflect increases over projections for fiscal 2021.

(2) The acquisition of DERYtelecom is expected to have a positive impact of approximately 1% on fiscal 2022 revenue and adjusted EBITDA.

(3) Fiscal 2022 preliminary financial guidelines are based on a USD/CDN constant exchange rate of 1.2700 USD/CDN.

(4) The assumed current income tax effective rate is approximately 13%.

2.3 UPDATE ON THE IMPACT OF THE COVID-19 PANDEMIC ON OPERATIONS AND RESULTS

The COVID-19 pandemic continues to impact our day-to-day operations although public health restrictions are starting to be lifted in part as vaccines are continuing to be rolled out, in both Canada and the United States. Our priority remains on ensuring the well-being of our employees, customers and business partners. During the first nine months of fiscal 2021, we continued to experience some of the trends from past quarters. Those primarily relate to sustained demand for our residential high-speed Internet product, due to customers spending more time at home for work, online education and entertainment purposes, and a reduction of certain expenses due to a more stable customer base (fewer connections and disconnections) and not being able to use all usual sales channels. In these unusual circumstances, we have also decided to delay during the first half of fiscal 2021, certain sales and marketing expenses to the second half of the year in both countries.

We expect that the current "work-from-home" trend will continue after the COVID-19 pandemic, where more workers will work from home than pre-pandemic on a partial or full-time basis. This trend should benefit our various network expansion projects, especially in underserved and unserved areas.

As for our radio operations, they were negatively impacted by the pandemic due to certain segments of the retail industry reducing or cutting their advertising activities, which resulted in radio advertising revenue being directly impacted by COVID-19 related lockdown measures. As public health restrictions are starting to be lifted, certain segments of the retail industry are gradually resuming their advertising activities. In order to mitigate the impact on its operations, Cogeco Media managed its operating expenses tightly, as it did since the beginning of the pandemic, while maintaining quality programming.

Although we are pleased with the financial results to date under the circumstances, we remain cautious in our management of this situation as uncertainties remain on the potential human, operating and financial impact of the pandemic. The Corporation's results discussed herein may not be indicative of future operational trends and financial performance. Please refer to the "Fiscal 2021 revised financial guidelines" and the "Fiscal 2022 preliminary financial guidelines" sections for more details.

3. BUSINESS AND REGULATORY DEVELOPMENTS

Acquisition of WideOpenWest's Ohio broadband systems

On June 30, 2021, Cogeco Communications announced that Atlantic Broadband had entered into a definitive agreement with WideOpenWest, Inc. ("WOW") to purchase all of its broadband systems located in Ohio ("Ohio broadband systems"). The Ohio broadband systems are valued at US\$1.125 billion, plus transaction and financing costs. The Ohio broadband systems pass approximately 688,000 homes and businesses in Cleveland and Columbus and served approximately 196,000 Internet, 61,000 video and 35,000 telephony customers, as of March 31, 2021. The acquisition represents a strong strategic fit for Cogeco Communications as it is complementary to Atlantic Broadband's existing footprint and capitalizes on its existing platform.

The purchase price and transaction costs will be financed through US\$900 million of committed secured debt financing provided to Atlantic Broadband, and excess cash on hand. The acquisition is subject to regulatory approvals along with other customary closing conditions and is expected to close in the first quarter of fiscal 2022.

Atlantic Broadband has entered into a Transition Service Agreement with WOW, which will ensure a smooth transition period and allow Atlantic Broadband to further upgrade the network and launch its products and services, including a state-of-the-art IPTV platform. In conjunction with the acquisition, Atlantic Broadband expects to realize tax benefits with a present value of approximately US\$140 million. These benefits are mostly due to the tax amortization of intangible assets in an asset purchase transaction where such intangible assets are stepped up to current market value.

Final rates for aggregated wholesale Internet access services

On May 27, 2021, the Canadian Radio-television and Telecommunications Commission ("CRTC") released Telecom Decision 2021-181, which ruled on applications by cable carriers (including Cogeco Communications) and telecommunications carriers to review and vary Telecom Order 2019-288, in which the CRTC had set new rates for aggregated wholesale Internet access services. In this decision, the CRTC overturned the 2019 rate reductions and made the interim rates it had previously established in 2016, with certain adjustments, final. The CRTC's decision provides a more stable regulatory environment, pending its review of the methodology to establish these rates, which helps ensure continuity in current investments aimed at increasing access to high-speed Internet in underserved and unserved areas. As a result of this decision, the Corporation will be required to make retroactive payments to wholesale Internet access customers for the period of March to October 2016 and has recognized an amount of \$4.6 million as a reduction of revenue during the third quarter of fiscal 2021.

On May 28, 2021, TekSavvy Solutions Inc. ("TekSavvy") petitioned the Governor in Council to overturn Telecom Decision 2021-181 and reinstate the CRTC's 2019 rate decision. The Governor in Council has yet to issue its decision on this petition. On June 28, 2021, TekSavvy filed a motion for leave to appeal the decision before the Federal Court of Appeal, which is currently pending.

Federal Communications Commission's Emergency Broadband Benefit Program

On May 12, 2021, Atlantic Broadband announced it will provide broadband connectivity at discounted prices for financially struggling households through the Federal Communications Commission's Emergency Broadband Benefit ("EBB") program. Under the program, Atlantic Broadband will provide a discount of up to US\$50 per month towards broadband services for eligible households (and up to US\$75 per month for households on qualifying Tribal lands) so that they can be connected for distance learning, work from home, telehealth and other critical online destinations during the COVID-19 pandemic. New, existing and prior customers that meet financial eligibility requirements may choose from various Internet packages with speeds designed to meet a range of household needs. Atlantic Broadband will receive reimbursement for each eligible EBB customer who is credited during the EBB period, in accordance with the program, starting in July 2021 and until the program closes.

Acquisition and sale of radio stations

On May 6, 2021, Cogeco Media announced that it had entered into an agreement with Arsenal Média to acquire and sell radio stations located in the Saguenay-Lac-Saint-Jean and Abitibi-Témiscamingue regions. Cogeco Media will acquire a radio station owned by Arsenal Média in the Saguenay-Lac-Saint-Jean region, known as the CILM radio station, and will simultaneously sell to Arsenal Média two radio stations owned by Cogeco Media in the Abitibi-Témiscamingue region, known as the Capitale Rock and Wow radio stations.

This transaction is subject to customary closing conditions, including the approval of the Canadian Radio-television and Telecommunications Commission.

Wireless developments

CRTC MVNO framework

On April 15, 2021, the CRTC issued Telecom Regulatory Policy 2021-130, *Review of mobile wireless services*, which aims to provide Canadians with greater wireless choice, better services and affordable prices. This decision requires Bell, Rogers, TELUS and SaskTel to provide mobile virtual network operator ("MVNO") access to regional carriers that invest in infrastructure and spectrum. These national carriers must give access to regional wireless carriers in areas where they have Tier 4 spectrum licences or higher. Cogeco Connexion currently has Tier 4 spectrum in 37 of the 55 Tier 4 areas where it currently offers service in Ontario and Québec. MVNO access is for a period of seven years and rates are to be commercially negotiated, with final offer arbitration by the CRTC as a last resort.

The new framework provides more clarity as we develop our plans to offer mobile wireless services.

3500 MHz spectrum auction

Cogeco Connexion is a qualified bidder in the auction for spectrum licences in the 3500 MHz band, which started on June 15, 2021 and is still ongoing. 200 MHz of spectrum are available in the 3500 MHz band with 50 MHz set aside for smaller and regional competitors. In April 2021, Cogeco Connexion contracted a new unsecured letter of credit which was submitted to Innovation, Science and Economic Development ("ISED") Canada as a pre-auction deposit, with the application to bid. In accordance with the rules of confidentiality established by ISED Canada respecting communications during the auction process, the Corporation is forbidden from disclosing the amount of this letter of credit. The results of the auction are expected to be released in the next few weeks.

Canadian tax

The last federal budget introduced on April 19, 2021 included certain international measures relating to the Organisation for Economic Co-operation and Development's ("OECD") Base Erosion and Profit Shifting ("BEPS") project. Specifically, the budget includes proposals for new interest deductibility limits and anti-hybrid rules. From the limited information available, the new interest deductibility limits should not affect Cogeco. The Corporation will monitor the release in the coming months of the draft rules, to assess any potential adverse impact on its global tax situation, which, if any, is not expected to occur before 2023.

United States tax

The US administration intends to increase the corporate tax rate and potentially add a minimum corporate tax on book income. If the changes related to corporate tax rates were to be implemented, the Corporation would incur a one-time non-cash deferred tax expense on the re-evaluation of the deferred tax liabilities and its future tax expenses would increase. With regards to the minimum corporate tax on book income, based on the most recent information available, the Corporation does not expect it will have any impact on its business.

Acceleration of Cogeco Connexion's high-speed Internet network expansion in Québec in collaboration with the provincial and federal governments

On March 22, 2021, Cogeco Communications announced that Cogeco Connexion will carry out 13 high-speed Internet network expansion projects in several regions of Québec, in collaboration with the provincial and federal governments. These regional infrastructure projects represent an investment of approximately \$240 million, of which \$208 million will come from the provincial and federal governments, in the form of government subsidies.

Once these projects are completed, more than 54,000 homes and businesses will be connected to Cogeco Connexion's high-speed Internet services. These digital infrastructure investment projects are scheduled to be completed by September 2022. On March 26, 2021, Cogeco Connexion received \$187.5 million of the \$208 million expected government subsidies, to be used to pay for a portion of the expansion projects, with the remainder expected to be received upon completion of the projects. The amount of subsidies may vary depending on actual construction scope and costs. The projects are also subject to penalties, except for events out of Cogeco Connexion's control, if their delivery extends beyond September 2022.

Acquisition of DERYtelecom

On December 14, 2020, Cogeco Connexion completed the acquisition of DERYtelecom, the third largest cable operator in the province of Québec, for a purchase price of \$403 million, subject to customary post-closing adjustments. The transaction was executed essentially through an asset purchase. This acquisition enables Cogeco Connexion to expand its activities in more than 200 municipalities in Québec and adds approximately 100,000 customers to its customer base. The purchase price was financed through a combination of cash on hand and borrowings under Cogeco Communications' Term Revolving Facility. As the transaction was executed essentially through an asset purchase, Cogeco Connexion expects to realize tax benefits with a present value of approximately \$40 million. These benefits are due to the tax amortization of tangible and intangible assets which are both stepped up to current market value in an asset purchase transaction.

4. OPERATING AND FINANCIAL RESULTS

4.1 OPERATING RESULTS

	2021 ⁽¹⁾	2020	Change	Three months ended May 31,	
				Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
(In thousands of Canadian dollars, except percentages)	\$	\$	%	%	\$
Revenue	649,260	626,013	3.7	9.3	(34,874)
Operating expenses	346,920	327,569	5.9	12.1	(20,174)
Adjusted EBITDA	302,340	298,444	1.3	6.2	(14,700)

(1) For the three-month period ended May 31, 2021, the average foreign exchange rate used for translation was 1.2399 USD/CDN.

(2) Fiscal 2021 actuals are translated at the average foreign exchange rate of fiscal 2020, which was 1.3994 USD/CDN.

				Nine months ended May 31,	
	2021 (1)	2020	Change	Change in constant currency (2)	Foreign exchange impact (2)
(In thousands of Canadian dollars, except percentages)	\$	\$	%	%	\$
Revenue	1,948,771	1,855,279	5.0	7.5	(45,642)
Operating expenses	1,016,927	986,717	3.1	5.7	(26,240)
Adjusted EBITDA	931,844	868,562	7.3	9.5	(19,402)

(1) For the nine-month period ended May 31, 2021, the average foreign exchange rate used for translation was 1.2771 USD/CND.

(2) Fiscal 2021 actuals are translated at the average foreign exchange rate of fiscal 2020, which was 1.3466 USD/CND.

REVENUE

				Three months ended May 31,	
	2021	2020	Change	Change in constant currency	Foreign exchange impact
(In thousands of Canadian dollars, except percentages)	\$	\$	%	%	\$
Canadian broadband services	353,336	320,547	10.2	10.2	—
American broadband services	270,972	285,274	(5.0)	7.2	(34,874)
Cogeco Communications	624,308	605,821	3.1	8.8	(34,874)
Other	24,952	20,192	23.6	23.6	—
Consolidated	649,260	626,013	3.7	9.3	(34,874)

				Nine months ended May 31,	
	2021	2020	Change	Change in constant currency	Foreign exchange impact
(In thousands of Canadian dollars, except percentages)	\$	\$	%	%	\$
Canadian broadband services	1,036,247	963,575	7.5	7.5	—
American broadband services	841,522	815,540	3.2	8.8	(45,642)
Cogeco Communications	1,877,769	1,779,115	5.5	8.1	(45,642)
Other	71,002	76,164	(6.8)	(6.8)	—
Consolidated	1,948,771	1,855,279	5.0	7.5	(45,642)

For the third quarter of fiscal 2021, revenue increased by 3.7% (9.3% in constant currency), resulting mainly from:

- organic growth in both the Canadian broadband services and the American broadband services segments, resulting mainly from growth in Internet service customers given the increased demand for high-speed offerings in the context of the COVID-19 pandemic, and rate increases implemented for certain services;
- the DERYtelecom acquisition completed on December 14, 2020, which contributed to the revenue growth in the Canadian broadband services segment; and
- revenue increase in the media activities, mainly following the easing of public health restrictions, whereby last year's third quarter radio advertising revenue was directly impacted by COVID-19 related lockdown measures; partly offset by
- a retroactive adjustment of \$4.6 million recognized following the CRTC's decision on aggregated wholesale Internet rates during the third quarter of fiscal 2021, within the Canadian broadband services segment.

For the first nine months of fiscal 2021, revenue increased 5.0% (7.5% in constant currency), resulting mainly from:

- organic growth in both the Canadian broadband services and the American broadband services segments, resulting mainly from growth in Internet service customers given the increased demand for high-speed offerings in the context of the COVID-19 pandemic, and rate increases implemented for certain services;
- the DERYtelecom acquisition completed on December 14, 2020, which contributed to the revenue growth in the Canadian broadband services segment; and
- the Thames Valley Communications acquisition completed on March 10, 2020, which contributed to the revenue growth in the American broadband services segment; partly offset by
- lower revenue in the media activities due to a decline of the radio advertising market resulting directly from the COVID-19 pandemic as the bulk of its radio revenue is generated from the retail industry which was significantly impacted by the pandemic since the second half of fiscal 2020; and

- a retroactive adjustment of \$4.6 million recognized following the CRTC's decision on aggregated wholesale Internet rates during the third quarter of fiscal 2021, within the Canadian broadband services segment.

Excluding the acquisition of DERYtelecom and the impact of the \$4.6 million recognized following the CRTC's decision on aggregated wholesale Internet rates, revenue in constant currency increased by 5.6% for the third quarter of fiscal 2021. Excluding the acquisitions of DERYtelecom and Thames Valley Communications, and the impact of the \$4.6 million recognized following the CRTC's decision on aggregated wholesale Internet rates, revenue in constant currency increased by 4.6% for the first nine months of fiscal 2021.

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

OPERATING EXPENSES

	2021	2020	Change	Three months ended May 31, Change in constant currency	Foreign exchange impact
<i>(In thousands of Canadian dollars, except percentages)</i>	\$	\$	%	%	\$
Canadian broadband services	164,351	143,809	14.3	14.9	(897)
American broadband services	149,458	155,843	(4.1)	8.3	(19,277)
Corporate and eliminations	7,648	5,269	45.2	45.2	—
Cogeco Communications	321,457	304,921	5.4	12.0	(20,174)
Other	25,463	22,648	12.4	12.4	—
Consolidated	346,920	327,569	5.9	12.1	(20,174)

	2021	2020	Change	Nine months ended May 31, Change in constant currency	Foreign exchange impact
<i>(In thousands of Canadian dollars, except percentages)</i>	\$	\$	%	%	\$
Canadian broadband services	471,440	445,510	5.8	6.1	(1,162)
American broadband services	451,953	445,243	1.5	7.1	(25,078)
Corporate and eliminations	21,733	16,941	28.3	28.3	—
Cogeco Communications	945,126	907,694	4.1	7.0	(26,240)
Other	71,801	79,023	(9.1)	(9.1)	—
Consolidated	1,016,927	986,717	3.1	5.7	(26,240)

For the third quarter of fiscal 2021, operating expenses increased by 5.9% (12.1% in constant currency), mainly resulting from:

- higher operating expenses in the Canadian broadband services segment resulting from the DERYtelecom acquisition;
- higher marketing and advertising expense, in both the Canadian broadband services and the American broadband services segments, to support our overall customer base growth, as these planned expenses were deferred during the first half of fiscal 2021 in the context of the COVID-19 pandemic;
- higher operating expenses in the American broadband services segment driven by the revenue growth, combined with annual video programming rate increases; and
- higher operating expenses in the media activities resulting from revenue growth.

For the first nine months of fiscal 2021, operating expenses increased by 3.1% (5.7% in constant currency), mainly resulting from:

- higher operating expenses in the Canadian broadband services segment resulting from the DERYtelecom acquisition; and
- higher operating expenses in the American broadband services segment driven by the revenue growth, including higher operating expenses resulting from the Thames Valley Communications acquisition, combined with annual video programming rate increases; partly offset by
- lower operating expenses in the media activities, as Cogeco Media tightly managed its costs in light of its revenue being adversely impacted by certain segments of the retail industry reducing or cutting their advertising activities in the context of the COVID-19 pandemic.

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

ADJUSTED EBITDA

				Three months ended May 31,	
	2021	2020	Change	Change in constant currency	Foreign exchange impact
(In thousands of Canadian dollars, except percentages)	\$	\$	%	%	\$
Canadian broadband services	188,985	176,738	6.9	6.4	897
American broadband services	121,514	129,431	(6.1)	5.9	(15,597)
Corporate and eliminations	(13,500)	(11,452)	17.9	17.9	—
Cogeco Communications	296,999	294,717	0.8	5.8	(14,700)
Other	5,341	3,727	43.3	43.3	—
Consolidated	302,340	298,444	1.3	6.2	(14,700)

				Nine months ended May 31,	
	2021	2020	Change	Change in constant currency	Foreign exchange impact
(In thousands of Canadian dollars, except percentages)	\$	\$	%	%	\$
Canadian broadband services	564,807	518,065	9.0	8.8	1,162
American broadband services	389,569	370,297	5.2	10.8	(20,564)
Corporate and eliminations	(39,290)	(34,168)	15.0	15.0	—
Cogeco Communications	915,086	854,194	7.1	9.4	(19,402)
Other	16,758	14,368	16.6	16.6	—
Consolidated	931,844	868,562	7.3	9.5	(19,402)

For the third quarter and the first nine months of fiscal 2021, adjusted EBITDA increased by 1.3% and 7.3% (6.2% and 9.5% in constant currency), respectively, as a result of:

- an increase in the Canadian broadband services segment mainly resulting from revenue growth and the impact of the DERYtelecom acquisition, partly offset by a retroactive adjustment of \$4.6 million recognized as a reduction of revenue during the third quarter following the CRTC's decision on aggregated wholesale Internet rates; and
- an increase in the American broadband services segment, mainly resulting from revenue growth, partly offset by a non-recurring gain on disposal of property, plant and equipment amounting to US\$1.7 million recorded during the third quarter of fiscal 2020.

In addition, adjusted EBITDA for the first nine months of fiscal 2021 was favorably impacted by the timing of certain sales and marketing activities deferred, in both countries, in the context of the COVID-19 pandemic and the impact of the Thames Valley Communications acquisition within the American broadband services segment.

Excluding the acquisition of DERYtelecom, the impact of the \$4.6 million recognized following the CRTC's decision on aggregated wholesale Internet rates and the previous year's non-recurring gain on disposal of property, plant and equipment of US\$1.7 million, adjusted EBITDA in constant currency increased by 4.2% for the third quarter of fiscal 2021. Excluding the acquisitions of DERYtelecom and Thames Valley Communications, the impact of the \$4.6 million recognized following the CRTC's decision on aggregated wholesale Internet rates, and the non-recurring gain on disposal of property, plant and equipment of US\$1.7 million, adjusted EBITDA in constant currency increased by 7.2% for the first nine months of fiscal 2021.

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

4.2 INTEGRATION, RESTRUCTURING AND ACQUISITION COSTS

For the third quarter and first nine months of fiscal 2021, integration, restructuring and acquisition costs amounted to \$1.3 million and \$4.8 million, respectively, mostly related to due diligence costs related to the acquisition of WideOpenWest's Ohio broadband systems, announced on June 30, 2021, and costs related to the acquisition and integration of DERYtelecom, which was completed on December 14, 2020.

For the third quarter and first nine months of fiscal 2020, integration, restructuring and acquisition costs amounted to nil and \$5.6 million, respectively, resulting from organizational changes initiated across the Corporation resulting in cost optimization, as well as costs related to the acquisition and integration of Thames Valley Communications.

4.3 DEPRECIATION AND AMORTIZATION

	Three months ended May 31,			Nine months ended May 31,		
	2021	2020	Change	2021	2020	Change
<i>(In thousands of Canadian dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Depreciation of property, plant and equipment ⁽¹⁾	119,702	115,162	3.9	348,838	334,270	4.4
Amortization of intangible assets	9,667	15,089	(35.9)	34,163	43,663	(21.8)
	129,369	130,251	(0.7)	383,001	377,933	1.3

(1) Includes depreciation of right-of-use assets amounting to \$1.9 million and \$5.7 million (\$2.2 million and \$6.3 million in 2020) for the three and nine-month periods of fiscal 2021.

For the third quarter of fiscal 2021, depreciation and amortization expense decreased by 0.7%, mainly due to:

- the depreciation of the US dollar against the Canadian dollar compared to the same period of the prior year; and
- lower amortization of intangible assets related to previously acquired customer relationships; partly offset by
- an increase of depreciation of property, plant and equipment as a result of the acquisition of DERYtelecom combined with a higher level of capital expenditures.

For the first nine months of fiscal 2021, depreciation and amortization expense increased by 1.3%, mainly due to:

- an increase of depreciation of property, plant and equipment as a result of the acquisition of DERYtelecom combined with a higher level of capital expenditures; partly offset by
- the depreciation of the US dollar against the Canadian dollar compared to the same period of the prior year; and
- lower amortization of intangible assets in respect to previously acquired customer relationships.

4.4 FINANCIAL EXPENSE

	Three months ended May 31,			Nine months ended May 31,		
	2021	2020	Change	2021	2020	Change
<i>(In thousands of Canadian dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Interest on long-term debt, excluding interest on lease liabilities	30,887	40,347	(23.4)	97,651	120,890	(19.2)
Interest on lease liabilities	571	631	(9.5)	1,723	1,872	(8.0)
Gain on debt modification	—	—	—	—	(22,898)	(100.0)
Net foreign exchange loss	1,698	347	—	1,036	345	—
Amortization of deferred transaction costs	203	238	(14.7)	638	953	(33.1)
Capitalized borrowing costs	(41)	(169)	(75.7)	(132)	(462)	(71.4)
Other	1,205	232	—	2,761	(5,032)	—
	34,523	41,626	(17.1)	103,677	95,668	8.4

For the third quarter of fiscal 2021, financial expense decreased by 17.1%, mainly due to:

- lower interest expense on the Senior Secured Term Loan B Facility resulting from the decrease in the interest rate and in the principal amount outstanding;
- the early redemption of the Senior Secured Debentures Series 2 in July 2020; and
- the depreciation of the US dollar against the Canadian dollar compared to the same period of the prior year; partly offset by
- lower interest revenue resulting from investments given lower excess cash.

For the first nine months of fiscal 2021, financial expense increased by 8.4%, mainly due to:

- the \$22.9 million non-cash gain on debt modification recognized during the second quarter of fiscal 2020 related to the amendment made to the Senior Secured Term Loan B Facility on February 3, 2020 resulting from the reduction of the interest rate by 0.25%; and
- lower interest revenue resulting from investments given lower excess cash; partly offset by
- lower interest expense on the Senior Secured Term Loan B Facility resulting from the decrease in the interest rate and in the principal amount outstanding;
- the early redemption of the Senior Secured Debentures Series 2 in July 2020; and
- the depreciation of the US dollar against the Canadian dollar compared to the same period of the prior year.

4.5 INCOME TAXES

	Three months ended May 31,			Nine months ended May 31,		
	2021	2020	Change	2021	2020	Change
<i>(In thousands of Canadian dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Current	7,052	15,851	(55.5)	46,668	46,156	1.1
Deferred	25,130	13,208	90.3	58,118	38,159	52.3
	32,182	29,059	10.7	104,786	84,315	24.3

	Three months ended May 31,			Nine months ended May 31,		
	2021	2020	Change	2021	2020	Change
<i>(In thousands of Canadian dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Profit before income taxes	137,176	126,555	8.4	440,383	389,411	13.1
Combined Canadian income tax rate	26.5 %	26.5 %	—	26.5 %	26.5 %	—
Income taxes at combined Canadian income tax rate	36,351	33,537	8.4	116,701	103,194	13.1
Difference in operations' statutory income tax rates	621	658	(5.6)	2,201	1,875	17.4
Impact on income taxes arising from non-deductible expenses and non-taxable profit	375	500	(25.0)	744	(575)	—
Tax impacts related to foreign operations	(4,765)	(5,610)	(15.1)	(14,800)	(18,223)	(18.8)
Other	(400)	(26)	—	(60)	(1,956)	(96.9)
Income taxes at effective income tax rate	32,182	29,059	10.7	104,786	84,315	24.3
Effective income tax rate	23.5%	23.0%	2.2	23.8%	21.7%	9.7

For the third quarter and the first nine months of fiscal 2021, income taxes expense increased by 10.7% and 24.3%, respectively, mainly due to the increase in profit before income taxes. In addition, current income taxes were favorably impacted by a retroactive adjustment of \$7.1 million recognized during the third quarter of fiscal 2021, and \$4.1 million for the first nine months, following the harmonization of the Québec tax legislation with the federal's accelerated tax depreciation measure, which was considered substantively enacted on March 10, 2021.

4.6 PROFIT FOR THE PERIOD

	Three months ended May 31,			Nine months ended May 31,		
	2021	2020	Change	2021	2020	Change
<i>(In thousands of Canadian dollars, except percentages and earnings per share)</i>	\$	\$	%	\$	\$	%
Profit for the period	104,994	97,496	7.7	335,597	305,096	10.0
Profit for the period attributable to owners of the Corporation	34,548	31,118	11.0	108,774	97,377	11.7
Profit for the period attributable to non-controlling interest ⁽¹⁾	70,446	66,378	6.1	226,823	207,719	9.2
Basic earnings per share	2.17	1.96	10.7	6.84	6.11	11.9

(1) At May 31, 2021, the non-controlling interest relates to a participation of approximately 66.8% in the profit for the period attributable to owners of Cogeco Communications in addition to the 21% ownership of Caisse de dépôt et placement du Québec ("CDPQ") in Cogeco Communications' Atlantic Broadband subsidiary.

Fiscal 2021 third-quarter profit for the period and profit for the period attributable to owners of the Corporation increased by 7.7% and 11.0%, respectively, as a result of:

- higher adjusted EBITDA; and
- lower financial expense; partly offset by
- the depreciation of the US dollar; and
- higher income taxes expense.

For the first nine months of fiscal 2021, profit for the period and profit for the period attributable to owners of the Corporation increased by 10.0% and 11.7%, respectively, as a result of:

- higher adjusted EBITDA; partly offset by
- higher income taxes expense; and
- higher financial expense, mainly due to the \$22.9 million non-cash gain on debt modification recognized during the second quarter of fiscal 2020, partly offset by lower interest expense.

5. RELATED PARTY TRANSACTIONS

Cogeco held, as of May 31, 2021, 33.2% of Cogeco Communications' equity shares, representing 83.3% of the votes attached to Cogeco Communications' voting shares.

Cogeco provides executive, administrative, financial, strategic planning and additional services to Cogeco Communications under a Management Services Agreement (the "Agreement"). The methodology used to establish the management fees is based on the costs incurred by Cogeco plus a reasonable mark-up. Provision is made for future adjustments upon the request of either Cogeco Communications or the Corporation from time to time during the term of the Agreement. For the third quarter and the first nine months of fiscal 2021, management fees paid by Cogeco Communications amounted to \$5.9 million and \$17.6 million, respectively, compared to \$6.2 million and \$17.2 million for the same periods of fiscal 2020.

No direct remuneration is payable to Cogeco's executive officers by Cogeco Communications. However, during the first nine months of fiscal 2021 and 2020, Cogeco Communications granted stock options and performance share units ("PSUs") to these executive officers, as executive officers of Cogeco Communications, and issued deferred share units ("DSUs") to Board directors of Cogeco, as shown in the following table:

	Nine months ended May 31,	
<i>(In number of units)</i>	2021	2020
Stock options	69,200	110,875
PSUs	10,375	14,375
DSUs	792	1,847

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

	Three months ended May 31,		Nine months ended May 31,	
<i>(In thousands of Canadian dollars)</i>	2021	2020	2021	2020
	\$	\$	\$	\$
Stock options	274	331	885	901
ISUs	—	8	6	30
PSUs	233	351	358	1,048
DSUs	61	6	249	149
	568	696	1,498	2,128

6. CASH FLOWS ANALYSIS

	Three months ended May 31,			Nine months ended May 31,		
<i>(In thousands of Canadian dollars, except percentages)</i>	2021	2020	Change	2021	2020	Change
	\$	\$	%	\$	\$	%
Cash flows from operating activities	269,078	292,075	(7.9)	746,229	679,263	9.9
Cash flows used in investing activities	(126,175)	(200,232)	(37.0)	(750,796)	(431,590)	74.0
Cash flows used in financing activities	(90,780)	(71,410)	27.1	(74,376)	(285,806)	(74.0)
Effect of exchange rate changes on cash and cash equivalents denominated in a foreign currency	(13,787)	2,987	—	(21,089)	5,277	—
Net change in cash and cash equivalents	38,336	23,420	63.7	(100,032)	(32,856)	—
Cash and cash equivalents, beginning of the period	267,745	503,117	(46.8)	406,113	559,393	(27.4)
Cash and cash equivalents, end of the period	306,081	526,537	(41.9)	306,081	526,537	(41.9)

6.1 OPERATING ACTIVITIES

Fiscal 2021 third-quarter cash flows from operating activities decreased by 7.9% mainly due to:

- the increase in income taxes paid, mainly due to the timing of income tax instalments; and
- the depreciation of the US dollar; partly offset by
- the decrease in interest paid.

For the first nine months of fiscal 2021, cash flows from operating activities increased by 9.9% mainly from:

- higher adjusted EBITDA;
- changes in non-cash operating activities primarily due to timing of the payment of trade and other payables;
- the decrease in interest paid; partly offset by
- the depreciation of the US dollar; and
- the increase in income taxes paid, mainly due to the timing of year-end income tax instalments.

6.2 INVESTING ACTIVITIES

For the third quarter of fiscal 2021, cash flows used in investing activities decreased by 37.0%, mainly as a result of the acquisitions of Thames Valley Communications and iTéract completed during the third quarter last year.

For the first nine months of fiscal 2021, cash flows used in investing activities increased by 74.0%, mainly due to the acquisition of DERYtelecom completed during the second quarter of fiscal 2021, partly offset by cash flows used in connection with the acquisitions of Thames Valley Communications and iTéract last year.

ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT AND CAPITAL INTENSITY

The acquisition of property, plant and equipment, as well as the capital intensity per operating segment are as follows:

	Three months ended May 31,				Nine months ended May 31,			
	2021	2020	Change	Change in constant currency (1)	2021	2020	Change	Change in constant currency (2)
<i>(In thousands of Canadian dollars, except percentages)</i>	\$	\$	%	%	\$	\$	%	%
Canadian broadband services	57,230	61,217	(6.5)	(2.6)	180,294	202,108	(10.8)	(9.2)
Capital intensity ⁽³⁾	16.2 %	19.1 %			17.4 %	21.0 %		
American broadband services	67,579	61,184	10.5	24.7	174,485	151,965	14.8	22.0
Capital intensity ⁽³⁾	24.9 %	21.4 %			20.7 %	18.6 %		
Corporate and eliminations	1,761	1,252	40.7	40.7	3,227	1,722	87.4	87.4
Cogeco Communications	126,570	123,653	2.4	11.3	358,006	355,795	0.6	4.6
Capital intensity ⁽³⁾	20.3 %	20.4 %			19.1 %	20.0 %		
Other	175	125	40.0	40.0	978	1,235	(20.8)	(20.8)
Consolidated	126,745	123,778	2.4	11.4	358,984	357,030	0.5	4.5

(1) Fiscal 2021 actuals are translated at the average foreign exchange rate of fiscal 2020, which was 1.3994 USD/CDN.

(2) Fiscal 2021 actuals are translated at the average foreign exchange rate of fiscal 2020, which was 1.3466 USD/CDN.

(3) 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.

Fiscal 2021 third-quarter acquisition of property, plant and equipment increased by 2.4% (11.4% in constant currency), and for the first nine months of fiscal 2021, remained comparable to same period of the prior year, with an overall increase of 0.5% (4.5% in constant currency), mainly due to:

- higher capital expenditures in the American broadband services segment in order to support the segment's revenue growth driven by increased demand for the high-speed Internet product, combined with equipment upgrades, the timing of certain initiatives and accelerated purchases of certain equipment to prevent potential supply chain shortages given the impact of the COVID-19 pandemic; partly offset by
- lower capital expenditures in the Canadian broadband services segment, resulting mainly from the timing of certain initiatives.

For the third quarter and the first nine months of fiscal 2021, capital intensity of Cogeco Communications reached 20.3% and 19.1%, respectively, compared to 20.4% and 20.0% for the same periods of the prior year. Capital intensity decreases for both periods are explained mainly as a result of revenue growth combined with lower capital expenditures in the Canadian broadband services segment, partly offset by higher capital expenditures in the American broadband services segment.

For further details on the Corporation's acquisition of property, plant and equipment, please refer to the "Segmented operating and financial results" section.

6.3 FINANCING ACTIVITIES

ISSUANCE AND REPAYMENT OF DEBT

For the third quarter and the first nine months of fiscal 2021, changes in cash flows from the issuance and repayment of debt are mainly explained as follows:

	Three months ended May 31,		Nine months ended May 31,		Explanations
	2021	2020	2021	2020	
<i>(In thousands of Canadian dollars)</i>	\$	\$	\$	\$	
Increase (decrease) in bank indebtedness	6,688	(732)	(922)	—	Timing of payments made to suppliers.
Net (decrease) increase under the revolving facilities	(14,732)	24,242	123,150	25,544	Mainly related to the DERYtelecom acquisition, which was financed in part through Cogeco Communications' Term Revolving Facility. A portion was repaid during the third quarter as a result of free cash flow generated.
Repayment of notes, debentures and credit facilities	(5,158)	(5,859)	(16,112)	(63,603)	Mainly related to a repayment of US\$35 million on the Senior Secured Term Loan B Facility during the second quarter of fiscal 2020.
Repayment of lease liabilities	(1,523)	(1,689)	(4,345)	(4,812)	Comparable.
Repayment of balance due on business combinations	(600)	—	(1,858)	(3,228)	Repayment of the balances related to the FiberLight and RNC Média acquisitions.
	(15,325)	15,962	99,913	(46,099)	

DIVIDENDS

During the third quarter of fiscal 2021, a quarterly eligible dividend of \$0.545 per share was paid to the holders of multiple and subordinate voting shares, totalling \$8.6 million, compared to a quarterly eligible dividend of \$0.475 per share or \$7.5 million, in the third quarter of fiscal 2020. Dividend payment in the first nine months of fiscal 2021 totalled \$1.635 per share or \$25.9 million compared to \$1.425 or \$22.7 million in the prior year.

NORMAL COURSE ISSUER BID ("NCIB")

Cogeco

The Corporation did not renew its NCIB program following the end of the program on August 1, 2020.

During the third quarter and first nine months of fiscal 2020, Cogeco had purchased and cancelled 34,595 and 119,450 subordinate voting shares with an average price per share repurchased of \$85.50 and \$95.32 for a total consideration of \$3.0 million and \$11.4 million.

Cogeco Communications

On April 30, 2021, Cogeco Communications announced that the TSX accepted the renewal of its notice of intention for a NCIB, enabling it to acquire for cancellation up to 2,068,000 subordinate voting shares from May 4, 2021 to May 3, 2022. Under its previous NCIB that commenced on May 4, 2020 and ended on May 3, 2021, Cogeco Communications could purchase for cancellation a maximum of 1,809,000 subordinate shares.

On September 2, 2020, Cogeco Communications ceased repurchasing shares under the NCIB as a result of an unsolicited proposal to acquire Cogeco Communications. During the second quarter of fiscal 2021, Cogeco Communications resumed the repurchasing of shares.

The NCIB purchases were as follows:

	Three months ended May 31,		Nine months ended May 31,	
	2021	2020	2021	2020
<i>(In thousands of Canadian dollars, except number of shares and weighted average purchase price per share)</i>	\$	\$	\$	\$
Subordinate voting shares purchased and cancelled	414,000	601,900	742,600	1,397,400
Weighted average purchase price per share	118.28	98.73	115.13	104.41
Purchase costs	48,967	59,425	85,492	145,902

Cogeco Communications entered into an automatic share purchase plan (the "ASPP") with a designated broker to allow for the purchase of subordinate voting shares under the NCIB at times when Cogeco Communications would ordinarily not be permitted to purchase shares due to regulatory restrictions or self-imposed blackout periods. Such purchases are executed by the broker on parameters established by Cogeco Communications prior to the pre-established ASPP period.

6.4 FREE CASH FLOW

	Three months ended May 31,				
	2021 ⁽¹⁾	2020	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(In thousands of Canadian dollars, except percentages)</i>	\$	\$	%	%	\$
Adjusted EBITDA ⁽³⁾	302,340	298,444	1.3	6.2	(14,700)
Amortization of deferred transaction costs and discounts on long-term debt	2,354	2,403	(2.0)	8.9	(264)
Share-based payment	3,022	2,498	21.0	21.0	—
Gain on disposals and write-offs of property, plant and equipment and other	(916)	(1,599)	(42.7)	(42.7)	—
Defined benefit plans expense, net of contributions	882	363	—	—	—
Integration, restructuring and acquisition costs	(1,272)	(12)	—	—	110
Financial expense	(34,523)	(41,626)	(17.1)	(9.5)	3,160
Current income taxes	(7,052)	(15,851)	(55.5)	(54.6)	140
Acquisition of property, plant and equipment	(126,745)	(123,778)	2.4	11.4	11,093
Repayment of lease liabilities	(1,523)	(1,689)	(9.8)	(5.4)	75
Free cash flow ⁽³⁾	136,567	119,153	14.6	14.9	(386)

(1) For the three-month period ended May 31, 2021, the average foreign exchange rate used for translation was 1.2399 USD/CDN.

(2) Fiscal 2021 actuals are translated at the average foreign exchange rate of fiscal 2020, which was 1.3994 USD/CDN.

(3) 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, including reconciliation to the most comparable IFRS financial measures.

	Nine months ended May 31,				
	2021 ⁽¹⁾	2020	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(In thousands of Canadian dollars, except percentages)</i>	\$	\$	%	%	\$
Adjusted EBITDA ⁽³⁾	931,844	868,562	7.3	9.5	(19,402)
Amortization of deferred transaction costs and discounts on long-term debt	6,994	7,219	(3.1)	1.6	(344)
Share-based payment	8,440	7,861	7.4	7.4	—
Gain on disposals and write-offs of property, plant and equipment and other	(2,093)	(359)	—	—	—
Defined benefit plans contributions, net of expense	(1,370)	1,944	—	—	—
Integration, restructuring and acquisition costs	(4,783)	(5,550)	(13.8)	(11.5)	130
Financial expense ⁽⁴⁾	(103,677)	(118,566)	(12.6)	(9.0)	4,159
Current income taxes	(46,668)	(46,156)	1.1	1.3	101
Acquisition of property, plant and equipment	(358,984)	(357,030)	0.5	4.5	14,187
Repayment of lease liabilities	(4,345)	(4,812)	(9.7)	(7.6)	99
Free cash flow ⁽³⁾	425,358	353,113	20.5	20.8	(1,070)

(1) For the nine-month period ended May 31, 2021, the average foreign exchange rate used for translation was 1.2771 USD/CDN.

(2) Fiscal 2021 actuals are translated at the average foreign exchange rate of fiscal 2020, which was 1.3466 USD/CDN.

(3) 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, including reconciliation to the most comparable IFRS financial measures.

(4) Excludes the non-cash gain on debt modification of \$22.9 million recognized during the second quarter of fiscal 2020.

Fiscal 2021 third-quarter free cash flow increased by 14.6% (14.9% in constant currency) mainly due to the following:

- higher adjusted EBITDA;
- the decrease in current income taxes, mainly following the harmonization of the Québec tax legislation with the federal's accelerated tax depreciation measure, which favorably impacted our current income taxes expense during the third quarter as legislation became substantively enacted on March 10, 2021; and
- the decrease in financial expense; partly offset by
- higher capital expenditures.

For the first nine months of fiscal 2021, free cash flow increased by 20.5% (20.8% in constant currency) mainly due to the following:

- higher adjusted EBITDA; and
- the decrease in financial expense, when excluding the fiscal 2020 non-cash gain on debt modification of \$22.9 million; partly offset by
- higher capital expenditures.

6.5 DIVIDEND DECLARATION

At its July 14, 2021 meeting, the Board of Directors of Cogeco declared a quarterly eligible dividend of \$0.545 per share for multiple and subordinate voting shares, payable on August 11, 2021 to shareholders of record on July 28, 2021. The declaration, amount and date of any future dividend will continue to be considered and approved by the Board of Directors of the Corporation based upon the Corporation's financial condition, results of operations, capital requirements and such other factors as the Board of Directors, at its sole discretion, deems relevant. There is therefore no assurance that dividends will be declared, and if declared, the amount and frequency may vary.

7. SEGMENTED OPERATING AND FINANCIAL RESULTS

The Corporation reports its operating results in two operating segments: Canadian broadband services and American broadband services. The reporting structure reflects how the Corporation manages its business activities, makes decisions about resources to be allocated to the segments and assesses their performance. During fiscal 2021, the Corporation changed the presentation of its operating segments information in order to align with the operating segments presentation of its subsidiary, Cogeco Communications.

7.1 CANADIAN BROADBAND SERVICES

OPERATING AND FINANCIAL RESULTS

	2021 ⁽¹⁾	2020	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(In thousands of Canadian dollars, except percentages)</i>	\$	\$	%	%	\$
Revenue	353,336	320,547	10.2	10.2	—
Operating expenses	164,351	143,809	14.3	14.9	(897)
Adjusted EBITDA	188,985	176,738	6.9	6.4	897
Adjusted EBITDA margin	53.5 %	55.1 %			
Acquisition of property, plant and equipment	57,230	61,217	(6.5)	(2.6)	(2,392)
Capital intensity ⁽³⁾	16.2 %	19.1 %			

(1) For the three-month period ended May 31, 2021, the average foreign exchange rate used for translation was 1.2399 USD/CDN.

(2) Fiscal 2021 actuals are translated at the average foreign exchange rate of fiscal 2020, which was 1.3994 USD/CDN.

(3) 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.

				Nine months ended May 31,	
	2021 ⁽¹⁾	2020	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(In thousands of Canadian dollars, except percentages)</i>	\$	\$	%	%	\$
Revenue	1,036,247	963,575	7.5	7.5	—
Operating expenses	471,440	445,510	5.8	6.1	(1,162)
Adjusted EBITDA	564,807	518,065	9.0	8.8	1,162
Adjusted EBITDA margin	54.5 %	53.8 %			
Acquisition of property, plant and equipment	180,294	202,108	(10.8)	(9.2)	(3,296)
Capital intensity ⁽³⁾	17.4 %	21.0 %			

(1) For the nine-month period ended May 31, 2021, the average foreign exchange rate used for translation was 1.2771 USD/CDN.

(2) Fiscal 2021 actuals are translated at the average foreign exchange rate of fiscal 2020, which was 1.3466 USD/CDN.

(3) 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.

REVENUE

For the third quarter and first nine months of fiscal 2021, revenue increased by 10.2% and 7.5%, respectively, as reported and in constant currency mainly as a result of:

- the DERYtelecom acquisition completed on December 14, 2020;
- the cumulative effect of sustained demand for residential high-speed Internet since the beginning of the pandemic due to customers spending more time at home for work, online education and entertainment purposes, resulting in customer additions and a higher product mix for the overall base; and
- rate increases implemented for certain services; partly offset by
- a retroactive adjustment of \$4.6 million recognized following the CRTC's decision on aggregated wholesale Internet rates during the third quarter of fiscal 2021; and
- a decline in video and telephony service customers as some customers have migrated to Internet-only services.

Excluding the acquisition of DERYtelecom and the impact of the \$4.6 million recognized following the CRTC's decision on aggregated wholesale Internet rates, revenue in constant currency increased by 3.0% and 2.7%, respectively, for the third quarter and the first nine months of fiscal 2021.

OPERATING EXPENSES

For the third quarter and first nine months of fiscal 2021, operating expenses increased by 14.3% and 5.8% (14.9% and 6.1% in constant currency), respectively, mainly due to higher operating expenses resulting from the DERYtelecom acquisition. For the third quarter of fiscal 2021, the operating expenses increase is also due to:

- higher marketing and advertising expense to support our overall customer base growth, as these planned expenses were deferred during the first half of fiscal 2021 in the context of the COVID-19 pandemic; partly offset by
- lower bad debt expenses compared to the third quarter of fiscal 2020 resulting from increased customers credit risk at the beginning of the COVID-19 pandemic following our commitment to not disconnect non-paying customers during that time.

ADJUSTED EBITDA

For the third quarter and first nine months of fiscal 2021, adjusted EBITDA increased by 6.9% and 9.0% (6.4% and 8.8% in constant currency), respectively, mainly resulting from:

- revenue growth; and
- the impact of the DERYtelecom acquisition; partly offset by
- a retroactive adjustment of \$4.6 million recognized as a reduction of revenue during the third quarter following the CRTC's decision on aggregated wholesale Internet rates.

In addition, adjusted EBITDA for the first nine months of fiscal 2021 was favorably impacted by the timing of certain sales and marketing activities deferred in the context of the COVID-19 pandemic.

Excluding the acquisition of DERYtelecom and the impact of the \$4.6 million recognized following the CRTC's decision on aggregated wholesale Internet rates, adjusted EBITDA in constant currency increased by 1.6% and 5.0%, respectively, for the third quarter and the first nine months of fiscal 2021.

ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT AND CAPITAL INTENSITY

For the third quarter and first nine months of fiscal 2021, acquisition of property, plant and equipment decreased by 6.5% and 10.8% (2.6% and 9.2% in constant currency), respectively, resulting mainly from:

- lower purchases of customer premise equipment due to the timing of certain initiatives; and
- lower costs for network congestion management; partly offset by
- higher costs related to the maintenance, growth and expansion of our network infrastructure and additional costs related to DERYtelecom's network infrastructure, as well as other purchases of property, plant and equipment related to the recent DERYtelecom acquisition.

For the first nine months of fiscal 2021, the acquisition of property, plant and equipment decrease is also explained by lower capitalized installations costs due to increased self installations in the context of the COVID-19 pandemic.

For the third quarter and first nine months of fiscal 2021, capital intensity reached 16.2% and 17.4% compared to 19.1% and 21.0% for the same periods of fiscal 2020. Capital intensity decreases for both periods is explained mainly by lower capital expenditures combined with the revenue growth.

PRIMARY SERVICE UNIT AND CUSTOMER STATISTICS

	May 31, 2021	Net additions (losses) Three months ended May 31,		Net additions (losses) Nine months ended May 31,		% of penetration ⁽¹⁾	
		2021	2020 ⁽²⁾ (4)	2021 ⁽³⁾	2020 ⁽²⁾ (4)	May 31, 2021	May 31, 2020
Primary service units	2,002,736	(7,313)	(11,736)	(21,009)	(9,962)		
Internet service customers	909,901	4,580	5,252	12,243	12,959	45.9	45.3
Video service customers	680,456	(7,030)	(11,406)	(19,011)	(22,156)	34.3	35.4
Telephony service customers	412,379	(4,863)	(5,582)	(14,241)	(765)	20.8	21.0

(1) As a percentage of homes passed.

(2) Net of a provision related to non-paying customers who had not been disconnected as at May 31, 2020 in the context of the COVID-19 pandemic.

(3) Excludes 224,039 primary service units (85,642 Internet services, 80,218 video services and 58,179 telephony services) from the acquisition of DERYtelecom completed in the second quarter of fiscal 2021.

(4) Excludes 2,227 primary service units (1,871 Internet services, 181 video services and 175 telephony services) from the acquisition of iTéract Inc. completed in the third quarter of fiscal 2020.

INTERNET

For the third quarter and first nine months of fiscal 2021, Internet service customers net additions amounted to 4,580 and 12,243, respectively, compared to 5,252 and 12,959 for the same periods of the prior year. The net additions for both periods of fiscal 2021 were mainly resulting from:

- the ongoing interest in high-speed offerings due to customers spending more time at home for work, online education and entertainment purposes in the context of the COVID-19 pandemic; partly offset by
- competitive offers in the industry.

VIDEO

For the third quarter and first nine months of fiscal 2021, video service customers net losses amounted to 7,030 and 19,011, respectively, compared to 11,406 and 22,156 for the same periods of the prior year. The net losses for both periods of fiscal 2021 were mainly due to certain customers deciding to not subscribe to video services, while subscribing to Internet services, partly offset by the EPICO roll-out.

TELEPHONY

For the third quarter and first nine months of fiscal 2021, telephony service customers net losses amounted to 4,863 and 14,241, respectively, compared to 5,582 and 765, respectively, for the same periods of the prior year. The net losses for both periods of fiscal 2021 were mainly due to increasing mobile wireless penetration in Canada and various unlimited offers launched by mobile wireless operators causing some customers to cancel their landline telephony services for mobile wireless telephony services only.

In addition, the lower net losses in the first nine months of last year included unusual telephony additions as a result of more telephony bundles being actively marketed during the first half of the year.

DISTRIBUTION OF CUSTOMERS

At May 31, 2021, 68% of the Canadian broadband services segment's customers subscribed to "double play" or "triple play" bundled services.

7.2 AMERICAN BROADBAND SERVICES

OPERATING AND FINANCIAL RESULTS

	Three months ended May 31,				
	2021 ⁽¹⁾	2020	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(In thousands of Canadian dollars, except percentages)</i>	\$	\$	%	%	\$
Revenue	270,972	285,274	(5.0)	7.2	(34,874)
Operating expenses	149,458	155,843	(4.1)	8.3	(19,277)
Adjusted EBITDA	121,514	129,431	(6.1)	5.9	(15,597)
Adjusted EBITDA margin	44.8 %	45.4 %			
Acquisition of property, plant and equipment	67,579	61,184	10.5	24.7	(8,701)
Capital intensity ⁽³⁾	24.9 %	21.4 %			

(1) For the three-month period ended May 31, 2021, the average foreign exchange rate used for translation was 1.2399 USD/CDN.

(2) Fiscal 2021 actuals are translated at the average foreign exchange rate of fiscal 2020, which was 1.3994 USD/CDN.

(3) 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.

	Nine months ended May 31,				
	2021 ⁽¹⁾	2020	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(In thousands of Canadian dollars, except percentages)</i>	\$	\$	%	%	\$
Revenue	841,522	815,540	3.2	8.8	(45,642)
Operating expenses	451,953	445,243	1.5	7.1	(25,078)
Adjusted EBITDA	389,569	370,297	5.2	10.8	(20,564)
Adjusted EBITDA margin	46.3 %	45.4 %			
Acquisition of property, plant and equipment	174,485	151,965	14.8	22.0	(10,891)
Capital intensity ⁽³⁾	20.7 %	18.6 %			

(1) For the nine-month period ended May 31, 2021, the average foreign exchange rate used for translation was 1.2771 USD/CDN.

(2) Fiscal 2021 actuals are translated at the average foreign exchange rate of fiscal 2020, which was 1.3466 USD/CDN.

(3) 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.

REVENUE

For the third quarter and first nine months of fiscal 2021, revenue decreased by 5.0% (increased by 7.2% in constant currency) and increased by 3.2% (8.8% in constant currency), respectively. In local currency, revenue amounted to US\$218.6 million and US\$658.9 million compared to US\$203.9 million and US\$605.5 million for the same periods of fiscal 2020. The increases in constant currency resulted mainly from:

- a higher Internet service customer base;
- rate increases implemented for certain services; and
- last year's temporary waiving of late fees charged to customers as a relief measure in the context of the COVID-19 pandemic, which were reinstated in all states by September 2020.

For the first nine months of fiscal 2021, the increase is also explained by revenue growth resulting from the Thames Valley Communications acquisition completed on March 10, 2020.

Excluding the acquisition of Thames Valley Communications, revenue in constant currency increased by 7.8% for the first nine months of fiscal 2021.

OPERATING EXPENSES

For the third quarter of fiscal 2021, operating expenses decreased by 4.1% (increased by 8.3% in constant currency). The increase in constant currency is mainly due to:

- higher video services costs resulting from annual video programming rate increases;
- a non-recurring gain on disposal of property, plant and equipment amounting to US\$1.7 million recorded during the third quarter of fiscal 2020; and
- overall higher operating expenses to drive and support continued customer growth, including higher marketing and advertising expense to support our overall customer base growth, as these planned expenses were deferred during the first half of fiscal 2021 in the context of the COVID-19 pandemic; partly offset by
- lower bad debt expenses compared to the third quarter of fiscal 2020 resulting from increased customers credit risk at the beginning of the COVID-19 pandemic following our commitment to not disconnect non-paying customers during that time.

For the first nine months of fiscal 2021, operating expenses increased by 1.5% (7.1% in constant currency), mainly due to:

- higher video services costs resulting from annual video programming rate increases;
- higher operating expenses resulting from the Thames Valley Communications acquisition;
- a non-recurring gain on disposal of property, plant and equipment amounting to US\$1.7 million recorded during the third quarter of fiscal 2020;
- increase in high-speed Internet direct costs given increased customer levels and higher bandwidth usage; and
- overall higher operating expenses to drive and support continued customer growth.

ADJUSTED EBITDA

For the third quarter and first nine months of fiscal 2021, adjusted EBITDA decreased by 6.1% (increased by 5.9% in constant currency) and increased by 5.2% (10.8% in constant currency), respectively. In local currency, adjusted EBITDA amounted to US\$98.0 million and US\$304.8 million compared to US\$92.5 million and US\$274.9 million for the same periods of fiscal 2020. The increases in constant currency in both periods are mainly resulting from:

- revenue growth driven by a continued increase in customer demand for high-speed offerings Internet service and by rate increases implemented for certain services; partly offset by
- a non-recurring gain on disposal of property, plant and equipment amounting to US\$1.7 million recorded during the third quarter of fiscal 2020.

In addition, adjusted EBITDA for the first nine months of fiscal 2021 was favorably impacted by the timing of certain sales and marketing activities deferred in the context of the COVID-19 pandemic and the impact of the Thames Valley Communications acquisition.

Excluding the non-recurring gain on disposal of property, plant and equipment of US\$1.7 million, adjusted EBITDA in constant currency increased by 8.0% for the third quarter of fiscal 2021. Excluding the acquisition of Thames Valley Communications and the non-recurring gain on disposal of property, plant and equipment of US\$1.7 million, adjusted EBITDA in constant currency increased by 10.6% for the first nine months of fiscal 2021.

ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT AND CAPITAL INTENSITY

For the third quarter and first nine months of fiscal 2021, acquisition of property, plant and equipment increased by 10.5% and 14.8% (24.7% and 22.0% in constant currency), respectively, resulting mainly from:

- higher purchases of customer premise equipment and other related costs in order to support increased demand for the high-speed Internet product, combined with equipment upgrades and the timing of certain initiatives; and
- accelerated purchases of certain equipment to prevent potential supply chain shortages given the impact of the COVID-19 pandemic.

For the third quarter and first nine months of fiscal 2021, capital intensity reached 24.9% and 20.7% compared to 21.4% and 18.6% for the same periods of fiscal 2020. Capital intensity increases for both periods are explained mainly by higher capital expenditures.

PRIMARY SERVICE UNIT AND CUSTOMER STATISTICS

	May 31, 2021	Net additions (losses) Three months ended May 31,			Net additions (losses) Nine months ended May 31,		% of penetration ⁽¹⁾	
		2021			2020		May 31, 2021	
					(2)		May 31, 2020	
				(3)				
Primary service units	973,655	1,302	14,088		15,730	19,849		
Internet service customers	517,851	6,847	12,379		25,639	23,475	55.4	52.2
Video service customers	309,242	(4,349)	482		(8,145)	(5,821)	33.1	34.0
Telephony service customers	146,562	(1,196)	1,227		(1,764)	2,195	15.7	16.0

(1) As a percentage of homes passed.

(2) Net of a provision related to non-paying customers who had not been disconnected as at May 31, 2020 in the context of the COVID-19 pandemic.

(3) Excludes 15,977 primary service units (9,077 Internet services, 5,111 video services and 1,789 telephony services) from the acquisition of Thames Valley Communications completed in the third quarter of fiscal 2020.

INTERNET

For the third quarter and first nine months of fiscal 2021, Internet service customers net additions amounted to 6,847 and 25,639, respectively, compared to 12,379 and 23,475 for the same periods of the prior year. The net additions for both periods of fiscal 2021 were mainly resulting from:

- growth in the residential sector primarily resulting from the increased demand for high-speed offerings due to customers spending more time at home for work, online education and entertainment purposes in the context of the COVID-19 pandemic, as well as sales effort activities being resumed in certain sales channels impacted by the pandemic combined with increased marketing effort towards Internet led offerings under the Broadband First strategy; and
- growth in the commercial sector.

VIDEO

For the third quarter and first nine months of fiscal 2021, video service customers net losses amounted to 4,349 and 8,145, respectively, compared to net additions and net losses of 482 and 5,821 for the same periods of the prior year. The net losses for both periods of fiscal 2021 were mainly due to:

- a new emphasis since the beginning of the second quarter of fiscal 2021 on offers that are Internet led and the cessation of non-bulk residential video-only new offer;
- certain customers deciding to not subscribe to video services, while subscribing to Internet services; and
- competitive offers in the industry; partly offset by
- continued growth in the bulk residential customers' activations related to the Florida expansion initiatives.

TELEPHONY

For the third quarter and first nine months of fiscal 2021, telephony service customers net losses amounted to 1,196 and 1,764, respectively, compared to net additions of 1,227 and 2,195 for the same periods of the prior year. The net losses for both periods of fiscal 2021 were mainly due to:

- a new emphasis since the beginning of the second quarter of fiscal 2021 on offers that are Internet led; partly offset by
- growth in the business sector mainly driven by Hosted Voice product offerings following the launch of its Hosted Voice 2.0 in January 2021.

DISTRIBUTION OF CUSTOMERS

At May 31, 2021, 47% of the American broadband services segment's customers subscribed to "double play" or "triple play" bundled services.

8. FINANCIAL POSITION

8.1 WORKING CAPITAL

As part of the usual conduct of its business, Cogeco generally maintains a working capital deficiency, when excluding cash and cash equivalents and bank indebtedness, 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.

The variations are as follows:

	May 31, 2021	August 31, 2020	Change	Explanations
<i>(In thousands of Canadian dollars)</i>	\$	\$	\$	
Current assets				
Cash and cash equivalents	306,081	406,113	(100,032)	Refer to the "Cash flows analysis" section. Mainly due to the acquisition of DERYtelecom completed during the second quarter of fiscal 2021, which was financed through a combination of cash on hand and borrowings under Cogeco Communications' Term Revolving Facility, partly offset by free cash flow generated from operations.
Restricted cash	161,008	—	161,008	Mainly related to government subsidies received in advance in connection with Cogeco Connexion's high-speed Internet network expansion projects.
Trade and other receivables	104,200	97,414	6,786	Related to revenue increase in the media activities, mainly following easing of public health restrictions and seasonal sales fluctuations in the radio advertising market.
Income taxes receivable	4,336	4,835	(499)	Not significant.
Prepaid expenses and other	37,236	30,197	7,039	Mainly related to the increase in prepayments for annual maintenance agreements during the first quarter of fiscal 2021.
Derivative financial instruments	1,710	—	1,710	Not significant.
	614,571	538,559	76,012	
Current liabilities				
Bank indebtedness	6,688	7,610	(922)	Timing of payments made to suppliers.
Trade and other payables	253,940	226,247	27,693	Mainly related to timing of payments made to suppliers and a higher level of trade and other payables resulting from the DERYtelecom acquisition.
Provisions	27,507	34,114	(6,607)	Mainly related to a contract renegotiation with a content provider.
Income tax liabilities	8,507	40,040	(31,533)	Related to the payment of income tax instalments, partly offset by the current income taxes expense for the nine-month period.
Contract liabilities and other liabilities	54,448	47,387	7,061	Mainly from the DERYtelecom acquisition.
Government subsidies received in advance	161,008	—	161,008	Mainly related to government subsidies received in advance in connection with Cogeco Connexion's high-speed Internet network expansion projects.
Derivative financial instruments	—	4,374	(4,374)	Not significant.
Current portion of long-term debt	262,431	32,914	229,517	Mainly related to the Senior Secured Debentures Series 3 maturing in February 2022 and the Unsecured Debentures maturing in November 2021, which were classified as current.
	774,529	392,686	381,843	
Working capital (deficiency) surplus	(159,958)	145,873	(305,831)	

8.2 OTHER SIGNIFICANT CHANGES

	May 31, 2021	August 31, 2020	Change	Explanations
<i>(In thousands of Canadian dollars)</i>	\$	\$	\$	
Non-current assets				
Restricted cash	27,000	—	27,000	Related to government subsidies received in advance in connection with Cogeco Connexion's high-speed Internet network expansion projects.
Property, plant and equipment	2,297,663	2,124,214	173,449	Mainly related to capital investments during the first nine months of fiscal 2021 and the acquisition of DERYtelecom, partly offset by the depreciation expense of the period, as well as the depreciation of the US dollar against the Canadian dollar.
Intangible assets	2,761,863	2,886,556	(124,693)	Related to the depreciation of the US dollar against the Canadian dollar and amortization for the period, partly offset by intangible assets acquired as part of the acquisition of DERYtelecom.
Goodwill	1,445,296	1,409,036	36,260	Related to the DERYtelecom acquisition, partly offset by the depreciation of the US dollar against the Canadian dollar.
Non-current liabilities				
Long-term debt	2,872,715	3,192,301	(319,586)	Mainly related to the classification of the Senior Secured Debentures Series 3 and the Unsecured Debentures as current portion of long-term debt, the decrease in amounts borrowed under the Corporation's Term Revolving Facility, combined with the depreciation of the US dollar against the Canadian dollar and the quarterly repayment on the Senior Secured Term Loan B Facility, partly offset by the acquisition of DERYtelecom which was financed in part with Cogeco Communications' Term Revolving Facility.
Derivative financial instruments	45,080	67,375	(22,295)	Increase in market interest rates and the depreciation of the US dollar against the Canadian dollar.
Government subsidies received in advance	27,000	—	27,000	Related to government subsidies received in advance in connection with Cogeco Connexion's high-speed Internet network expansion projects.
Pension plan liabilities and accrued employee benefits	7,971	23,307	(15,336)	Actuarial gains recorded in the first nine months of fiscal 2021.
Deferred tax liabilities	669,440	631,128	38,312	Timing of reversals of temporary differences, partly offset by the depreciation of the US dollar against the Canadian dollar.

8.3 OUTSTANDING SHARE DATA

A description of Cogeco's share data at June 30, 2021 is presented in the table below. Additional details are provided in note 13 B) of the condensed interim consolidated financial statements.

<i>(In thousands of Canadian dollars, except number of shares)</i>	Number of shares	Amount \$
Common shares		
Multiple voting shares	1,602,217	10
Subordinate voting shares	14,399,638	115,237

8.4 FINANCING

In the normal course of business, Cogeco has incurred financial obligations, primarily in the form of long-term debt, lease contracts and guarantees. Cogeco's obligations, as reported in the 2020 Annual Report, have not materially changed since August 31, 2020.

At May 31, 2021, the Corporation's \$100 million Term Revolving Facility was unused and an amount of \$167.0 million was used from Cogeco Communications' \$750 million Term Revolving Facility, for a remaining availability of \$583.0 million. In addition, two subsidiaries of Cogeco Communications also benefit from a Senior Secured Revolving Facility of \$181.1 million (US\$150 million), of which \$2.9 million (US\$2.4 million) was used at May 31, 2021 for a remaining availability of \$178.2 million (US\$147.6 million).

8.5 COGECO COMMUNICATIONS' CREDIT RATINGS

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

At May 31, 2021	S&P	DBRS	Moody's
Cogeco Communications			
Senior Secured Notes and Debentures	BBB-	BBB (low)	NR
Atlantic Broadband			
First Lien Credit Facilities	BB	NR	B1

NR : Not rated

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

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

Credit risk

The Corporation is exposed to credit risk arising from the derivative financial instruments, cash and cash equivalents, restricted cash, and trade accounts receivable, the maximum exposure of which is represented by the carrying amounts reported on the condensed interim consolidated statements of financial position.

The Corporation reduces the credit risk with regards to the derivative financial instruments by completing transactions with financial institutions that carry a credit rating equal to or superior to its own credit rating. At May 31, 2021, management believes this credit risk to be minimal, since the lowest credit rating of the counterparties to the agreements is "A" by Standard & Poor's rating services ("S&P").

Cash equivalents consist mainly of highly liquid money market short-term investments. The Corporation has deposited the cash and cash equivalents, and the restricted cash with reputable financial institutions, for which management believes the risk of loss to be remote.

To mitigate the credit risk in relation to its trade accounts receivable, the Corporation continuously monitors the financial condition of its customers and reviews the credit history or worthiness of each new large customer. The Corporation has credit policies in place and has established various credit controls, including credit checks, deposits on accounts and advance billing, and has also established procedures to suspend the availability of services when customers have fully utilized approved credit limits or have violated existing payment terms. Furthermore, a large portion of the Corporation's customers are billed and pay before the services are rendered. The Corporation believes that its allowance for doubtful accounts is sufficient to cover the related credit risk. Since the Corporation has a large and diversified clientele dispersed throughout its market areas in Canada and the United States, there is no significant concentration of credit risk.

Liquidity risk

Refer to sub-section "Financing".

Interest rate risk

The Corporation and its subsidiary, Cogeco Communications, are exposed to interest rate risk on their floating interest rate instruments. Interest rate fluctuations will have an effect on the repayment of these instruments. At May 31, 2021, all of the Corporation's and Cogeco Communications' long-term debt were at fixed rate, except for the amounts drawn under Cogeco Communications' Term Revolving Facility and First Lien Credit Facilities which are subject to floating interest rates.

To reduce the risk on the floating interest rate instruments and mitigate the impact of interest rate variations, Cogeco Communications' US subsidiary entered into fixed interest rate swap agreements. The following table shows the interest rate swaps outstanding at May 31, 2021:

Type of hedge	Notional amount ⁽¹⁾	Receive interest rate	Pay interest rate	Maturity	Hedged item
Cash flow	US\$770 million	US LIBOR base rate	2.017% - 2.262%	January 2023 - November 2024	Senior Secured Term Loan B

(1) Two tranches amounting to US\$330 million have matured on January 31, 2021.

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 \$11.8 million based on the outstanding debt and swap agreements at May 31, 2021.

Foreign exchange risk

Cogeco Communications is exposed to foreign exchange risk with respect to the interest associated with its notes, debentures and credit facilities denominated in US dollars. The impact of a 10% increase in the exchange rate of the US dollar into Canadian dollars would increase the annual financial expense by approximately \$8.0 million based on the outstanding debt and swap agreements at May 31, 2021.

Furthermore, a foreign currency exposure arises from Cogeco Communications' net investment in its US subsidiary, as a result of the translation of the net investment into the Corporation's functional currency. A portion of Cogeco Communications' net investment in its US subsidiary is hedged by Cogeco Communications' US dollar denominated Senior Secured Notes, which were designated as hedges of the net investment, while a portion is economically hedged by the US subsidiary's US dollar denominated First Lien Credit Facilities.

The exchange rate used to translate the US dollar currency into Canadian dollars for the consolidated statement of financial position accounts at May 31, 2021 was \$1.2072 (\$1.3042 at August 31, 2020) per US dollar. A 10% decrease in the exchange rate of the US dollar into Canadian dollar would decrease other comprehensive income by approximately \$91 million.

8.7 FOREIGN CURRENCY

For the three and nine-month periods ended May 31, 2021, the average rates prevailing used to convert the operating results of the American broadband services segment were as follows:

	Three months ended May 31,				Nine months ended May 31,			
	2021	2020	Change	Change	2021	2020	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
US dollar vs Canadian dollar	1.2399	1.3994	(0.16)	(11.4)	1.2771	1.3466	(0.07)	(5.2)

The following table highlights in Canadian dollars, the impact of a \$0.07 variation of the Canadian dollar against the US dollar on Cogeco's segmented and consolidated operating results for the nine-month period ended May 31, 2021:

	Canadian broadband services	American broadband services	Consolidated ⁽¹⁾
Nine months ended May 31, 2021	Exchange rate impact	Exchange rate impact	Exchange rate impact
(In thousands of Canadian dollars)	\$	\$	\$
Revenue	—	(45,642)	(45,642)
Operating expenses	(1,162)	(25,078)	(26,240)
Adjusted EBITDA	1,162	(20,564)	(19,402)
Acquisition of property, plant and equipment	(3,296)	(10,891)	(14,187)
Free cash flow			(1,070)

(1) The consolidated results do not correspond to the addition of the operating segment's results as the "Corporate and eliminations" and "Other" information are not presented.

8.8 CONTRACTUAL OBLIGATIONS

Capital investments

During the nine-month period ended May 31, 2021, the Corporation entered into service contracts in connection with its high-speed Internet expansion projects. In addition, the Corporation has accelerated the purchases of certain equipment in order to avoid potential supply chain shortages and to support its network expansion projects. As at May 31, 2021, the Corporation's contractual commitments related to these capital investments amounted to approximately \$201.6 million. The Corporation may terminate certain of these contracts by giving formal notice prior to an agreed upon period.

Acquisition and sale of radio stations

On May 6, 2021, Cogeco Media announced that it had entered into an agreement with Arsenal Média to acquire and sell radio stations located in the Saguenay-Lac-Saint-Jean and Abitibi-Témiscamingue regions. Cogeco Media will acquire a radio station owned by Arsenal Média in the Saguenay-Lac-Saint-Jean region, known as the CILM radio station, and will simultaneously sell to Arsenal Média two radio stations owned by Cogeco Media in the Abitibi-Témiscamingue region, known as the Capitale Rock and Wow radio stations.

This transaction is subject to customary closing conditions, including the approval of the Canadian Radio-television and Telecommunications Commission.

9. CONTROLS AND PROCEDURES

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

On September 1, 2020, the Corporation's subsidiary, Atlantic Broadband, implemented a new financial system. In addition, a new human capital management system was implemented on January 1, 2021 by the Corporation and its subsidiaries. These implementations resulted in changes to internal controls related to financial reporting for the nine-month period ended May 31, 2021. No significant changes to the internal controls over financial reporting occurred during the three-month period ended May 31, 2021.

The CEO and CFO, supported by management, evaluated the design of the Corporation's DC&P and ICFR at May 31, 2021, and concluded that they are adequate.

10. UNCERTAINTIES AND MAIN RISK FACTORS

A detailed description of the uncertainties and main risk factors faced by Cogeco can be found in the 2020 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 2020 Annual Report, which are hereby incorporated by reference.

Mobile wireless services

As mentioned under the section "Business and regulatory developments", we are interested in offering mobile wireless services to complement our service offerings to customers and should we conclude that this is financially attractive, we would expect to make investments over time, in addition to making use of the MVNO regime. Launching a mobile wireless operation includes significant risks as investments would include the acquisition of spectrum licenses (including making use of past spectrum acquisitions), network infrastructure and systems, handheld devices, start-up costs, and MVNO rates which are still unknown. This may result in downward pressure on adjusted EBITDA, margins, profits and free cash flow. In the long term, a mobile wireless operation may not meet profitability expectations.

Internet wholesale rates

As mentioned under the section "Business and regulatory developments", TekSavvy petitioned the Governor in Council to overturn the CRTC's Telecom Decision 2021-181, which made the 2016 interim Internet wholesale rates final, and reinstate the CRTC's 2019 final rate decision. TekSavvy also filed a motion seeking leave to appeal the decision before the Federal Court of Appeal. Decisions on the petition and the motion for leave to appeal are pending. Any adverse decision could have a material adverse effect on our business and results of operations, and on our ability to further invest in network upgrades and expansions.

11. ACCOUNTING POLICIES

11.1 ADOPTION OF NEW ACCOUNTING STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS

Amendments to IFRS 3

In October 2018, the IASB amended IFRS 3, *Business combinations*, to clarify the definition of a business, with the objective of assisting entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. Effective September 1, 2020, the Corporation adopted these amendments, which had no impact on the consolidated financial statements. The effects, if any, of these amendments, will be dependent on the facts and circumstances of any future acquisitions and they may affect whether those future acquisitions are accounted for as business combinations or as asset acquisitions, along with the allocation of the purchase price between the net identifiable assets acquired and goodwill.

11.2 NEW ACCOUNTING STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Amendments to IAS 12

In May 2021, the IASB amended IAS 12, *Income taxes*, to clarify how companies should account for deferred tax on certain transactions that on initial recognition give rise to equal taxable and deductible temporary differences (e.g. leases and decommissioning provisions). The amendments narrow the scope of the initial recognition exemption so that it does not apply to these transactions. As a result, companies will need to recognize both a deferred tax asset and a deferred tax liability when accounting for such transactions. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted. The Corporation does not expect any impact on its consolidated financial statements upon adoption of these amendments.

Amendments to IAS 1

In February 2021, the IASB amended IAS 1, *Presentation of financial statements*, to require entities to disclose their material accounting policy information rather than their significant accounting policies. Further amendments to IAS 1 are made to explain how an entity can identify a material accounting policy. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The Corporation is in the process of determining the extent of the impact on its consolidated financial statements disclosure.

12. NON-IFRS FINANCIAL MEASURES

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

This MD&A also makes reference to key performance indicators on a constant currency basis, including revenue, "adjusted EBITDA", acquisition of property, plant and equipment and "free cash flow". Measures on a constant currency basis are considered non-IFRS financial measures and do not have any standardized meaning prescribed by IFRS and therefore, may not be comparable to similar measures presented by other companies. In addition, this MD&A refers to the capital intensity of the Canadian broadband services and the American broadband services segments, a key performance indicator used by Cogeco Communications' management and investors to assess the Cogeco Communication's investment in capital expenditures in order to support a certain level of revenue. This financial measure does not have standard definitions prescribed by IFRS and therefore, may not be comparable to similar measures presented by other companies.

Non-IFRS financial measures	Application	Calculation	Most comparable IFRS financial measures
Adjusted EBITDA	Adjusted EBITDA is a key measure commonly reported and used in the telecommunications industry, as it allows comparisons between companies that have different capital structures and is a more current measure since it excludes the impact of historical investments in assets. Adjusted EBITDA is one of the key metrics employed by the financial community to value a business and its financial strength. Adjusted EBITDA for Cogeco's business units is equal to the segment profit reported in Note 4 of the condensed interim consolidated financial statements.	Adjusted EBITDA: - Profit for the period add: - Income taxes; - Financial expense; - Depreciation and amortization; and - Integration, restructuring and acquisition costs.	Profit for the period
Free cash flow	Management and investors use free cash flow to measure Cogeco's ability to repay debt, distribute capital to its shareholders and finance its growth.	Free cash flow: - Adjusted EBITDA add: - Amortization of deferred transaction costs and discounts on long-term debt; - Share-based payment; - Loss (gain) on disposals and write-offs of property, plant and equipment and other; and - Defined benefit plans expense, net of contributions; deduct: - Integration, restructuring and acquisition costs; - Financial expense ⁽¹⁾ ; - Current income taxes; - Acquisition of property, plant and equipment ⁽²⁾ ; and - Repayment of lease liabilities.	Cash flows from operating activities
Constant currency basis	Revenue, operating expenses, adjusted EBITDA, acquisition of property, plant and equipment and free cash flow are measures presented on a constant currency basis to enable an improved understanding of the Corporation's underlying financial performance, undistorted by the effects of changes in foreign exchange rates.	Constant currency basis is obtained by translating financial results from the current periods denominated in US dollars at the foreign exchange rates of the comparable periods of the prior year.	No comparable IFRS financial measure
Capital intensity	Capital intensity is used by Cogeco Communications' management and investors to assess the Cogeco Communication's investment in capital expenditures in order to support a certain level of revenue.	Capital intensity: - Acquisition of property, plant and equipment ⁽²⁾ divided by: - Revenue	No comparable IFRS financial measure

(1) Excludes the non-cash gain on debt modification of \$22.9 million recognized in the second quarter of fiscal 2020.

(2) Excludes the non-cash acquisition of right-of-use assets and the purchases of spectrum licenses.

12.1 ADJUSTED EBITDA RECONCILIATION

The reconciliation of adjusted EBITDA to the most comparable IFRS financial measure is as follows:

	Three months ended May 31,		Nine months ended May 31,	
	2021	2020	2021	2020
<i>(In thousands of Canadian dollars)</i>	\$	\$	\$	\$
Profit for the period	104,994	97,496	335,597	305,096
Income taxes	32,182	29,059	104,786	84,315
Financial expense	34,523	41,626	103,677	95,668
Depreciation and amortization	129,369	130,251	383,001	377,933
Integration, restructuring and acquisition costs	1,272	12	4,783	5,550
Adjusted EBITDA	302,340	298,444	931,844	868,562

12.2 FREE CASH FLOW RECONCILIATION

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

	Three months ended May 31,		Nine months ended May 31,	
	2021	2020	2021	2020
<i>(In thousands of Canadian dollars)</i>	\$	\$	\$	\$
Cash flows from operating activities	269,078	292,075	746,229	679,263
Amortization of deferred transaction costs and discounts on long-term debt	2,354	2,403	6,994	7,219
Changes in non-cash operating activities	(14,795)	(24,543)	12,817	53,297
Income taxes paid (received)	18,681	(6,538)	77,398	29,562
Current income taxes	(7,052)	(15,851)	(46,668)	(46,156)
Interest paid	31,092	38,700	95,594	110,336
Financial expense ⁽¹⁾	(34,523)	(41,626)	(103,677)	(118,566)
Acquisition of property, plant and equipment	(126,745)	(123,778)	(358,984)	(357,030)
Repayment of lease liabilities	(1,523)	(1,689)	(4,345)	(4,812)
Free cash flow	136,567	119,153	425,358	353,113

(1) Excludes the non-cash gain on debt modification of \$22.9 million recognized during the second quarter of fiscal 2020.

13. SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION

Three months ended	Fiscal 2021				Fiscal 2020			Fiscal 2019
	May 31, 2021	February 28, 2021	November 30, 2020	August 31, 2020	May 31, 2020	February 29, 2020	November 30, 2019	August 31, 2019
<i>(In thousands of Canadian dollars, except per share data)</i>	\$	\$	\$	\$	\$	\$	\$	\$
Operations								
Revenue	649,260	653,156	646,355	624,195	626,013	610,797	618,469	610,510
Adjusted EBITDA	302,340	308,414	321,090	299,925	298,444	279,609	290,509	280,981
Integration, restructuring and acquisition costs	1,272	2,330	1,181	6,012	12	5,458	80	839
Profit for the period from continuing operations	104,994	110,156	120,447	96,737	97,496	113,384	94,216	95,193
Profit for the period from discontinued operations	—	—	—	—	—	—	—	1,920
Profit for the period	104,994	110,156	120,447	96,737	97,496	113,384	94,216	97,113
Profit for the period from continuing operations attributable to owners of the Corporation	34,548	33,737	40,489	30,707	31,118	34,975	31,284	30,798
Profit for the period attributable to owners of the Corporation	34,548	33,737	40,489	30,707	31,118	34,975	31,284	31,445
Cash flow								
Cash flows from operating activities	269,078	241,619	235,532	262,365	292,075	236,117	151,071	314,905
Acquisition of property, plant and equipment	126,745	115,748	116,491	130,210	123,778	111,222	122,030	146,599
Free cash flow ⁽¹⁾	136,567	140,555	148,236	111,012	119,153	125,067	108,893	87,611
Per share data ⁽²⁾								
Earnings per share								
Basic								
From continuing operations	2.17	2.12	2.55	1.93	1.96	2.19	1.96	1.91
From discontinued operations	—	—	—	—	—	—	—	0.04
From continuing and discontinued operations	2.17	2.12	2.55	1.93	1.96	2.19	1.96	1.95
Diluted								
From continuing operations	2.16	2.11	2.53	1.92	1.94	2.18	1.94	1.89
From discontinued operations	—	—	—	—	—	—	—	0.04
From continuing and discontinued operations	2.16	2.11	2.53	1.92	1.94	2.18	1.94	1.93
Dividends per share	0.545	0.545	0.545	0.475	0.475	0.475	0.475	0.43

(1) Excludes the non-cash gain on debt modification of \$22.9 million recognized during the second quarter of fiscal 2020.

(2) Per multiple and subordinate voting share.

13.1 SEASONAL VARIATIONS

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



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine-month periods ended May 31, 2021

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

		Three months ended May 31,		Nine months ended May 31,	
	Notes	2021	2020	2021	2020
		\$	\$	\$	\$
<i>(In thousands of Canadian dollars, except per share data)</i>					
Revenue	3	649,260	626,013	1,948,771	1,855,279
Operating expenses	6	346,920	327,569	1,016,927	986,717
Integration, restructuring and acquisition costs	4	1,272	12	4,783	5,550
Depreciation and amortization	7	129,369	130,251	383,001	377,933
Financial expense	8	34,523	41,626	103,677	95,668
Profit before income taxes		137,176	126,555	440,383	389,411
Income taxes	9	32,182	29,059	104,786	84,315
Profit for the period		104,994	97,496	335,597	305,096
Profit for the period attributable to:					
Owners of the Corporation		34,548	31,118	108,774	97,377
Non-controlling interest		70,446	66,378	226,823	207,719
		104,994	97,496	335,597	305,096
Earnings per share					
Basic	10	2.17	1.96	6.84	6.11
Diluted	10	2.16	1.94	6.80	6.06

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

	Three months ended May 31,		Nine months ended May 31,	
	2021	2020	2021	2020
<i>(In thousands of Canadian dollars)</i>	\$	\$	\$	\$
Profit for the period	104,994	97,496	335,597	305,096
Other comprehensive (loss) income				
Items to be subsequently reclassified to profit or loss				
<i>Cash flow hedging adjustments</i>				
Net change in fair value of hedging derivative financial instruments	5,745	(24,260)	25,918	(34,089)
Related income taxes	(1,523)	6,429	(6,868)	9,033
	4,222	(17,831)	19,050	(25,056)
<i>Foreign currency translation adjustments</i>				
Net foreign currency translation differences on net investments in foreign operations	(91,657)	49,181	(144,057)	68,050
Net changes on translation of long-term debt designated as hedges of net investments in foreign operations	23,907	(13,964)	37,830	(19,188)
Related income taxes	228	(176)	365	(244)
	(67,522)	35,041	(105,862)	48,618
	(63,300)	17,210	(86,812)	23,562
Items not to be subsequently reclassified to profit or loss				
<i>Defined benefit plans actuarial adjustments</i>				
Remeasurement of net defined benefit liability or asset	4,816	5,304	16,540	4,590
Related income taxes	(1,275)	(1,406)	(4,383)	(1,146)
	3,541	3,898	12,157	3,444
	(59,759)	21,108	(74,655)	27,006
Comprehensive income for the period	45,235	118,604	260,942	332,102
Comprehensive income for the period attributable to:				
Owners of the Corporation	22,224	35,387	98,128	102,027
Non-controlling interest	23,011	83,217	162,814	230,075
	45,235	118,604	260,942	332,102

COGECO INC.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited)

	Equity attributable to owners of the Corporation					Total shareholders' equity
	Share capital	Share-based payment reserve	Accumulated other comprehensive income (loss)	Retained earnings	Equity attributable to non-controlling interest	
(In thousands of Canadian dollars)	\$	\$	\$	\$	\$	\$
	(Note 13)		(Note 14)			
Balance at August 31, 2019	106,106	9,165	10,116	629,381	1,869,111	2,623,879
Profit for the period	—	—	—	97,377	207,719	305,096
Other comprehensive income for the period	—	—	3,118	1,532	22,356	27,006
Comprehensive income for the period	—	—	3,118	98,909	230,075	332,102
Share-based payment	—	3,738	—	—	3,548	7,286
Issuance of subordinate voting shares by a subsidiary to non-controlling interest	—	(359)	—	—	7,029	6,670
Dividends (Note 13 C))	—	—	—	(22,671)	(57,294)	(79,965)
Effect of changes in ownership of a subsidiary on non-controlling interest	—	—	—	(25,656)	25,656	—
Purchase and cancellation of subordinate voting shares	(963)	—	—	(10,423)	—	(11,386)
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	(2,801)	—	—	—	—	(2,801)
Distribution to employees of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	2,471	(1,631)	—	(840)	—	—
Purchase and cancellation of subordinate voting shares by a subsidiary	—	—	—	(34,423)	(111,479)	(145,902)
Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	—	—	—	—	(5,643)	(5,643)
Distribution to employees, by a subsidiary, of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	—	(991)	—	(233)	1,224	—
Total (distributions to) contributions by shareholders	(1,293)	757	—	(94,246)	(136,959)	(231,741)
Balance at May 31, 2020	104,813	9,922	13,234	634,044	1,962,227	2,724,240
Balance at August 31, 2020	105,019	11,120	(2,445)	647,807	1,944,598	2,706,099
Profit for the period	—	—	—	108,774	226,823	335,597
Other comprehensive income (loss) for the period	—	—	(19,028)	8,382	(64,009)	(74,655)
Comprehensive income (loss) for the period	—	—	(19,028)	117,156	162,814	260,942
Share-based payment	—	2,899	—	—	2,967	5,866
Issuance of subordinate voting shares by a subsidiary to non-controlling interest	—	(218)	—	—	3,920	3,702
Dividends (Note 13 C))	—	—	—	(25,935)	(61,051)	(86,986)
Effect of changes in ownership of a subsidiary on non-controlling interest	—	—	—	(15,772)	15,772	—
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	(1,074)	—	—	—	—	(1,074)
Distribution to employees of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	3,249	(3,226)	—	(23)	—	—
Purchase and cancellation of subordinate voting shares by a subsidiary	—	—	—	(21,368)	(64,124)	(85,492)
Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	—	—	—	—	(4,439)	(4,439)
Distribution to employees, by a subsidiary, of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	—	(1,597)	—	(57)	1,654	—
Total contributions by (distributions to) shareholders	2,175	(2,142)	—	(63,155)	(105,301)	(168,423)
Balance at May 31, 2021	107,194	8,978	(21,473)	701,808	2,002,111	2,798,618

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

	Notes	May 31, 2021 \$	August 31, 2020 \$
<i>(In thousands of Canadian dollars)</i>			
Assets			
Current			
Cash and cash equivalents	15 B)	306,081	406,113
Restricted cash	11	161,008	—
Trade and other receivables		104,200	97,414
Income taxes receivable		4,336	4,835
Prepaid expenses and other		37,236	30,197
Derivative financial instruments		1,710	—
		614,571	538,559
Non-current			
Restricted cash	11	27,000	—
Other assets		43,536	45,465
Property, plant and equipment		2,297,663	2,124,214
Intangible assets		2,761,863	2,886,556
Goodwill		1,445,296	1,409,036
Deferred tax assets		14,932	20,866
		7,204,861	7,024,696
Liabilities and Shareholders' equity			
Liabilities			
Current			
Bank indebtedness		6,688	7,610
Trade and other payables		253,940	226,247
Provisions		27,507	34,114
Income tax liabilities		8,507	40,040
Contract liabilities and other liabilities		54,448	47,387
Government subsidies received in advance	11	161,008	—
Derivative financial instruments		—	4,374
Current portion of long-term debt	12	262,431	32,914
		774,529	392,686
Non-current			
Long-term debt	12	2,872,715	3,192,301
Derivative financial instruments		45,080	67,375
Contract liabilities and other liabilities		9,508	11,800
Government subsidies received in advance	11	27,000	—
Pension plan liabilities and accrued employee benefits		7,971	23,307
Deferred tax liabilities		669,440	631,128
		4,406,243	4,318,597
Shareholders' equity			
Equity attributable to owners of the Corporation			
Share capital	13 B)	107,194	105,019
Share-based payment reserve		8,978	11,120
Accumulated other comprehensive loss	14	(21,473)	(2,445)
Retained earnings		701,808	647,807
		796,507	761,501
Equity attributable to non-controlling interest		2,002,111	1,944,598
		2,798,618	2,706,099
		7,204,861	7,024,696

Commitments and contingencies (Note 18)
Subsequent event (Note 19)

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

		Three months ended May 31,		Nine months ended May 31,	
	Notes	2021	2020	2021	2020
<i>(In thousands of Canadian dollars)</i>		\$	\$	\$	\$
Cash flows from operating activities					
Profit for the period		104,994	97,496	335,597	305,096
Adjustments for:					
Depreciation and amortization	7	129,369	130,251	383,001	377,933
Financial expense	8	34,523	41,626	103,677	95,668
Income taxes	9	32,182	29,059	104,786	84,315
Share-based payment		3,022	2,498	8,440	7,861
Gain on disposals and write-offs of property, plant and equipment and other		(916)	(1,599)	(2,093)	(359)
Defined benefit plans expense, net of contributions		882	363	(1,370)	1,944
		304,056	299,694	932,038	872,458
Changes in non-cash operating activities	15 A)	14,795	24,543	(12,817)	(53,297)
Interest paid		(31,092)	(38,700)	(95,594)	(110,336)
Income taxes (paid) received		(18,681)	6,538	(77,398)	(29,562)
		269,078	292,075	746,229	679,263
Cash flows from investing activities					
Acquisition of property, plant and equipment		(126,745)	(123,778)	(358,984)	(357,030)
Business combinations, net of cash and cash equivalents acquired	5	—	(81,745)	(394,296)	(81,745)
Proceeds on disposals of property, plant and equipment		570	5,291	2,484	7,185
		(126,175)	(200,232)	(750,796)	(431,590)
Cash flows from financing activities					
Increase (decrease) in bank indebtedness		6,688	(732)	(922)	—
Net (decrease) increase under the revolving facilities		(14,732)	24,242	123,150	25,544
Repayment of notes, debentures and credit facilities		(5,158)	(5,859)	(16,112)	(63,603)
Repayment of lease liabilities		(1,523)	(1,689)	(4,345)	(4,812)
Repayment of balance due on business combinations		(600)	—	(1,858)	(3,228)
Increase in deferred transaction costs		—	(98)	—	(680)
Purchase and cancellation of subordinate voting shares		—	(2,958)	—	(11,386)
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	13 B)	—	—	(1,074)	(2,801)
Dividends paid on multiple and subordinate voting shares	13 C)	(8,642)	(7,522)	(25,935)	(22,671)
Issuance of subordinate voting shares by a subsidiary to non-controlling interest		2,265	1,326	3,702	6,670
Purchase and cancellation of subordinate voting shares by a subsidiary		(48,967)	(59,425)	(85,492)	(145,902)
Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans		—	—	(4,439)	(5,643)
Dividends paid on subordinate voting shares by a subsidiary to non-controlling interest	13 C)	(20,111)	(18,695)	(61,051)	(57,294)
		(90,780)	(71,410)	(74,376)	(285,806)
Effect of exchange rate changes on cash and cash equivalents denominated in a foreign currency		(13,787)	2,987	(21,089)	5,277
Net change in cash and cash equivalents		38,336	23,420	(100,032)	(32,856)
Cash and cash equivalents, beginning of the period		267,745	503,117	406,113	559,393
Cash and cash equivalents, end of the period		306,081	526,537	306,081	526,537

COGECO INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2021

(unaudited)

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

NATURE OF OPERATIONS

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

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

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

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

The Corporation's registered office is located at 1 Place Ville Marie, Suite 3301, Montréal, Québec, H3B 3N2.

1. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, *Interim financial reporting*, as issued by the International Accounting Standards Board ("IASB") and do not include all the information required for annual financial statements. Certain information and footnote disclosure normally included in annual financial statements were omitted or condensed where such information is not considered material to the understanding of the Corporation's interim financial information. As such, these condensed interim consolidated financial statements should be read in conjunction with the Corporation's 2020 annual consolidated financial statements.

The condensed interim consolidated financial statements have been prepared with the same accounting policies and methods of computation followed by the Corporation in its 2020 annual consolidated financial statements. The accounting policies have been applied consistently to all periods presented in the condensed interim consolidated financial statements. Certain comparative amounts in the condensed interim consolidated financial statements have been reclassified in order to conform to the fiscal 2021 consolidated financial statements presentation.

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 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 the number of Internet and video services customers are generally lower in the second half of a fiscal year as a result of the beginning of the vacation period, the end of the television season, and students leaving their campuses at the end of the school year. Cogeco Communications offers its services in several towns with educational institutions. In the American broadband services segment, certain areas are also subject to seasonal fluctuations during the winter and summer seasons.

The condensed interim consolidated financial statements were approved by the Board of Directors of the Corporation at its meeting held on July 14, 2021.

COGECO INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2021

(unaudited)

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

2. ACCOUNTING POLICY DEVELOPMENTS

A) ADOPTION OF NEW ACCOUNTING STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS

Amendments to IFRS 3

In October 2018, the IASB amended IFRS 3, *Business combinations*, to clarify the definition of a business, with the objective of assisting entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. Effective September 1, 2020, the Corporation adopted these amendments, which had no impact on the consolidated financial statements. The effects, if any, of these amendments, will be dependent on the facts and circumstances of any future acquisitions and they may affect whether those future acquisitions are accounted for as business combinations or as asset acquisitions, along with the allocation of the purchase price between the net identifiable assets acquired and goodwill.

B) NEW ACCOUNTING STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Amendments to IAS 12

In May 2021, the IASB amended IAS 12, *Income taxes*, to clarify how companies should account for deferred tax on certain transactions that on initial recognition give rise to equal taxable and deductible temporary differences (e.g. leases and decommissioning provisions). The amendments narrow the scope of the initial recognition exemption so that it does not apply to these transactions. As a result, companies will need to recognize both a deferred tax asset and a deferred tax liability when accounting for such transactions. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted. The Corporation does not expect any impact on its consolidated financial statements upon adoption of these amendments.

Amendments to IAS 1

In February 2021, the IASB amended IAS 1, *Presentation of financial statements*, to require entities to disclose their material accounting policy information rather than their significant accounting policies. Further amendments to IAS 1 are made to explain how an entity can identify a material accounting policy. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The Corporation is in the process of determining the extent of the impact on its consolidated financial statements disclosure.

3. REVENUE

Three months ended May 31,										
Cogeco Communications										
Canadian broadband services		American broadband services		Sub-total		Other		Consolidated		
2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Residential ⁽¹⁾	315,100	287,547	234,164	245,361	549,264	532,908	—	—	549,264	532,908
Commercial	37,623	32,802	32,819	34,517	70,442	67,319	—	—	70,442	67,319
Other	613	198	3,989	5,396	4,602	5,594	24,952	20,192	29,554	25,786
	353,336	320,547	270,972	285,274	624,308	605,821	24,952	20,192	649,260	626,013

COGECO INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2021

(unaudited)

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

Nine months ended May 31,

	Cogeco Communications									
	Canadian broadband services		American broadband services		Sub-total		Other		Consolidated	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Residential ⁽¹⁾	926,473	862,639	725,174	697,364	1,651,647	1,560,003	—	—	1,651,647	1,560,003
Commercial	108,288	100,199	100,689	98,739	208,977	198,938	—	—	208,977	198,938
Other	1,486	737	15,659	19,437	17,145	20,174	71,002	76,164	88,147	96,338
	1,036,247	963,575	841,522	815,540	1,877,769	1,779,115	71,002	76,164	1,948,771	1,855,279

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

4. OPERATING SEGMENTS

The Corporation's segment profit (loss) is reported in two operating segments: Canadian broadband services and American broadband 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 Internet, video and telephony services primarily to residential customers, as well as business services 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 11 states: Connecticut, Delaware, Florida, Maine, Maryland, New Hampshire, New York, Pennsylvania, South Carolina, Virginia and West Virginia.

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*. Transactions between operating segments are measured at the amounts agreed to between the parties.

During fiscal 2021, the Corporation changed the presentation of its operating segments information in order to align with the operating segments presentation of its subsidiary, Cogeco Communications.

The column entitled "Corporate and eliminations" is comprised of the corporate activities of Cogeco Communications and consolidation elimination entries.

The column entitled "Other" is comprised of the results of Cogeco Media and the corporate activities of Cogeco, as well as consolidation elimination entries. Through its subsidiary, Cogeco Media, the Corporation owns and operates 23 radio stations with complementary radio formats serving a wide range of audiences. Cogeco Media also operates Cogeco News, one of Québec's largest news agencies, feeding affiliates, independent and community radio stations.

COGECO INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2021

(unaudited)

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

Three months ended May 31, 2021						
	Cogeco Communications				Other	Consolidated
	Canadian broadband services \$	American broadband services \$	Corporate and eliminations \$	Sub-total \$		
Revenue ⁽¹⁾	353,336	270,972	—	624,308	24,952	649,260
Operating expenses	164,351	149,458	7,648	321,457	25,463	346,920
Management fees – Cogeco Inc.	—	—	5,852	5,852	(5,852)	—
Segment profit (loss)	188,985	121,514	(13,500)	296,999	5,341	302,340
Integration, restructuring and acquisition costs ⁽²⁾				1,225	47	1,272
Depreciation and amortization				128,156	1,213	129,369
Financial expense				33,506	1,017	34,523
Profit before income taxes				134,112	3,064	137,176
Income taxes				31,326	856	32,182
Profit for the period				102,786	2,208	104,994
Acquisition of property, plant and equipment	57,230	67,579	1,761	126,570	175	126,745

(1) Revenue by geographic market includes \$0.4 million in Canada and \$0.3 million in the United States.

(2) Comprised primarily of due diligence costs related to the acquisition of WideOpenWest's Ohio broadband systems, announced on June 30, 2021 (see Note 19), and costs related to the acquisition and integration of DERYtelecom, which was completed on December 14, 2020.

Three months ended May 31, 2020						
	Cogeco Communications				Other	Consolidated
	Canadian broadband services \$	American broadband services \$	Corporate and eliminations \$	Sub-total \$		
Revenue ⁽¹⁾	320,547	285,274	—	605,821	20,192	626,013
Operating expenses	143,809	155,843	5,269	304,921	22,648	327,569
Management fees – Cogeco Inc.	—	—	6,183	6,183	(6,183)	—
Segment profit (loss)	176,738	129,431	(11,452)	294,717	3,727	298,444
Integration, restructuring and acquisition costs				12	—	12
Depreciation and amortization				129,041	1,210	130,251
Financial expense				40,356	1,270	41,626
Profit before income taxes				125,308	1,247	126,555
Income taxes				28,584	475	29,059
Profit for the period				96,724	772	97,496
Acquisition of property, plant and equipment	61,217	61,184	1,252	123,653	125	123,778

(1) Revenue by geographic market includes \$0.3 million in Canada and \$0.3 million in the United States.

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

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

Nine months ended May 31, 2021

	Cogeco Communications					Consolidated
	Canadian broadband services	American broadband services	Corporate and eliminations	Sub-total	Other	
	\$	\$	\$	\$	\$	\$
Revenue ⁽¹⁾	1,036,247	841,522	—	1,877,769	71,002	1,948,771
Operating expenses	471,440	451,953	21,733	945,126	71,801	1,016,927
Management fees – Cogeco Inc.	—	—	17,557	17,557	(17,557)	—
Segment profit (loss)	564,807	389,569	(39,290)	915,086	16,758	931,844
Integration, restructuring and acquisition costs ⁽²⁾				4,770	13	4,783
Depreciation and amortization				379,260	3,741	383,001
Financial expense				100,555	3,122	103,677
Profit before income taxes				430,501	9,882	440,383
Income taxes				102,260	2,526	104,786
Profit for the period				328,241	7,356	335,597
Acquisition of property, plant and equipment	180,294	174,485	3,227	358,006	978	358,984

(1) Revenue by geographic market includes \$1.1 million in Canada and \$0.8 million in the United States.

(2) Comprised primarily due diligence costs related to the acquisition of WideOpenWest's Ohio broadband systems, announced on June 30, 2021 (see Note 19), and costs related to the acquisition and integration of DERYtelecom, which was completed on December 14, 2020.

Nine months ended May 31, 2020

	Cogeco Communications					Consolidated
	Canadian broadband services	American broadband services	Corporate and eliminations	Sub-total	Other	
	\$	\$	\$	\$	\$	\$
Revenue ⁽¹⁾	963,575	815,540	—	1,779,115	76,164	1,855,279
Operating expenses	445,510	445,243	16,941	907,694	79,023	986,717
Management fees – Cogeco Inc.	—	—	17,227	17,227	(17,227)	—
Segment profit (loss)	518,065	370,297	(34,168)	854,194	14,368	868,562
Integration, restructuring and acquisition costs ⁽²⁾				5,531	19	5,550
Depreciation and amortization				374,413	3,520	377,933
Financial expense				91,791	3,877	95,668
Profit before income taxes				382,459	6,952	389,411
Income taxes				82,016	2,299	84,315
Profit for the period				300,443	4,653	305,096
Acquisition of property, plant and equipment	202,108	151,965	1,722	355,795	1,235	357,030

(1) Revenue by geographic market includes \$1.0 million in Canada and \$0.8 million in the United States.

(2) Comprised primarily of costs associated with organizational changes initiated across the Corporation resulting in cost optimization, as well as costs related to the acquisition and integration of Thames Valley Communications, completed on March 10, 2020 and of iTéract, completed on May 1, 2020.

COGECO INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2021

(unaudited)

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

5. BUSINESS COMBINATION

Acquisition of DERYtelecom

On December 14, 2020, the Corporation's subsidiary, Cogeco Connexion, completed the acquisition of DERYtelecom, the third largest cable operator in the province of Québec, for a purchase price of \$403 million, subject to customary post-closing adjustments. The transaction was executed essentially through an asset purchase. This acquisition enables Cogeco Connexion to expand its activities in more than 200 municipalities in Québec and adds approximately 100,000 customers to its customer base. The purchase price was financed through a combination of cash on hand and borrowings under Cogeco Communications' Term Revolving Facility.

The Corporation is currently assessing the fair value of the assets acquired and the liabilities assumed at the date of acquisition, for which the valuation process of certain assets remains to be finalized. The preliminary allocation of the purchase price was based on the estimated fair value of the assets acquired and the liabilities assumed at the date of acquisition, which is subject to material adjustments until the fair value assessment is completed. The items that are mainly subject to change are *Property, plant and equipment*, *Intangible assets* and *Goodwill*. The Corporation will finalize the purchase price allocation over the coming quarters. Final adjustment to the purchase price allocation could also impact depreciation, amortization and income tax expenses recognized since the initial accounting of the DERYtelecom business acquisition.

The preliminary allocation of the purchase price based on the estimated fair value of assets acquired and the liabilities assumed at the date of acquisition is as follows:

	At May 31, 2021 Preliminary \$
Purchase price	
Consideration paid	403,000
Preliminary working capital adjustments	(8,500)
	394,500
Net assets acquired	
Cash and cash equivalents acquired	204
Trade and other receivables	5,093
Prepaid expenses and other	1,456
Property, plant and equipment	235,001
Intangible assets	41,350
Goodwill	138,320
Trade and other payables	(17,358)
Provisions	(1,657)
Contract liabilities and other liabilities	(6,615)
Long-term debt	(1,294)
	394,500

The amount of goodwill, which is expected to be mostly deductible for tax purposes, is mainly attributable to the expected growth in both residential and business services and the expertise of the workforce. As the transaction was executed essentially through an asset purchase, the goodwill is also attributable to the realization of expected tax benefits.

In connection with this acquisition, the Corporation incurred acquisition-related costs of \$3.3 million, recognized within *Integration, restructuring and acquisition costs* in the Corporation's consolidated statement of profit and loss.

During the three and nine-month periods ended May 31, 2021, the Corporation recognized \$27.9 million and \$51.3 million of revenue related to the operations generated by the acquisition of DERYtelecom. The results of operations of DERYtelecom are reported in the Canadian broadband services operating segment.

Had the business combination been effective at September 1, 2020, the consolidated revenue of the Corporation would have been \$1.980 billion for the nine-month period ended May 31, 2021. Management considers the "pro forma" supplemental information to represent an approximate measure of the performance of the combined group and to provide a reference point for comparison in future periods. The "pro forma" supplemental information is based on estimates and assumptions that management believes to be reasonable.

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

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

6. OPERATING EXPENSES

	Three months ended May 31,		Nine months ended May 31,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Salaries, employee benefits and outsourced services	120,184	110,067	346,633	334,263
Service delivery costs	174,527	172,161	518,100	502,723
Customer related costs	21,676	22,512	64,799	71,938
Other external purchases	30,533	22,829	87,395	77,793
	346,920	327,569	1,016,927	986,717

7. DEPRECIATION AND AMORTIZATION

	Three months ended May 31,		Nine months ended May 31,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Depreciation of property, plant and equipment ⁽¹⁾	119,702	115,162	348,838	334,270
Amortization of intangible assets	9,667	15,089	34,163	43,663
	129,369	130,251	383,001	377,933

(1) Includes depreciation of right-of-use assets amounting to \$1.9 million and \$5.7 million (\$2.2 million and \$6.3 million in 2020) for the three and nine-month periods of fiscal 2021.

8. FINANCIAL EXPENSE

	Three months ended May 31,		Nine months ended May 31,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Interest on long-term debt, excluding interest on lease liabilities	30,887	40,347	97,651	120,890
Interest on lease liabilities	571	631	1,723	1,872
Gain on debt modification ⁽¹⁾	—	—	—	(22,898)
Net foreign exchange loss	1,698	347	1,036	345
Amortization of deferred transaction costs	203	238	638	953
Capitalized borrowing costs	(41)	(169)	(132)	(462)
Other	1,205	232	2,761	(5,032)
	34,523	41,626	103,677	95,668

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

COGECO INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2021

(unaudited)

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

9. INCOME TAXES

	Three months ended May 31,		Nine months ended May 31,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Current	7,052	15,851	46,668	46,156
Deferred	25,130	13,208	58,118	38,159
	32,182	29,059	104,786	84,315

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

	Three months ended May 31,		Nine months ended May 31,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Profit before income taxes	137,176	126,555	440,383	389,411
Combined Canadian income tax rate	26.5 %	26.5 %	26.5 %	26.5 %
Income taxes at combined Canadian income tax rate	36,351	33,537	116,701	103,194
Difference in operations' statutory income tax rates	621	658	2,201	1,875
Impact on income taxes arising from non-deductible expenses and non-taxable profit	375	500	744	(575)
Tax impacts related to foreign operations	(4,765)	(5,610)	(14,800)	(18,223)
Other	(400)	(26)	(60)	(1,956)
Income taxes at effective income tax rate	32,182	29,059	104,786	84,315
Effective income tax rate	23.5%	23.0%	23.8%	21.7%

10. EARNINGS PER SHARE

The following table provides the components used in the calculation of basic and diluted earnings per share:

	Three months ended May 31,		Nine months ended May 31,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Profit for the period attributable to owners of the Corporation	34,548	31,118	108,774	97,377
Weighted average number of multiple and subordinate voting shares outstanding	15,901,097	15,878,062	15,895,144	15,931,722
Effect of dilutive incentive share units	48,638	61,886	51,922	62,646
Effect of dilutive performance share units	47,885	67,011	49,363	66,199
Weighted average number of diluted multiple and subordinate voting shares outstanding	15,997,620	16,006,959	15,996,429	16,060,567

11. RESTRICTED CASH AND GOVERNMENT SUBSIDIES RECEIVED IN ADVANCE

On March 22, 2021, Cogeco Communications announced that Cogeco Connexion will carry out 13 high-speed Internet network expansion projects in several regions of Québec, in collaboration with the provincial and federal governments. These regional infrastructure projects represent an investment of approximately \$240 million, of which \$208 million will come from the provincial and federal governments, in the form of government subsidies.

Once these projects are completed, more than 54,000 homes and businesses will be connected to Cogeco Connexion's high-speed Internet services. These digital infrastructure investment projects are scheduled to be completed by September 2022. On March 26, 2021, Cogeco Connexion received \$187.5 million of the \$208 million expected government subsidies, to be used to pay for a portion of the expansion projects, with the remainder expected to be received upon completion of the projects. The amount of subsidies may vary depending on actual construction scope and costs. The projects are also subject to penalties, except for events out of Cogeco Connexion's control, if their delivery extends beyond September 2022. As at May 31, 2021, the \$187.5 million subsidies received in advance were classified as *Restricted cash* with a corresponding liability in *Government subsidies received in advance*, on the consolidated statement of financial position. The *Government subsidies received in advance* will be recognized essentially as a reduction of the cost of property, plant and equipment, based on the cost incurred in connection with these projects over the expected costs.

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12. LONG-TERM DEBT

	May 31, 2021	August 31, 2020
	\$	\$
Notes, debentures and credit facilities	3,073,409	3,157,678
Lease liabilities	60,134	62,681
Balance due on business combinations	1,600	4,856
Other	3	—
	3,135,146	3,225,215
Less current portion	262,431	32,914
	2,872,715	3,192,301

Notes, debentures and credit facilities

	Maturity	Interest rate	May 31, 2021	August 31, 2020
		%	\$	\$
Corporation				
Term Revolving Facility				
Revolving loan	February 2025	—	—	49,899
Unsecured Debentures ⁽¹⁾	November 2021	6.50	35,303	35,268
Subsidiaries				
Term Revolving Facility				
Revolving loan	January 2025	1.62 ⁽³⁾	9,987	—
Revolving loan – US\$127 million ⁽²⁾	January 2025	1.29 ⁽³⁾	153,314	—
Senior Secured Notes				
Series A - US\$25 million	September 2024	4.14	30,124	32,538
Series B - US\$150 million	September 2026	4.29	180,630	195,123
Senior Secured Notes - US\$215 million	June 2025	4.30	258,935	279,687
Senior Secured Debentures Series 3	February 2022	4.93	199,839	199,671
Senior Secured Debentures Series 4	May 2023	4.18	299,285	299,027
First Lien Credit Facilities				
Senior Secured Term Loan B Facility - US\$1,614 million (US\$1,626.8 million at August 31, 2020)	January 2025	2.09 ^{(3) (4)}	1,905,992	2,066,465
			3,073,409	3,157,678
Less current portion			255,664	22,171
			2,817,745	3,135,507

- (1) In April 2020, the Corporation had consented to a moratorium on interest payments for one semester initiated by one of the lenders. Therefore, the interest accrued between November 7, 2019 and May 6, 2020 for that lender had been capitalized and will be repaid at the maturity of the unsecured debentures on November 8, 2021.
- (2) An amount of US\$127 million drawn under Cogeco Communications' Term Revolving Facility was hedged until June 30, 2021, using a cross-currency swap agreement which sets the amount redeemable at maturity at \$153.0 million and the effective interest rate on the Canadian dollar equivalent at 1.37%.
- (3) Interest rate on debt includes the applicable credit spread.
- (4) As of May 31, 2021, a US subsidiary of Cogeco Communications had entered into interest rate swap agreements to fix the interest rate on a notional amount of US\$770 million of its LIBOR based loans. These agreements have the effect of converting the floating US LIBOR base rate into fixed rates ranging from 2.017% to 2.262% for maturities between January 31, 2023 and November 30, 2024, under the Senior Secured Term Loan B Facility. Taking into account these agreements, the effective interest rate on the Senior Secured Term Loan B Facility is 3.07%.

In April 2021, Cogeco Connexion contracted a new unsecured letter of credit which was submitted to Innovation, Science and Economic Development ("ISED") Canada as a pre-auction deposit, with the application to bid at the 3500 MHz spectrum auction. In accordance with the rules of confidentiality established by ISED Canada respecting communications during the auction process, the Corporation is forbidden from disclosing the amount of this letter of credit.

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13. SHARE CAPITAL

A) AUTHORIZED

Unlimited number of:

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

Multiple voting shares, 20 votes per share.

Subordinate voting shares, 1 vote per share.

B) ISSUED AND PAID

	May 31, 2021	August 31, 2020
	\$	\$
1,602,217 multiple voting shares	10	10
14,399,638 subordinate voting shares	115,237	115,237
	115,247	115,247
49,824 subordinate voting shares held in trust under the Incentive Share Unit Plan (60,511 at August 31, 2020)	(4,021)	(4,938)
50,644 subordinate voting shares held in trust under the Performance Share Unit Plan (66,443 at August 31, 2020)	(4,032)	(5,290)
	107,194	105,019

During the first nine months of fiscal 2021, the transactions pertaining to the subordinate voting shares held in trust under the Incentive Share Unit Plan were as follows:

	Number of shares	Amount
		\$
Balance at August 31, 2020	60,511	4,938
Subordinate voting shares acquired	13,713	1,074
Subordinate voting shares distributed to employees	(24,400)	(1,991)
Balance at May 31, 2021	49,824	4,021

During the first nine months of fiscal 2021, the transactions pertaining to the subordinate voting shares held in trust under the Performance Share Unit Plan were as follows:

	Number of shares	Amount
		\$
Balance at August 31, 2020	66,443	5,290
Subordinate voting shares distributed to employees	(15,799)	(1,258)
Balance at May 31, 2021	50,644	4,032

C) DIVIDENDS

For the nine-month period ended May 31, 2021, quarterly eligible dividends of \$0.545 per share, for a total of \$1.635 per share or \$25.9 million, were paid to the holders of multiple and subordinate voting shares, compared to quarterly eligible dividends of \$0.475 per share, for a total of \$1.425 per share or \$22.7 million, for the nine-month period ended May 31, 2020.

For the nine-month period ended May 31, 2021, quarterly eligible dividends of \$0.64 per share, for a total of \$1.92 per share or \$61.1 million, were paid by the Corporation's subsidiary, Cogeco Communications, to non-controlling interest, compared to quarterly eligible dividends of \$0.58 per share, for a total of \$1.74 per share or \$57.3 million, for the nine-month period ended May 31, 2020.

	Three months ended May 31,		Nine months ended May 31,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Attributable to owners of the Corporation				
Dividends on multiple voting shares	874	761	2,620	2,383
Dividends on subordinate voting shares	7,768	6,761	23,315	20,288
	8,642	7,522	25,935	22,671
Attributable to non-controlling interest				
Dividends on subordinate voting shares	20,111	18,695	61,051	57,294

At its July 14, 2021 meeting, the Board of Directors of Cogeco declared a quarterly eligible dividend of \$0.545 per share for multiple and subordinate voting shares, payable on August 11, 2021 to shareholders of record on July 28, 2021.

D) SHARE-BASED PAYMENT PLANS

The Corporation and its subsidiary, Cogeco Communications, offer Employee Stock Purchase Plans for the benefit of their employees and those of their subsidiaries, and Stock Option Plans for their executive officers and designated employees. No more than 10% of the outstanding subordinate voting shares are available for issuance under these plans. Furthermore, the Corporation and its subsidiary, Cogeco Communications, offer Incentive Share Unit Plans ("ISU Plans") and Performance Share Unit Plans ("PSU Plans") for their executive officers and designated employees, and Deferred Share Unit Plans ("DSU Plans") for members of the Board of Directors. A detailed description of these plans can be found in the 2020 annual consolidated financial statements of the Corporation.

For the nine-month period ended May 31, 2021, no stock options were granted to employees by Cogeco under the Stock Option Plan of the Corporation and no options were outstanding at May 31, 2021 and August 31, 2020.

Under the Stock Option Plan of Cogeco Communications, the following options were granted and are outstanding at May 31, 2021:

	Options	Weighted average exercise price
		\$
Outstanding at August 31, 2020	786,799	78.49
Granted	156,125	94.69
Exercised ⁽¹⁾	(57,365)	64.53
Cancelled	(39,755)	89.19
Outstanding at May 31, 2021	845,804	81.93
Exercisable at May 31, 2021	377,679	68.24

(1) The weighted average share price for options exercised during the nine-month period was \$113.65.

The weighted average fair value of stock options granted by Cogeco Communications for the nine-month period ended May 31, 2021 was \$14.86 per option. The weighted average fair value of each option granted was estimated at the grant date for purposes of determining share-based payment expense using the Black-Scholes option pricing model based on the following weighted-average assumptions:

	%
Expected dividend yield	2.75
Expected volatility	24.79
Risk-free interest rate	0.43
Expected life (in years)	5.9

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Under the ISU Plan of the Corporation, the following ISUs were granted and are outstanding at May 31, 2021:

Outstanding at August 31, 2020	59,400
Granted ⁽¹⁾	14,825
Distributed	(24,400)
Cancelled	(1,900)
Outstanding at May 31, 2021	47,925

(1) The weighted average fair value of the ISUs granted during the nine-month period was \$80.35.

Under the ISU Plan of Cogeco Communications, the following ISUs were granted and are outstanding at May 31, 2021:

Outstanding at August 31, 2020	76,141
Granted ⁽¹⁾	26,025
Distributed	(26,549)
Cancelled	(6,417)
Outstanding at May 31, 2021	69,200

(1) The weighted average fair value of the ISUs granted during the nine-month period was \$95.28.

Under the PSU Plan of the Corporation, the following PSUs were granted and are outstanding at May 31, 2021:

Outstanding at August 31, 2020	65,063
Granted ⁽¹⁾	12,225
Distributed	(15,799)
Cancelled	(14,966)
Dividend equivalents	868
Outstanding at May 31, 2021	47,391

(1) The weighted average fair value of the PSUs granted during the nine-month period was \$80.35.

Under the PSU Plan of Cogeco Communications, the following PSUs were granted and are outstanding at May 31, 2021:

Outstanding at August 31, 2020	112,886
Granted ⁽¹⁾	33,075
Distributed	(33,231)
Cancelled	(16,255)
Dividend equivalents	1,777
Outstanding at May 31, 2021	98,252

(1) The weighted average fair value of the PSUs granted during the nine-month period was \$94.80.

Under the DSU Plan of the Corporation, the following DSUs were issued and are outstanding at May 31, 2021:

Outstanding at August 31, 2020	38,320
Issued ⁽¹⁾	8,045
Dividend equivalents	787
Outstanding at May 31, 2021	47,152

(1) The weighted average fair value of the DSUs issued during the nine-month period was \$81.99.

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Under the DSU Plan of Cogeco Communications, the following DSUs were issued and are outstanding at May 31, 2021:

Outstanding at August 31, 2020	50,958
Issued ⁽¹⁾	8,512
Dividend equivalents	997
Outstanding at May 31, 2021	60,467

(1) The weighted average fair value of the DSUs issued during the nine-month period was \$98.48.

The following table shows the compensation expense recorded with regards to the Corporation's and Cogeco Communications' share-based payment plans:

	Three months ended May 31,		Nine months ended May 31,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Stock options	511	531	1,505	1,449
ISUs	782	1,023	2,487	2,717
PSUs	970	1,243	1,874	3,120
DSUs	759	(299)	2,574	575
	3,022	2,498	8,440	7,861

14. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

	Cash flow hedge reserve	Foreign currency translation	Total
	\$	\$	\$
Balance at August 31, 2019	(10,740)	20,856	10,116
Other comprehensive income (loss)	(7,973)	11,091	3,118
Balance at May 31, 2020	(18,713)	31,947	13,234
Balance at August 31, 2020	(16,780)	14,335	(2,445)
Other comprehensive income (loss)	6,298	(25,326)	(19,028)
Balance at May 31, 2021	(10,482)	(10,991)	(21,473)

15. ADDITIONAL CASH FLOW INFORMATION

A) CHANGES IN NON-CASH OPERATING ACTIVITIES

	Three months ended May 31,		Nine months ended May 31,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Trade and other receivables	21,353	16,398	1,454	6,371
Prepaid expenses and other	3,749	4,644	(6,731)	(4,722)
Other assets	(138)	(940)	(1,298)	(5,354)
Trade and other payables	(910)	5,843	3,387	(49,681)
Provisions	(10,957)	1,535	(9,572)	(4,852)
Contract liabilities and other liabilities	1,698	(2,937)	(57)	4,941
	14,795	24,543	(12,817)	(53,297)

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B) CASH AND CASH EQUIVALENTS

	May 31, 2021	August 31, 2020
	\$	\$
Cash	135,921	406,113
Cash equivalents ⁽¹⁾	170,160	—
	306,081	406,113

(1) Comprised of high interest bank deposits.

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

Credit risk

The Corporation is exposed to credit risk arising from the derivative financial instruments, cash and cash equivalents, restricted cash, and trade accounts receivable, the maximum exposure of which is represented by the carrying amounts reported on the condensed interim consolidated statements of financial position.

The Corporation reduces the credit risk with regards to the derivative financial instruments by completing transactions with financial institutions that carry a credit rating equal to or superior to its own credit rating. At May 31, 2021, management believes this credit risk to be minimal, since the lowest credit rating of the counterparties to the agreements is "A" by Standard & Poor's rating services ("S&P").

Cash equivalents consist mainly of highly liquid money market short-term investments. The Corporation has deposited the cash and cash equivalents, and the restricted cash with reputable financial institutions, for which management believes the risk of loss to be remote.

To mitigate the credit risk in relation to its trade accounts receivable, the Corporation continuously monitors the financial condition of its customers and reviews the credit history or worthiness of each new large customer. The Corporation has credit policies in place and has established various credit controls, including credit checks, deposits on accounts and advance billing, and has also established procedures to suspend the availability of services when customers have fully utilized approved credit limits or have violated existing payment terms. Furthermore, a large portion of the Corporation's customers are billed and pay before the services are rendered. The Corporation believes that its allowance for doubtful accounts is sufficient to cover the related credit risk. Since the Corporation has a large and diversified clientele dispersed throughout its market areas in Canada and the United States, there is no significant concentration of credit risk.

Liquidity risk

At May 31, 2021, the Corporation's \$100 million Term Revolving Facility was unused and an amount of \$167.0 million was used from Cogeco Communications' \$750 million Term Revolving Facility, for a remaining availability of \$583.0 million. In addition, two subsidiaries of Cogeco Communications also benefit from a Senior Secured Revolving Facility of \$181.1 million (US\$150 million), of which \$2.9 million (US\$2.4 million) was used at May 31, 2021 for a remaining availability of \$178.2 million (US\$147.6 million).

Interest rate risk

The Corporation and its subsidiary, Cogeco Communications, are exposed to interest rate risk on their floating interest rate instruments. Interest rate fluctuations will have an effect on the repayment of these instruments. At May 31, 2021, all of the Corporation's and Cogeco Communications' long-term debt were at fixed rate, except for the amounts drawn under Cogeco Communications' Term Revolving Facility and First Lien Credit Facilities which are subject to floating interest rates.

To reduce the risk on the floating interest rate instruments and mitigate the impact of interest rate variations, Cogeco Communications' US subsidiary entered into fixed interest rate swap agreements. The following table shows the interest rate swaps outstanding at May 31, 2021:

Type of hedge	Notional amount ⁽¹⁾	Receive interest rate	Pay interest rate	Maturity	Hedged item
Cash flow	US\$770 million	US LIBOR base rate	2.017% - 2.262%	January 2023 - November 2024	Senior Secured Term Loan B

(1) Two tranches amounting to US\$330 million have matured on January 31, 2021.

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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 \$11.8 million based on the outstanding debt and swap agreements at May 31, 2021.

Foreign exchange risk

Cogeco Communications is exposed to foreign exchange risk with respect to the interest associated with its notes, debentures and credit facilities denominated in US dollars. The impact of a 10% increase in the exchange rate of the US dollar into Canadian dollars would increase the annual financial expense by approximately \$8.0 million based on the outstanding debt and swap agreements at May 31, 2021.

Furthermore, a foreign currency exposure arises from Cogeco Communications' net investment in its US subsidiary, as a result of the translation of the net investment into the Corporation's functional currency. A portion of Cogeco Communications' net investment in its US subsidiary is hedged by Cogeco Communications' US dollar denominated Senior Secured Notes, which were designated as hedges of the net investment, while a portion is economically hedged by the US subsidiary's US dollar denominated First Lien Credit Facilities.

The exchange rate used to translate the US dollar currency into Canadian dollars for the consolidated statement of financial position accounts at May 31, 2021 was \$1.2072 (\$1.3042 at August 31, 2020) per US dollar. A 10% decrease in the exchange rate of the US dollar into Canadian dollar would decrease other comprehensive income by approximately \$91 million.

B) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	May 31, 2021		August 31, 2020	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Notes, debentures and credit facilities	3,073,409	3,193,708	3,157,678	3,311,359

C) CAPITAL MANAGEMENT

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

The capital structure of the Corporation is composed of shareholders' equity, cash and cash equivalents, bank indebtedness and long-term debt.

At May 31, 2021 and August 31, 2020, the Corporation and its subsidiary, Cogeco Communications, were in compliance with all of their debt covenants and were not subject to any other externally imposed capital requirements.

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

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

	May 31, 2021	August 31, 2020
Net indebtedness ⁽¹⁾ / adjusted EBITDA ⁽²⁾	2.3	2.4
Adjusted EBITDA ⁽²⁾ / financial expense ⁽²⁾	8.6	7.5

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

(2) Calculation based on adjusted EBITDA and financial expense for the twelve-month period ended May 31, 2021, which includes 5.5 months of DERYtelecom operations, and for the year ended August 31, 2020. Financial expense for the year ended August 31, 2020 excludes the gain on debt modification of \$22.9 million, which is consistent with the covenants calculation.

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17. RELATED PARTY TRANSACTIONS

Cogeco is the parent company of Cogeco Communications and, as of May 31, 2021, held 33.2% of Cogeco Communications' equity shares, representing 83.3% of the votes attached to Cogeco Communications' voting shares.

Cogeco provides executive, administrative, financial, strategic planning and additional services to Cogeco Communications under a Management Services Agreement (the "Agreement"). The methodology used to establish the management fees is based on the costs incurred by Cogeco plus a reasonable mark-up. Provision is made for future adjustments upon the request of either Cogeco Communications or the Corporation from time to time during the term of the Agreement. For the three and nine-month periods ended May 31, 2021, management fees paid by Cogeco Communications amounted to \$5.9 million and \$17.6 million, respectively, compared to \$6.2 million and \$17.2 million for the same periods of fiscal 2020.

No direct remuneration is payable to Cogeco's executive officers by Cogeco Communications. However, during the nine-month periods ended May 31, 2021 and 2020, Cogeco Communications granted stock options and PSUs to these executive officers, as executive officers of Cogeco Communications, and issued DSUs to Board directors of Cogeco, as shown in the following table:

	Nine months ended May 31,	
	2021	2020
Stock options	69,200	110,875
PSUs	10,375	14,375
DSUs	792	1,847

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

	Three months ended May 31,		Nine months ended May 31,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Stock options	274	331	885	901
ISUs	—	8	6	30
PSUs	233	351	358	1,048
DSUs	61	6	249	149
	568	696	1,498	2,128

18. COMMITMENTS AND CONTINGENCIES

A) COMMITMENTS

Capital investments

During the nine-month period ended May 31, 2021, the Corporation entered into service contracts in connection with its high-speed Internet expansion projects. In addition, the Corporation has accelerated the purchases of certain equipment in order to avoid potential supply chain shortages and to support its network expansion projects. As at May 31, 2021, the Corporation's contractual commitments related to these capital investments amounted to approximately \$201.6 million. The Corporation may terminate certain of these contracts by giving formal notice prior to an agreed upon period.

Acquisition and sale of radio stations

On May 6, 2021, the Corporation's subsidiary, Cogeco Media, announced that it had entered into an agreement with Arsenal Média to acquire and sell radio stations located in the Saguenay-Lac-Saint-Jean and Abitibi-Témiscamingue regions. Cogeco Media will acquire a radio station owned by Arsenal Média in the Saguenay-Lac-Saint-Jean region, known as the CILM radio station, and will simultaneously sell to Arsenal Média two radio stations owned by Cogeco Media in the Abitibi-Témiscamingue region, known as the Capitale Rock and Wow radio stations.

This transaction is subject to customary closing conditions, including the approval of the Canadian Radio-television and Telecommunications Commission.

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B) CONTINGENCIES

Final rates for aggregated wholesale Internet access services

On May 27, 2021, the Canadian Radio-television and Telecommunications Commission ("CRTC") released Telecom Decision 2021-181, which ruled on applications by cable carriers (including Cogeco Communications) and telecommunications carriers to review and vary Telecom Order 2019-288, in which the CRTC had set new rates for aggregated wholesale Internet access services. In this decision, the CRTC overturned the 2019 rate reductions and made the interim rates it had previously established in 2016, with certain adjustments, final. As a result of the CRTC's decision, the Corporation will be required to make retroactive payments to wholesale Internet access customers for the period of March to October 2016 and has recognized an amount of \$4.6 million as a reduction of revenue during the third quarter of fiscal 2021.

On May 28, 2021, TekSavvy Solutions Inc. ("TekSavvy") petitioned the Governor in Council to overturn Telecom Decision 2021-181 and reinstate the CRTC's 2019 rate decision. The Governor in Council has yet to issue its decision on this petition. On June 28, 2021, TekSavvy filed a motion for leave to appeal the decision before the Federal Court of Appeal, which is currently pending.

19. SUBSEQUENT EVENT

Acquisition of WideOpenWest's Ohio broadband systems

On June 30, 2021, Cogeco Communications announced that its subsidiary, Atlantic Broadband, had entered into a definitive agreement with WideOpenWest, Inc. ("WOW") to purchase all of its broadband systems located in Ohio ("Ohio broadband systems"). The Ohio broadband systems are valued at US\$1.125 billion, plus transaction and financing costs. The Ohio broadband systems pass approximately 688,000 homes and businesses in Cleveland and Columbus and served approximately 196,000 Internet, 61,000 video and 35,000 telephony customers, as of March 31, 2021.

The purchase price and transaction costs will be financed through US\$900 million of committed secured debt financing provided to Atlantic Broadband, and excess cash on hand. The acquisition is subject to regulatory approvals along with other customary closing conditions and is expected to close in the first quarter of fiscal 2022.

PRIMARY SERVICE UNIT STATISTICS

	May 31, 2021	February 28, 2021 ⁽¹⁾	November 30, 2020	August 31, 2020	May 31, ⁽²⁾ 2020 ⁽³⁾
CONSOLIDATED					
Primary service units	2,976,391	2,982,402	2,763,466	2,757,631	2,739,903
Internet service customers	1,427,752	1,416,325	1,319,869	1,304,228	1,281,762
Video service customers	989,698	1,001,077	930,684	936,636	939,453
Telephony service customers	558,941	565,000	512,913	516,767	518,688
CANADA					
Homes passed	1,982,255	1,977,734	1,779,083	1,775,885	1,773,695
Primary service units	2,002,736	2,010,049	1,790,783	1,799,706	1,802,631
Internet service customers	909,901	905,321	815,248	812,016	803,073
Penetration as a percentage of homes passed	45.9%	45.8%	45.8%	45.7%	45.3%
Video service customers	680,456	687,486	612,297	619,249	627,608
Penetration as a percentage of homes passed	34.3%	34.8%	34.4%	34.9%	35.4%
Telephony service customers	412,379	417,242	363,238	368,441	371,950
Penetration as a percentage of homes passed	20.8%	21.1%	20.4%	20.7%	21.0%
UNITED STATES					
Homes passed	935,520	929,323	927,564	922,872	916,207
Primary service units	973,655	972,353	972,683	957,925	937,272
Internet service customers	517,851	511,004	504,621	492,212	478,689
Penetration as a percentage of homes passed	55.4%	55.0%	54.4%	53.3%	52.2%
Video service customers	309,242	313,591	318,387	317,387	311,845
Penetration as a percentage of homes passed	33.1%	33.7%	34.3%	34.4%	34.0%
Telephony service customers	146,562	147,758	149,675	148,326	146,738
Penetration as a percentage of homes passed	15.7%	15.9%	16.1%	16.1%	16.0%

(1) On December 14, 2020, 224,039 primary service units (85,642 Internet services, 80,218 video services and 58,179 telephony services) were added related to the acquisition of DERYtelecom.

(2) On May 1, 2020, 2,227 primary service units (1,871 Internet services, 181 video services and 175 telephony services) were added related to the acquisition of iTéract Inc.

(3) On March 10, 2020, 15,977 primary service units (9,077 Internet services, 5,111 video services and 1,789 telephony services) were added related to the acquisition of Thames Valley Communications.