



SHAREHOLDERS' REPORT

Three and nine-month periods ended May 31, 2020

FINANCIAL HIGHLIGHTS

	Three months ended					Nine months ended				
	May 31, 2020	May 31, 2019	Change	Change in constant currency ⁽¹⁾	Foreign exchange impact ⁽¹⁾	May 31, 2020	May 31, 2019	Change	Change in constant currency ⁽¹⁾	Foreign exchange impact ⁽¹⁾
<i>(in thousands of dollars, except percentages and per share data)</i>	\$	\$	%	%	\$	\$	\$	%	%	\$
Operations										
Revenue	626,013	617,617	1.4	(0.6)	12,064	1,855,279	1,833,552	1.2	0.5	12,263
Adjusted EBITDA	298,444	289,935	2.9	1.1	5,260	868,562	850,999	2.1	1.4	5,330
Integration, restructuring and acquisition costs ⁽²⁾	12	1,155	(99.0)			5,550	12,012	(53.8)		
Profit for the period from continuing operations	97,496	102,559	(4.9)			305,096	272,972	11.8		
Profit for the period from discontinued operations	—	82,451	(100.0)			—	73,460	(100.0)		
Profit for the period	97,496	185,010	(47.3)			305,096	346,432	(11.9)		
Profit for the period from continuing operations attributable to owners of the Corporation	31,118	33,744	(7.8)			97,377	88,424	10.1		
Profit for the period attributable to owners of the Corporation	31,118	59,883	(48.0)			97,377	111,718	(12.8)		
Cash flow										
Cash flow from operating activities	292,075	267,388	9.2			679,263	575,172	18.1		
Acquisitions of property, plant and equipment ⁽³⁾	123,778	97,169	27.4	23.6	3,663	357,030	292,456	22.1	20.8	3,841
Free cash flow	119,153	140,393	(15.1)	(15.4)	318	353,113	381,544	(7.5)	(7.5)	171
Financial condition⁽⁴⁾										
Cash and cash equivalents						526,537	559,393	(5.9)		
Total assets						7,373,579	7,125,037	3.5		
Indebtedness ⁽⁵⁾						3,641,377	3,514,185	3.6		
Equity attributable to owners of the Corporation						762,013	754,768	1.0		
Per Share Data⁽⁶⁾										
Earnings per share										
Basic										
From continuing operations	1.96	2.09	(6.2)			6.11	5.46	11.9		
From discontinued operations	—	1.62	(100.0)			—	1.44	(100.0)		
From continuing and discontinued operations	1.96	3.71	(47.2)			6.11	6.90	(11.4)		
Diluted										
From continuing operations	1.94	2.07	(6.3)			6.06	5.41	12.0		
From discontinued operations	—	1.61	(100.0)			—	1.43	(100.0)		
From continuing and discontinued operations	1.94	3.68	(47.3)			6.06	6.84	(11.4)		
Dividends	0.475	0.43	10.5			1.425	1.29	10.5		

- (1) Key performance indicators presented on a constant currency basis are obtained by translating financial results of 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, 2019, the average foreign exchange rates used for translation were 1.3402 USD/CDN and 1.3266 USD/CDN, respectively.
- (2) For the nine-month period ended May 31, 2020, integration, restructuring and acquisition costs resulted mostly from organizational changes and costs related to the acquisition of Thames Valley Communications. For the third-quarter and first nine months of fiscal 2019, integration, restructuring and acquisitions costs were mostly due to an operational optimization program that included a voluntary departure program in the Communications segment combined with costs related to the acquisition of 10 regional radio stations.
- (3) For the three and nine-month periods ended May 31, 2020, acquisitions of property, plant and equipment in constant currency amounted to \$120.1 million and \$353.2 million, respectively.
- (4) At May 31, 2020 and August 31, 2019.
- (5) Indebtedness is defined as the aggregate of bank indebtedness, balance due on business combinations and principal on long-term debt.
- (6) Per multiple and subordinate voting shares.



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

Three and nine-month periods ended May 31, 2020

1. FORWARD-LOOKING STATEMENTS

Certain statements contained in this Management's Discussion and Analysis ("MD&A") may constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to Cogeco Inc.'s ("Cogeco" or the "Corporation") future outlook and anticipated events, business, operations, financial performance, financial condition or results and, in some cases, can be identified by terminology such as "may"; "will"; "should"; "expect"; "plan"; "anticipate"; "believe"; "intend"; "estimate"; "predict"; "potential"; "continue"; "foresee"; "ensure" or other similar expressions concerning matters that are not historical facts. Particularly, statements regarding the Corporation's financial guidelines, future operating results and economic performance, objectives and strategies are forward-looking statements. These statements are based on certain factors and assumptions including expected growth, results of operations, performance and business prospects and opportunities, which Cogeco believes are reasonable as of the current date. Refer in particular to the "Corporate Objectives and Strategies" and "Fiscal 2020 Financial Guidelines" sections of the Corporation's 2019 annual MD&A for a discussion of certain key economic, market and operational assumptions we have made in preparing forward-looking statements. While Management considers these assumptions to be reasonable based on information currently available to the Corporation, they may prove to be incorrect. Forward-looking information is also subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what Cogeco currently expects. These factors include risks such as competitive risks, business risks (including potential disruption to our supply chain), regulatory risks, public health crisis and emergencies such as the current COVID-19 pandemic, technology risks, 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" section of the Corporation's 2019 annual MD&A and the present MD&A. These factors are not intended to represent a complete list of the factors that could affect Cogeco and future events and results may vary significantly from what Management currently foresees. The reader should not place undue importance on forward-looking information contained in this MD&A which represent Cogeco's expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made) and are subject to change after such date. While Management may elect to do so, the Corporation is under no obligation (and expressly disclaims any such obligation) and does not undertake to update or alter this information at any particular time, whether as a result of new information, future events or otherwise, except as required by law.

All amounts are stated in Canadian dollars unless otherwise indicated. This report should be read in conjunction with the Corporation's condensed interim consolidated financial statements and the notes thereto for the three and nine-month periods ended May 31, 2020 prepared in accordance with the International Financial Reporting Standards ("IFRS") and the MD&A in the Corporation's 2019 Annual Report.

2. CORPORATE OBJECTIVES AND STRATEGIES

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

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



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

COMMUNICATIONS SEGMENT

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

Canadian broadband services

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

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

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

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

American broadband services

Delivering exceptional customer experience while fostering team member engagement

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

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

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

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

MEDIA ACTIVITIES

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

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

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

CONSOLIDATED

The impact of the COVID-19 pandemic from the Communications segment are described below.

Our media business, included in the "Other Segment", was negatively impacted by the COVID-19 pandemic as the bulk of its radio revenue is generated from the retail industry which is significantly impacted by the current crisis. As most retail stores in Quebec were forced to close temporarily by government decree during the months of March, April and May, they significantly reduced or completely stopped their media spending. This had a direct impact on our radio business, which recorded a year-over-year decline of 33% in revenue. To mitigate the negative impact of such a decline, the business took immediate actions to reduce its cost base, which partially mitigated the revenue decline.

The severity and length of the crisis and its economic impact, especially on the retail industry, remain unknown at the moment. We do however expect our media business to be in a strong position from a market share perspective when the situation eventually stabilizes.

COMMUNICATIONS SEGMENT

Since the beginning of the COVID-19 pandemic, our efforts have focussed on providing our usual high level of service to customers while providing a safe working environment for our employees. Although we can now say that we have successfully taken on this challenge, the situation had various impacts on our business during the last quarter. Following is a list of the most significant impacts that this unprecedented situation had on our operations:

- Incremental demand for our high speed Internet product (more customers and upgrades in packages);
- More stable customer base for our video and telephony products (fewer connections and disconnections) and increased video-on-demand and phone long-distance usage;
- Lower residential video revenue at our Canadian broadband subsidiary due to credits given to customers on certain sports packages;
- Lower revenue related to the delay in price increases that were planned during the quarter at our Canadian broadband subsidiary;
- Lower revenue related to the temporary discontinuation of data overage fees at our Canadian broadband subsidiary and the waiving of late charges at our American broadband subsidiary;
- Lower commercial revenue, mostly related to the video and telephony products and for specific verticals such as hotels and restaurants;
- Lower advertising revenue, including a reduction in political advertising at our American broadband subsidiary;
- Lower customer service expenses due to more self-installations of new customers, offset by temporary COVID-specific cost increases;
- Increase in the number of customers who delayed payments, which resulted in a higher bad debt expense and related provision for primary service units;
- Lower expenses related to the closure of all of our retail stores during the confinement period; and
- Increase in capital expenditures related to acceleration of certain projects due to increased user data demand on our networks and to avoid potential supply chain disruptions during the early part of the pandemic, partly offset by a lower level of construction activity in some areas.

These COVID-19 related impacts did not have a material effect on our results.

2.2 OUTLOOK AND FINANCIAL GUIDELINES

Based on the experience gained while operating during the pandemic and the fact that there is one quarter left to the fiscal year, the Corporation and Cogeco Communications are providing the following financial guidelines for the current fiscal year ending on August 31, 2020 as compared to the prior fiscal year, on a constant currency and consolidated basis:

- Revenue: low-single digit percentage growth;
- Adjusted EBITDA: low-single digit percentage growth; and
- Free cash flow: mid-single digit percentage growth.

We are not providing an outlook on the financial periods beyond the fourth quarter of the current fiscal year at this time, as the uncertainty related to the duration, future developments and potential outcomes of the COVID-19 pandemic does not allow us to predict its overall impact on operations, business and financial results.

3. BUSINESS DEVELOPMENTS

On June 19, 2020, Cogeco Communications announced that it will proceed with an early redemption of its \$200 million Senior Secured Debentures Series 2 due November 16, 2020. The redemption date will be July 20, 2020.

On May 1, 2020, Cogeco Communications' subsidiary, Cogeco Connexion, completed the acquisition of iTéract Inc., a telecommunications service provider operating in southern Québec using a combination of fixed-wireless and fibre-to-the-home technologies, and owner of 15 spectrum licenses, for \$16 million.

On March 10, 2020, Cogeco Communications' subsidiary, Atlantic Broadband, completed the acquisition of Thames Valley Communications, a broadband services company operating in Southeastern Connecticut, for a net consideration of US\$50 million.

4. OPERATING AND FINANCIAL RESULTS

4.1 OPERATING RESULTS

	Three months ended				
	May 31, 2020 ⁽¹⁾	May 31, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Revenue	626,013	617,617	1.4	(0.6)	12,064
Operating expenses	327,569	327,682	—	(2.1)	6,804
Adjusted EBITDA	298,444	289,935	2.9	1.1	5,260

(1) For the three-month period ended May 31, 2020, the average foreign exchange rate used for translation was 1.3994 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3402 USD/CDN.

	Nine months ended				
	May 31, 2020 ⁽¹⁾	May 31, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Revenue	1,855,279	1,833,552	1.2	0.5	12,263
Operating expenses	986,717	982,553	0.4	(0.3)	6,933
Adjusted EBITDA	868,562	850,999	2.1	1.4	5,330

(1) For the nine-month period ended May 31, 2020, the average foreign exchange rate used for translation was 1.3466 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3266 USD/CDN.

REVENUE

For the third-quarter and first nine months of fiscal 2020, revenue increased by 1.4% and 1.2%, respectively, (decrease of 0.6% and increase of 0.5% in constant currency) mainly due to:

- growth of 3.1% and 1.8% (1.1% for both periods in constant currency) in the Communications segment due to organic growth and the impact of the Thames Valley Communications acquisition completed on March 10, 2020 in the American broadband services operations, partly offset by a decrease in the Canadian broadband services operations; partly offset by
- lower revenue in the Other segment due to a decline in radio advertising market resulting directly from the COVID-19 pandemic. The core of the radio business revenue comes from the retail industry which was particularly impacted by the recent confinement measures.

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

OPERATING EXPENSES

For the third-quarter and first nine months of fiscal 2020, operating expenses remained essentially the same and increased by 0.4% (decreases of 2.1% and 0.3% in constant currency) as a result of higher operating expenses in the Communications segment, partly offset by lower operating expenses in the media activities.

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

ADJUSTED EBITDA

Fiscal 2020 third-quarter adjusted EBITDA increased by 2.9% (1.1% in constant currency) which was mostly attributable to higher adjusted EBITDA in the Communications segment mostly as a result of an increase in the American broadband services operations, partly offset by a decrease in the media activities.

For the first nine months of fiscal 2020, adjusted EBITDA increased by 2.1% (1.4% in constant currency), which was mostly attributable to higher adjusted EBITDA in the Communications segment as a result of increases in the American and Canadian broadband services operations, partly offset by a decrease in the media activities.

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

4.2 INTEGRATION, RESTRUCTURING AND ACQUISITION COSTS

For the first nine months of fiscal 2020, restructuring and acquisition costs amounted to \$5.6 million resulting from organizational changes and costs related to the acquisition of Thames Valley Communications.

For the third-quarter and first nine months of fiscal 2019, integration, restructuring and acquisition costs amounted to \$1.2 million and \$12.0 million, respectively, mostly due to an operational optimization program that included a voluntary departure program in the Communications segment combined with costs related to the acquisition of 10 regional radio stations.

4.3 DEPRECIATION AND AMORTIZATION

	Three months ended			Nine months ended		
	May 31, 2020	May 31, 2019	Change	May 31, 2020	May 31, 2019	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Depreciation of property, plant and equipment ⁽¹⁾	115,162	105,649	9.0	334,270	319,224	4.7
Amortization of intangible assets	15,089	14,280	5.7	43,663	42,435	2.9
	130,251	119,929	8.6	377,933	361,659	4.5

(1) The depreciation of right-of-use assets amounted to \$2.2 million and \$6.3 million, respectively, for the three and nine-month periods ended May 31, 2020.

For the third-quarter and first nine months of fiscal 2020, depreciation and amortization expense increased by 8.6% and 4.5%, respectively, due to additional depreciation as a result of higher capital expenditures combined with the appreciation of the US dollar against the Canadian dollar compared to the same periods of the prior year and the impact of IFRS 16 adoption.

4.4 FINANCIAL EXPENSE

	Three months ended			Nine months ended		
	May 31, 2020	May 31, 2019	Change	May 31, 2020	May 31, 2019	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Interest on long-term debt, excluding interest on lease liabilities	40,347	44,744	(9.8)	120,890	137,578	(12.1)
Interest on lease liabilities	631	—	—	1,872	—	—
Gain on debt modification	—	—	—	(22,898)	—	—
Net foreign exchange loss (gain)	347	(2,144)	—	345	(2,452)	—
Amortization of deferred transaction costs	238	486	(51.0)	953	1,428	(33.3)
Capitalized borrowing costs	(169)	(224)	(24.6)	(462)	(522)	(11.5)
Other	232	(60)	—	(5,032)	1,056	—
	41,626	42,802	(2.7)	95,668	137,088	(30.2)

For the third-quarter and first nine months of fiscal 2020, financial expense decreased by 2.7% and 30.2%, respectively, mainly due to:

- lower debt outstanding and interest rates on the First Lien Credit Facilities; partly offset by
- the appreciation of the US dollar against the Canadian dollar compared to the same periods of the prior year.

Moreover, the decrease for the first nine months was also due to a non-cash gain on debt modification related to the amendment made to the Senior Secured Term Loan B Facility on February 3, 2020 resulting in the reduction of the interest rate by 0.25% combined with interest revenue resulting from investments of excess cash.

4.5 INCOME TAXES

	Three months ended			Nine months ended		
	May 31, 2020	May 31, 2019	Change	May 31, 2020	May 31, 2019	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Current	15,851	13,510	17.3	46,156	45,354	1.8
Deferred	13,208	9,980	32.3	38,159	21,914	74.1
	29,059	23,490	23.7	84,315	67,268	25.3

	Three months ended			Nine months ended		
	May 31, 2020	May 31, 2019	Change	May 31, 2020	May 31, 2019	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Profit before income taxes	126,555	126,049	0.4	389,411	340,240	14.5
Combined Canadian income tax rate	26.5 %	26.5 %	—	26.5 %	26.5 %	—
Income taxes at combined Canadian income tax rate	33,537	33,403	0.4	103,194	90,164	14.5
Difference in operations' statutory income tax rates	658	(959)	—	1,875	63	—
Impact on deferred taxes as a result of changes in substantively enacted tax rates	(23)	(288)	(92.0)	11	7	57.1
Impact on income taxes arising from non-deductible expenses and non-taxable profit	500	(1,662)	—	(575)	(490)	17.3
Tax impacts related to foreign operations	(5,610)	(7,255)	(22.7)	(18,223)	(21,116)	(13.7)
Other	(3)	251	—	(1,967)	(1,360)	44.6
	29,059	23,490	23.7	84,315	67,268	25.3

For the third-quarter and first nine months of fiscal 2020, income taxes expense increased by 23.7% and 25.3%, respectively, mainly due to:

- the increase in profit before income taxes; and
- the effect of a non-recurring reduction in income tax in 2019 related to the disposal of Cogeco Peer 1.

4.6 PROFIT FOR THE PERIOD

	Three months ended			Nine months ended		
	May 31, 2020	May 31, 2019	Change	May 31, 2020	May 31, 2019	Change
<i>(in thousands of dollars, except percentages and earnings per share)</i>	\$	\$	%	\$	\$	%
Profit for the period from continuing operations	97,496	102,559	(4.9)	305,096	272,972	11.8
Profit for the period	97,496	185,010	(47.3)	305,096	346,432	(11.9)
Profit for the period from continuing operations attributable to owners of the Corporation	31,118	33,744	(7.8)	97,377	88,424	10.1
Profit for the period attributable to owners of the Corporation	31,118	59,883	(48.0)	97,377	111,718	(12.8)
Profit for the period attributable to non-controlling interest ⁽¹⁾	66,378	125,127	(47.0)	207,719	234,714	(11.5)
Basic earnings per share from continuing operations	1.96	2.09	(6.2)	6.11	5.46	11.9
Basic earnings earnings per share	1.96	3.71	(47.2)	6.11	6.90	(11.4)

(1) At May 31, 2020, the non-controlling interest relates to a participation of approximately 67.4% in the profit for the year 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 2020 third-quarter profit for the period from continuing operations and profit for the period from continuing operations attributable to owners of the Corporation decreased by 4.9% and 7.8%, respectively, as a result of:

- the increase in depreciation and amortization; and
- the increase in income taxes; partly offset by
- higher adjusted EBITDA.

Also, fiscal 2020 third-quarter profit for the period and profit for the period attributable to owners of the Corporation decreased by 47.3% and 48.0%, respectively, mainly due to discontinued operations which generated a profit of \$82.5 million resulting from the sale of Cogeco Peer 1 for the same period of the prior year in addition to the elements mentioned above.

For the first nine months of fiscal 2020, profit for the period from continuing operations and profit for the period from continuing operations attributable to owners of the Corporation increased by 11.8% and 10.1%, respectively, as a result of:

- higher adjusted EBITDA; and
- the decrease in financial expense mainly due to the \$22.9 million non-cash gain on debt modification resulting from the reduction of the interest rate by 0.25% in the second quarter of fiscal 2020; partly offset by
- the increase in income taxes; and
- the increase in depreciation and amortization.

Also, for the first nine months of fiscal 2020, profit for the period and profit for the period attributable to owners of the Corporation decreased by 11.9% and 12.8%, respectively, mainly due to discontinued operations which generated a profit of \$73.5 million resulting from the sale of Cogeco Peer 1 for the same period of the prior year in addition to the elements mentioned above.

5. RELATED PARTY TRANSACTIONS

Cogeco holds 32.6% of Cogeco Communications' equity shares, representing 82.9% of 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 adjustment 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 first nine months of fiscal 2020, management fees paid by Cogeco Communications Inc. amounted to \$6.2 million and \$17.2 million, respectively compared to \$5.0 million and \$14.7 million for the same periods of fiscal 2019 as a result of higher corporate costs in Cogeco.

No direct remuneration is payable to Cogeco's executive officers by Cogeco Communications. However, during the first nine months of fiscal 2020 and 2019, 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	
<i>(in number of units)</i>	May 31, 2020	May 31, 2019
Stock options	110,875	97,725
PSUs	14,375	14,625
DSUs	1,847	2,469

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		Nine months ended	
<i>(in thousands of dollars)</i>	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
	\$	\$	\$	\$
Stock options	331	256	901	749
ISUs	8	15	30	45
PSUs	351	304	1,048	806
DSUs	6	69	149	393
	696	644	2,128	1,993

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

6. CASH FLOW ANALYSIS

	Three months ended			Nine months ended		
	May 31, 2020	May 31, 2019	Change	May 31, 2020	May 31, 2019	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Cash flow from operating activities	292,075	267,388	9.2	679,263	575,172	18.1
Cash flow from investing activities	(200,232)	(96,787)	—	(431,590)	(346,898)	24.4
Cash flow from financing activities	(71,410)	(518,454)	(86.2)	(285,806)	(600,975)	(52.4)
Effect of exchange rate changes on cash and cash equivalents denominated in a foreign currency	2,987	1,710	74.7	5,277	966	—
Net change in cash and cash equivalents from continuing operations	23,420	(346,143)	—	(32,856)	(371,735)	(91.2)
Net change in cash and cash equivalent from discontinued operations	—	734,405	(100.0)	—	733,807	(100.0)
Cash and cash equivalents, beginning of the period	503,117	60,162	—	559,393	86,352	—
Cash and cash equivalents, end of the period	526,537	448,424	17.4	526,537	448,424	17.4

6.1 OPERATING ACTIVITIES

Fiscal 2020 third-quarter cash flow from operating activities increased by 9.2% mainly from:

- higher adjusted EBITDA; and
- the increase in changes in non-cash operating activities primarily due to changes in working capital.

For the first nine months of fiscal 2020, cash flow from operating activities increased by 18.1% mainly from:

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

6.2 INVESTING ACTIVITIES

For the third-quarter and first nine months of fiscal 2020, investment activities doubled and increased by 24.4% mainly due to:

- the acquisitions of Thames Valley Communications and iTéract during the third quarter of fiscal 2020; and
- the increase in acquisitions of property, plant and equipment in both the Canadian and American broadband services operations.

Moreover, investing activities for the first nine months of fiscal 2019 included the acquisitions, on October 3, 2018, of a fibre network and corresponding assets in south Florida previously owned by FiberLight, LLC (the "FiberLight acquisition") and on November 26, 2018, of 10 regional stations from RNC Média.

BUSINESS COMBINATIONS IN FISCAL 2020

Acquisition of Thames Valley Communications

On March 10, 2020, Cogeco Communications' subsidiary, Atlantic Broadband, completed the acquisition of Thames Valley Communications, a broadband services company operating in Southeastern Connecticut, for a net consideration of US\$50 million.

Acquisition of iTéract

On May 1, 2020, Cogeco Communications' subsidiary, Cogeco Connexion, completed the acquisition of iTéract Inc., a telecommunications service provider operating in southern Québec using a combination of fixed-wireless and fibre-to-the-home technologies, and owner of 15 spectrum licenses, for \$16 million.

These acquisitions were accounted for using the purchase method and are subject to post closing adjustments. The preliminary allocation of the purchase price of these acquisitions is as follows:

At May 31, 2020			
	Thames Valley Communications	iTéract	TOTAL
	Preliminary	Preliminary	
	\$	\$	\$
Purchase price			
Consideration paid at closing	70,982	14,399	85,381
Balance due on a business combination	—	1,600	1,600
	70,982	15,999	86,981
Net assets acquired			
Cash and cash equivalents	3,631	5	3,636
Trade and other receivables	1,152	12	1,164
Income taxes receivable	177	—	177
Prepaid expenses and other	171	1	172
Other assets	—	5	5
Property, plant and equipment ⁽¹⁾	19,401	2,936	22,337
Intangible assets	6,391	12,468	18,859
Goodwill	44,747	4,171	48,918
Trade and other payables	(1,982)	(238)	(2,220)
Contract liabilities and other liabilities	(718)	—	(718)
Long-term debt ⁽²⁾	(245)	—	(245)
Deferred tax liabilities	(1,743)	(3,361)	(5,104)
	70,982	15,999	86,981

(1) Includes \$0.2 million of right-of-use assets.

(2) Includes solely lease liabilities.

BUSINESS COMBINATION IN FISCAL 2019

Acquisition of 10 regional radio stations

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

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

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

ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT

For the third-quarter and first nine months of fiscal 2020, acquisitions of property, plant and equipment increased by 27.4% and 22.1% (23.6% and 20.8% in constant currency) compared to the same periods of fiscal 2019 mainly due to the increase of capital expenditures in the Communications segment.

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

6.3 FINANCING ACTIVITIES

ISSUANCE AND REPAYMENT OF DEBT

For the third-quarter and first nine months of fiscal 2020, changes in cash flows from the issuance and repayment of debt are mainly explained as follows:

	Three months ended		Nine months ended		
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019	Explanations
<i>(in thousands of dollars)</i>	\$	\$	\$	\$	
Decrease in bank indebtedness	(732)	(33,174)	—	(949)	Related to the timing of payments made to suppliers.
Net increase (decrease) under the revolving facilities	24,242	(422,994)	25,544	(418,536)	Drawing under the Revolving loan during the third quarter of fiscal 2020. Repayment of the revolving facilities in fiscal 2019 as a result of free cash flow generated.
Repayment of notes, debentures and credit facilities	(5,859)	(5,754)	(63,603)	(72,004)	Repayment of US\$35 million during the second quarter of fiscal 2020 combined with quarterly repayments on the Senior Secured Term Loan B Facility.
Repayment of lease liabilities	(1,689)	—	(4,812)	—	Related to the adoption of IFRS 16.
Repayment of balance due on business combinations	—	—	(3,228)	(655)	Partial repayment of the balance related to the FiberLight acquisition in the first quarter of fiscal 2020.
	15,962	(461,922)	(46,099)	(492,144)	

DIVIDENDS

During the third quarter of fiscal 2020, a quarterly eligible dividend of \$0.475 per share, was paid to the holders of multiple and subordinate voting shares, totalling \$7.5 million, compared to a quarterly eligible dividend of \$0.43 per share, or \$6.9 million, in the third quarter of fiscal 2019. Dividend payment in the first nine months of totaled \$1.425 per share, or \$22.7 million, compared to \$1.29 per share, or \$20.9 million, in the prior year.

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

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

During the third quarter and first nine months of fiscal 2019, Cogeco purchased and cancelled 175,868 and 236,658 subordinate voting shares, respectively, with a weighted average price per share repurchased of \$80.53 and \$75.25 for a total consideration of \$14.2 million and \$17.8 million.

NCIB - Cogeco Communications Inc.

During the third quarter and first nine months of fiscal 2020, Cogeco Communications purchased and cancelled 601,900 and 1,397,400 subordinate voting shares, respectively, with a weighted average price per share repurchased of \$98.73 and \$104.41 for a total consideration of \$59.4 million and \$145.9 million. In the comparable periods of fiscal 2019, as the NCIB program started during the third quarter, Cogeco Communications purchased and cancelled 157,400 subordinate voting shares with a weighted average price of \$91.87 for consideration of \$14.5 million.

On April 30, 2020, 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 1,809,000 subordinate voting shares from May 4, 2020 to May 3, 2021.

Cogeco Communications has also 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 under the ASPP.

6.4 FREE CASH FLOW

	Three months ended				
	May 31, (1) 2020	May 31, 2019	Change	Change in constant currency (2)	Foreign exchange impact (2)
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Adjusted EBITDA ⁽³⁾	298,444	289,935	2.9	1.1	5,260
Amortization of deferred transaction costs and discounts on long-term debt	2,403	2,213	8.6	12.5	86
Share-based payment	2,498	1,286	94.2	94.2	—
(Gain) loss on disposals and write-offs of property, plant and equipment	(1,599)	938	—	—	—
Defined benefit plans expense, net of contributions	363	657	(44.7)	(44.7)	—
Integration, restructuring and acquisition costs	(12)	(1,155)	(99.0)	(98.8)	(2)
Financial expense	(41,626)	(42,802)	(2.7)	0.3	(1,319)
Current income taxes	(15,851)	(13,510)	17.3	17.4	(3)
Acquisition of property, plant and equipment	(123,778)	(97,169)	27.4	23.6	(3,663)
Repayment of lease liabilities	(1,689)	—	—	—	(41)
Free cash flow⁽³⁾	119,153	140,393	(15.1)	(15.4)	318

(1) For the three-month period ended May 31, 2020, the average foreign exchange rate used for translation was 1.3994 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3402 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.

	Nine months ended				
	May 31, 2020 ⁽¹⁾	May 31, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Adjusted EBITDA ⁽⁴⁾	868,562	850,999	2.1	1.4	5,330
Amortization of deferred transaction costs and discounts on long-term debt	7,219	6,570	9.9	11.2	89
Share-based payment	7,861	7,376	6.6	6.6	—
(Gain) loss on disposals and write-offs of property, plant and equipment	(359)	1,619	—	—	—
Defined benefit plans expense, net of contributions	1,944	1,890	2.9	2.9	—
Integration, restructuring and acquisition costs	(5,550)	(12,012)	(53.8)	(53.7)	(17)
Financial expense ⁽³⁾	(118,566)	(137,088)	(13.5)	(12.5)	(1,334)
Current income taxes	(46,156)	(45,354)	1.8	1.8	(13)
Acquisition of property, plant and equipment	(357,030)	(292,456)	22.1	20.8	(3,842)
Repayment of lease liabilities	(4,812)	—	—	—	(42)
Free cash flow⁽⁴⁾	353,113	381,544	(7.5)	(7.5)	171

(1) For the nine-month period ended May 31, 2020, the average foreign exchange rate used for translation was 1.3466 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3266 USD/CDN.

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

(4) 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.

Fiscal 2020 third-quarter free cash flow decreased by 15.1% (15.4% in constant currency) mainly as a result of the following:

- the increase in acquisitions of property, plant and equipment in both the Canadian and American broadband services operations due to the timing of certain initiatives; partly offset by
- higher adjusted EBITDA.

For the first nine months of fiscal 2020, free cash flow decreased by 7.5% as reported and in constant currency) mainly as a result of the following:

- the increase in acquisitions of property, plant and equipment in both the Canadian and American broadband services operations due to the timing of certain initiatives; partly offset by
- higher adjusted EBITDA; and
- the decrease in financial expense, excluding the \$22.9 million non-cash gain on debt modification resulting from the reduction of the interest rate by 0.25% in the second quarter of fiscal 2020.

6.5 DIVIDEND DECLARATION

At its July 15, 2020 meeting, the Board of Directors of Cogeco declared a quarterly eligible dividend of \$0.475 per share for multiple voting and subordinate voting shares, payable on August 12, 2020 to shareholders of record on July 29, 2020. The declaration, amount and date of any future dividend will continue to be considered and approved by the Board of Directors of the Corporation based upon the Corporation's financial condition, results of operations, capital requirements and such other factors as the Board of Directors, at its sole discretion, deems relevant. There is therefore no assurance that dividends will be declared, and if declared, the amount and frequency may vary.

7. COMMUNICATIONS SEGMENT

7.1 OPERATING RESULTS

	Three months ended				
	May 31, 2020 ⁽¹⁾	May 31, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Revenue	605,821	587,345	3.1	1.1	12,064
Operating expenses	304,921	298,444	2.2	(0.1)	6,804
Management fees – Cogeco Inc.	6,183	4,974	24.3	24.3	—
Adjusted EBITDA	294,717	283,927	3.8	1.9	5,260
Adjusted EBITDA margin	48.6 %	48.3%			

(1) For the three-month period ended May 31, 2020, the average foreign exchange rate used for translation was 1.3994 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3402 USD/CDN.

	Nine months ended				
	May 31, 2020 ⁽¹⁾	May 31, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Revenue	1,779,115	1,748,147	1.8	1.1	12,263
Operating expenses	907,694	901,147	0.7	—	6,933
Management fees – Cogeco Inc.	17,227	14,670	17.4	17.4	—
Adjusted EBITDA	854,194	832,330	2.6	2.0	5,330
Adjusted EBITDA margin	48.0 %	47.6%			

(1) For the nine-month period ended May 31, 2020, the average foreign exchange rate used for translation was 1.3466 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3266 USD/CDN.

REVENUE

	Three months ended				
	May 31, 2020 ⁽¹⁾	May 31, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Canadian broadband services	320,547	325,808	(1.6)	(1.6)	—
American broadband services	285,274	261,537	9.1	4.5	12,064
	605,821	587,345	3.1	1.1	12,064

(1) For the three-month period ended May 31, 2020, the average foreign exchange rate used for translation was 1.3994 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3402 USD/CDN.

	Nine months ended				
	May 31, 2020 ⁽¹⁾	May 31, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Canadian broadband services	963,575	975,032	(1.2)	(1.2)	—
American broadband services	815,540	773,115	5.5	3.9	12,263
	1,779,115	1,748,147	1.8	1.1	12,263

(1) For the nine-month period ended May 31, 2020, the average foreign exchange rate used for translation was 1.3466 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3266 USD/CDN.

For the third-quarter and first nine months of fiscal 2020, revenue increased by 3.1% and 1.8%, respectively, (1.1% for both periods in constant currency) resulting from:

- growth in the American broadband services operations mainly as a result of:
 - growth in both residential and business Internet service customers;
 - rate increases mostly implemented during the fourth quarter of fiscal 2019; and
 - the impact of the Thames Valley Communications acquisition completed on March 10, 2020; partly offset by
 - a decrease in video service customers; and
 - the increase in revenue for the third-quarter of fiscal 2020 was partly offset by the suspension of late fees charged to customers until June 30, 2020 combined with lower political advertising sales in the context of the COVID-19 pandemic.
- a decrease in the Canadian broadband services operations mainly due to:
 - a decline in video service customers; and
 - lower net pricing from consumer sales primarily as a result of the carry-over effect of product bundles being promoted more actively from the fourth quarter of fiscal 2019 to the second quarter of fiscal 2020; partly offset by
 - rate increases implemented during the first quarter of fiscal 2020;
 - customers' transition to higher value offerings;
 - continued growth in Internet service customers; and
 - the decrease in revenue for the first nine months of fiscal 2020 was partly offset by a growth in commercial revenue.

OPERATING EXPENSES

	Three months ended				
	May 31, 2020 ⁽¹⁾	May 31, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Canadian broadband services	143,809	147,054	(2.2)	(2.4)	214
American broadband services	155,843	145,836	6.9	2.3	6,590
Inter-segment eliminations and other	5,269	5,554	(5.1)	(5.1)	—
	304,921	298,444	2.2	(0.1)	6,804

(1) For the three-month period ended May 31, 2020, the average foreign exchange rate used for translation was 1.3994 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3402 USD/CDN.

	Nine months ended				
	May 31, 2020 ⁽¹⁾	May 31, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Canadian broadband services	445,510	458,471	(2.8)	(2.9)	253
American broadband services	445,243	422,993	5.3	3.7	6,679
Inter-segment eliminations and other	16,941	19,683	(13.9)	(13.9)	1
	907,694	901,147	0.7	—	6,933

(1) For the nine-month period ended May 31, 2020, the average foreign exchange rate used for translation was 1.3466 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3266 USD/CDN.

Fiscal 2020 third-quarter operating expenses increased by 2.2% (decrease of 0.1% in constant currency) mainly from:

- additional costs in the American broadband services operations resulting mainly from:
 - higher compensation expenses and costs related to additional headcount to support growth;
 - additional costs related to the development and implementation of a new financial and human capital management system;
 - additional operating expenses resulting from the impact of the Thames Valley Communications acquisition; and
 - higher bad debt expense related to the effects of the COVID-19 pandemic; partly offset by
 - lower marketing expenses;
 - a non-recurring gain on disposal of property, plant and equipment amounting to US\$1.7 million; and
 - the impact of IFRS 16 adoption.
- a decrease in the Canadian broadband services operations due to:
 - lower programming costs resulting from lower video service customers;
 - lower marketing initiatives and lower installation costs due to the effects of the COVID-19 pandemic, with more self installations and remote repairs; and
 - the impact of IFRS 16 adoption; partly offset by
 - additional expenses related to certain initiatives; and
 - higher bad debt expenses resulting from the effects of the COVID-19 pandemic.
- lower costs in Inter-segment eliminations and other resulting from lower corporate project costs.

For the first nine months of fiscal 2020, operating expenses increased by 0.7% (nil in constant currency) mainly from:

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

MANAGEMENT FEES

For the third-quarter and first nine months of fiscal 2020, management fees paid to Cogeco reached \$6.2 million and \$17.2 million, respectively, compared to \$5.0 million and \$14.7 million for the same periods of fiscal 2019 as a result of higher corporate costs in Cogeco. For further details on Cogeco Communications' management fees, please refer to the "Related party transactions" section.

ADJUSTED EBITDA

	Three months ended				
	May 31, 2020 ⁽¹⁾	May 31, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Canadian broadband services	176,738	178,754	(1.1)	(1.0)	(214)
American broadband services	129,431	115,701	11.9	7.1	5,474
Inter-segment eliminations and other	(11,452)	(10,528)	8.8	8.8	—
	294,717	283,927	3.8	1.9	5,260

(1) For the three-month period ended May 31, 2020, the average foreign exchange rate used for translation was 1.3994 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3402 USD/CDN.

	Nine months ended				
	May 31, 2020 ⁽¹⁾	May 31, 2019	Change	Change in constant currency ⁽²⁾	Foreign exchange impact ⁽²⁾
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Canadian broadband services	518,065	516,561	0.3	0.3	(253)
American broadband services	370,297	350,122	5.8	4.2	5,584
Inter-segment eliminations and other	(34,168)	(34,353)	(0.5)	(0.5)	(1)
	854,194	832,330	2.6	2.0	5,330

(1) For the nine-month period ended May 31, 2020, the average foreign exchange rate used for translation was 1.3466 USD/CDN.

(2) Fiscal 2020 actuals are translated at the average foreign exchange rate of fiscal 2019 which was 1.3266 USD/CDN.

Fiscal 2020 third-quarter adjusted EBITDA increased by 3.8% (1.9% in constant currency) as a result of:

- an increase in the American broadband services operations mainly as a result of organic revenue growth and the impact of the Thames Valley Communications acquisition; partly offset by
- a decrease in the Canadian broadband services operations resulting from a decline in revenue; and
- an increase in operating expenses related to the Inter-segment eliminations and other.

For the first nine months of fiscal 2020, adjusted EBITDA increased by 2.6% (2.0% in constant currency) as a result of:

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

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

For the third-quarter and first nine months of fiscal 2020, acquisitions of property, plant and equipment increased by 28.6% and 22.9%, respectively, (24.8% and 21.6% in constant currency) mainly as follows:

- In the Canadian broadband services operations, capital expenditures increased by 23.1% and 24.1%, respectively (20.9% and 23.4% in constant currency) resulting from:
 - higher costs related to the maintenance, growth and expansion of our network infrastructure; and
 - higher purchases of customer premise equipment due to the timing of certain initiatives.
- In the American broadband services operations, capital expenditures increased by 31.9% and 20.0%, respectively, (26.3% and 17.9% in constant currency) resulting from:
 - higher purchases of customer premise equipments resulting from equipment upgrades;
 - additional investments to improve and expand the network infrastructure in Florida;
 - additional purchases of equipments due to the timing of certain initiatives; and
 - costs related to the development and implementation of a new financial and human capital management system.

Acquisitions of property, plant and equipment for the first nine months of fiscal 2020 were higher in both the Canadian and American broadband services operations due to the timing of certain initiatives. In the comparable period of fiscal 2019, capital expenditures were lower also due to the timing of certain initiatives.

7.2 CUSTOMER STATISTICS

	May 31, 2020			Net additions (losses) Three months ended		Net additions (losses) Nine months ended	
	Consolidated ⁽²⁾	Canada ⁽²⁾	United States ⁽²⁾	May 31, 2020 ⁽³⁾	May 31, 2019	May 31, 2020 ⁽³⁾	May 31, 2019 ⁽⁴⁾
Primary service units ⁽¹⁾	2,739,903	1,802,631	937,272	2,352	4,004	9,887	(44,156)
Internet service customers	1,281,762	803,073	478,689	17,631	14,833	36,434	22,174
Video service customers	939,453	627,608	311,845	(10,924)	(11,369)	(27,977)	(41,012)
Telephony service customers	518,688	371,950	146,738	(4,355)	540	1,430	(25,318)

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

(2) Net of a provision related to non-paying customers who have not been disconnected.

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

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

INTERNET

For the third-quarter and first nine months of fiscal 2020, Internet service customers net additions amounted to 17,631 and 36,434, respectively, compared to 14,833 and 22,174 for the same periods of fiscal 2019. The variations were due to:

- the ongoing interest in high speed offerings especially as more customers are working from home;
- the sustained interest in bundle offers;
- the continued demand from Internet resellers in Canada;
- growth in the residential and business sectors in the United States; and
- seasonal reconnects from the Maine and New Hampshire areas during the third quarter of fiscal 2020 in the United States; partly offset by
- competitive offers in the industry.

VIDEO

For the third-quarter and first nine months of fiscal 2020, video service customers net losses amounted to 10,924 and 27,977, respectively, compared to 11,369 and 41,012 for the same periods of fiscal 2019. The variations were due to:

- a changing video consumption environment; and
- competitive offers in the industry; partly offset by
- customers' ongoing interest in digital advanced video services;
- customers' interest in video services bundled with fast Internet offerings; and
- seasonal reconnects from the Maine and New Hampshire areas during the third quarter of fiscal 2020 in the United States.

TELEPHONY

For the third-quarter and first nine months of fiscal 2020, telephony service customers net losses and net additions amounted to 4,355 and 1,430, respectively, compared to net additions and net losses of 540 and 25,318 for the same periods fiscal 2019. The variations were due to:

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

8. FINANCIAL POSITION

8.1 WORKING CAPITAL

As part of the usual conduct of its business, Cogeco generally maintains a working capital deficiency due to a low level of trade and other receivables as a large proportion of the Corporation's customers pay before their services are rendered, while trade and other payables are paid after products are delivered or services are rendered, enabling the Corporation to use the resulting cash and cash equivalents to reduce Indebtedness. However, the Corporation had a working capital surplus at August 31, 2019 and May 31, 2020 due to the increase in cash and cash equivalents resulting from the sale of Cogeco Peer 1 in the third quarter of fiscal 2019.

The variations are as follows:

	May 31, 2020	August 31, 2019	Change	Explanations
<i>(in thousands of dollars)</i>	\$	\$	\$	
Current assets				
Cash and cash equivalents	526,537	559,393	(32,856)	Please refer to the "Cash flow analysis" section.
Trade and other receivables	94,775	98,375	(3,600)	Not significant.
Income taxes receivable	14,932	18,767	(3,835)	Not significant.
Prepaid expenses and other	29,742	24,184	5,558	Increase in prepayments related to annual maintenance agreements.
Derivative financial instrument	13	109	(96)	Not significant.
	665,999	700,828	(34,829)	
Current liabilities				
Trade and other payables	228,017	276,782	(48,765)	Timing of payments made to suppliers.
Provisions	33,346	36,803	(3,457)	Not significant.
Income tax liabilities	29,383	16,693	12,690	Deferral of income tax installments until August 2020 pursuant to governments allowing delays in the context of the COVID-19 pandemic.
Contract liabilities and other liabilities	47,980	43,768	4,212	Not significant.
Balance due on business combinations	4,928	6,520	(1,592)	Not significant.
Derivative financial instruments	6,330	—	6,330	Related to two derivative financial instruments maturing in January 2021.
Current portion of long-term debt	230,094	22,624	207,470	Related to the Senior Secured Debentures Series 2 to be redeemed on July 20, 2020 combined with the recognition of the current portion of lease liabilities following the adoption of IFRS 16.
	580,078	403,190	176,888	
Working capital surplus	85,921	297,638	(211,717)	

8.2 OTHER SIGNIFICANT CHANGES

	May 31, 2020	August 31, 2019 ⁽¹⁾	Change	Explanations
<i>(in thousands of dollars)</i>	\$	\$	\$	
Non-current assets				
Property, plant and equipment	2,159,257	2,024,173	135,084	Related to the acquisition of Thames Valley Communications in the third quarter of fiscal 2020, the acquisitions of property, plant and equipment during the first nine months of fiscal 2020, the recognition of right-of-use assets following the adoption of IFRS 16 as well as the appreciation of the US dollar against the Canadian dollar.
Intangible assets	2,979,949	2,936,999	42,950	Related to the acquisition of iTéract which included spectrum licenses and the acquisition of Thames Valley Communications in the third quarter of fiscal 2020 combined with the appreciation of the US dollar against the Canadian dollar.
Goodwill	1,501,644	1,401,451	100,193	Related to the Thames Valley Communications and iTéract acquisitions in the third quarter of fiscal 2020 combined with the appreciation of the US dollar against the Canadian dollar.
Non-current liabilities				
Long-term debt	3,342,241	3,439,399	(97,158)	Related to the Senior Secured Debentures Series 2 to be redeemed on July 20, 2020 which are presented in the current portion of long-term debt and the repayment of US\$35 million combined with the quarterly repayment on the Senior Secured Term Loan B Facility, partly offset by the recognition of the long-term portion of lease liabilities following the adoption of IFRS 16 and the appreciation of the US dollar against the Canadian dollar.

(1) Intangible assets and goodwill were restated. Additional details are provided in note 6 of the condensed interim consolidated financial statements.

8.3 OUTSTANDING SHARE DATA

A description of Cogeco's share data at June 30, 2020 is presented in the table below. Additional details are provided in note 13 of the condensed interim consolidated financial statements.

<i>(in thousands of dollars, except number of shares)</i>	Number of shares	Amount \$
Common shares		
Multiple voting shares	1,602,217	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 2019 Annual Report, have not materially changed since August 31, 2019 except as follows.

On February 3, 2020, Cogeco Communications amended its Senior Secured Term Loan B Facility, whereby the most significant change consisted in the reduction of the interest rate by 0.25%. Consequently, Cogeco Communications recognized, during the second quarter of fiscal 2020, a \$22.9 million non-cash gain on debt modification. As a result, the interest expense on the Senior Secured Term Loan B Facility will be higher than the interest paid until its maturity date in January 2025 as Cogeco Communications will continue to record the interest expense at the effective interest rate in place prior to the amendment.

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

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

At May 31, 2020, the Corporation had used \$50.0 million of its \$100 million Term Revolving Facility and an amount of \$0.02 million was used from Cogeco Communications' Term Revolving Facility of \$750 million, for remaining availabilities of \$50.0 million and \$749.98 million, respectively. In addition, two subsidiaries of Cogeco Communications also benefit from a Senior Secured Revolving Facility of \$206.8 million (US\$150 million), of which \$3.3 million (US\$2.4 million) was used at May 31, 2020 for a remaining availability of \$203.5 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, 2020	S&P	DBRS	Moody's
Cogeco Communications			
Senior Secured Notes and Debentures	BBB-	BBB (low)	NR
Atlantic Broadband			
First Liens Credit Facilities	BB	NR	B1

NR : Not rated

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

On January 28, 2020, S&P raised the credit rating of Atlantic Broadband's First Liens Credit Facilities by one notch from BB- to BB given that its strategic importance to Cogeco Communications has increased over time.

8.6 FINANCIAL MANAGEMENT

Interest rate risk

The Corporation and its subsidiary, Cogeco Communications, are exposed to interest rate risk on their floating interest rate instruments. Interest rate fluctuations will have an effect on the repayment of these instruments. At May 31, 2020, all of the Corporation's and Cogeco Communications' long-term debt were at fixed rate, except for the amounts drawn under the Corporation's Term Revolving Facility and Cogeco Communications' First Lien Credit Facilities which are subject to floating interest rates.

To reduce the risk on the floating interest rate instruments 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, 2020:

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

The sensitivity of the Corporation's annual financial expense to an increase of 1% in the interest rate applicable to the unhedged portion of these facilities would represent an increase of approximately \$7.8 million based on the outstanding debt and swap agreements at May 31, 2020.

Foreign exchange risk

Cogeco Communications is exposed to foreign exchange risk with respect to the interest associated with its long-term debt denominated in US dollars. The impact of a 10% increase in the exchange rate of the US dollar into Canadian dollars would increase the annual financial expense by approximately \$10.2 million based on the outstanding debt and swap agreements at May 31, 2020.

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

The following table shows the aggregate investments in foreign operations attributable to owners of Cogeco Communications and the notional amount of debt borrowed to hedge these investments at May 31, 2020:

Type of hedge	Notional amount of debt	Aggregate investments	Hedged item
Net investments	US\$390 million	US\$1,061 million	Net investments in foreign operations in US dollar

The exchange rate used to convert the US dollar currency into Canadian dollars for the statement of financial position accounts at May 31, 2020 was \$1.3787 (\$1.3295 at August 31, 2019) per US dollar. A 10% decrease in the exchange rate of the US dollar into Canadian dollars would decrease other comprehensive income by approximately \$92.5 million.

Market risk

The Corporation and its subsidiary, Cogeco Communications, use derivative instruments to manage the cash flow exposure to the risk of changes in the price of their subordinate voting shares under the deferred share unit ("DSU") plans. As such, the Corporation and Cogeco Communications use equity swap agreements to economically hedge the market price appreciation risk of their subordinate voting shares.

The following table shows the Corporation's equity derivative contracts outstanding at May 31, 2020:

Type of hedge	Notional	Maturity	Average share price	Hedged item
Economic	37,100 units	January 2021	\$93.33	Equity price exposure

The following table shows Cogeco Communications' equity derivative contracts outstanding at May 31, 2020:

Type of hedge	Notional	Maturity	Average share price	Hedged item
Economic	48,000 units	January 2021	\$102.61	Equity price exposure

As at May 31, 2020 the fair value of the equity swaps was \$0.2 million and recognized as a liability. A 10% increase in the market price of the subordinate voting shares at May 31, 2020 would result in a gain of approximately \$0.8 million due to the equity swaps fair value appreciation, offset by a \$0.8 million increase in the DSU plans expense.

8.7 FOREIGN CURRENCY

For the three and nine-month periods ended May 31, 2020, the average rates prevailing used to convert the operating results of the Communications segment were as follows:

	Three months ended				Nine months ended			
	May 31, 2020	May 31, 2019	Change	Change	May 31, 2020	May 31, 2019	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
US dollar vs Canadian dollar	1.3994	1.3402	0.06	4.4	1.3466	1.3266	0.02	1.5

The following table highlights in Canadian dollars, the impact of a 10% depreciation, or \$0.13, of the Canadian dollar against the US dollar on the Communications segment's results for the nine-month period ended May 31, 2020:

		Communications segment
Nine months ended May 31, 2020		Exchange rate impact
(in thousands of dollars)		\$
Revenue		81,555
Operating expenses		46,553
Management fees - Cogeco Inc.		—
Adjusted EBITDA		35,002
Acquisitions of property, plant and equipment		24,700
Free cash flow		887

9. CONTROLS AND PROCEDURES

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

The CEO and CFO, supported by Management, evaluated the design of the Corporation's DC&P and ICFR at May 31, 2020, and concluded that they are adequate. Furthermore, no significant changes to the internal controls over financial reporting occurred during the three and nine-month periods ended May 31, 2020.

10. UNCERTAINTIES AND MAIN RISK FACTORS

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

REGULATORY RISKS

On August 15, 2019, the Canadian Radio-television and Telecommunications Commission ("CRTC") issued a costing decision setting new rates for aggregated wholesale Internet services for resellers, significantly lowering the interim rates it had previously fixed in 2016 and applying the new rates on a retroactive basis. On September 13, 2019, Cogeco Communications, along with other telecommunications service providers (the "Cable Carriers"), jointly filed an application for leave to appeal the CRTC order to the Federal Court of Appeal ("FCA") and to suspend its effect pending the Court decision to hear the matter. On November 22, 2019, the FCA granted leave to appeal the CRTC decision and stayed the order pending final judgement, with the result that operators do not have at the moment to implement the new rates nor to make the retroactive payments. The case has been heard on June 25 and June 26, 2020 but no decision has been rendered yet.

In addition to the FCA appeal, on November 13, 2019, the Cable Carriers filed a petition with the Governor in Council, asking Cabinet to refer the CRTC order back to the CRTC for reconsideration in conjunction with the CRTC's planned review of its regulatory framework for wireline wholesale services and in accordance with specific policy considerations. The Cabinet petition was gazetted on December 13, 2019. Interested parties filed comments on February 14, 2020 and a decision is expected in August 2020. Furthermore, on December 13, 2019, the Cable Carriers submitted to the CRTC an application for review and variance of the CRTC order, based on substantial doubt as to the correctness of the rate setting methodology relied upon by the CRTC in the order. Comments were filed by interested parties and the Cable Carriers filed their reply on March 13, 2020.

The Corporation has therefore not recorded the impact of the new reduced rates in the financial statements for the three and nine-month periods ended May 31, 2020.

PUBLIC HEALTH CRISIS AND EMERGENCIES SUCH AS AN EPIDEMIC OR A PANDEMIC

The economic uncertainty created by the COVID-19 pandemic and its repercussions on the business, operating results and financial condition of the Corporation remain unknown. Although it had many impacts on our business during the last quarter (please refer to the "Update on the impact of the COVID-19 pandemic on operations and results" section), none of them taken individually had a material effect on our results. However, management cannot predict how the pandemic will evolve, its range of outcomes and how it will directly or indirectly, materially and adversely affect our operations in the future as this will depend on future developments, which are highly uncertain and cannot be predicted with confidence, such as the spread of the disease, the duration of the outbreak, its impact on consumer and business spending and on our supply chain, and the effectiveness of the actions taken to manage it by the authorities in Canada and the United States.

11. ACCOUNTING POLICIES

11.1 ADOPTION OF NEW ACCOUNTING STANDARD AND INTERPRETATION

IFRS 16

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

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

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

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

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

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

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

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

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

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

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

The adoption of IFRS 16 had no significant impact on the Corporation's adjusted EBITDA.

IFRIC 23

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

12. NON-IFRS FINANCIAL MEASURES

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

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

Non-IFRS measure	Application	Calculation	Most comparable IFRS measure
Adjusted EBITDA	Adjusted EBITDA is a key measure commonly reported and used in the telecommunications industry, as it allows comparisons between companies that have different capital structures and is a more current measure since it excludes the impact of historical investments in assets. Adjusted EBITDA is one of the key metrics employed by the financial community to value a business and its financial strength. Adjusted EBITDA for Cogeco's business units is equal to the segment profit reported in note 4 of the condensed interim consolidated financial statements.	Adjusted EBITDA: - Profit for the period from continuing operations add: - Income taxes; - Financial expense; - Depreciation and amortization; and - Integration, restructuring and acquisition costs.	Profit for the period from continuing operations
Free cash flow ⁽¹⁾	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 ⁽¹⁾ : - Adjusted EBITDA add: - Amortization of deferred transaction costs and discounts on long-term debt; - Share-based payment; - Loss on disposals and write-offs of property, plant and equipment; - Defined benefit plans expense, net of contributions; deduct: - Integration, restructuring and acquisition costs; - Financial expense ⁽²⁾ ; - Current income taxes; - Acquisition of property, plant and equipment ⁽³⁾ ; and - Repayment of lease liabilities.	Cash flow from operating activities
Constant currency basis	Revenue, operating expenses, adjusted EBITDA, acquisitions of property, plant and equipment and free cash flow are measures presented on a constant currency basis to enable an improved understanding of the Corporation's underlying financial performance, undistorted by the effects of changes in foreign exchange rates.	Constant currency basis are obtained by translating financial results from the current periods denominated in US dollars at the foreign exchange rates of the comparable periods of the prior year. The average foreign exchange rate during the three and nine-month periods ended May 31, 2019 were 1.3402 USD/CDN and 1.3266 USD/CDN, respectively.	No comparable IFRS measure

(1) During the second quarter of fiscal 2020, the Corporation modified the calculation method of its free cash flow in order to reflect how the Corporation analyzed and makes projections of its free cash flow. This modification has no impact on the result under the current and former calculation, and therefore free cash flow for the comparable periods were not affected by this change.

(2) Excludes the non-cash gain on debt modification.

(3) Excludes the acquisition of right-of-use assets and the purchases of spectrum licenses.

12.1 FREE CASH FLOW RECONCILIATION

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

	Three months ended		Nine months ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
<i>(in thousands of dollars)</i>	\$	\$	\$	\$
Cash flow from operating activities	292,075	267,388	679,263	575,172
Amortization of deferred transaction costs and discounts on long-term debt	2,403	2,213	7,219	6,570
Changes in non-cash operating activities	(24,543)	(10,398)	53,297	101,801
Income taxes paid (received)	(6,538)	(8,793)	29,562	40,242
Current income taxes	(15,851)	(13,510)	(46,156)	(45,354)
Financial expense paid	38,700	43,464	110,336	132,657
Financial expense ⁽¹⁾	(41,626)	(42,802)	(118,566)	(137,088)
Acquisition of property, plant and equipment	(123,778)	(97,169)	(357,030)	(292,456)
Repayment of lease liabilities	(1,689)	—	(4,812)	—
Free cash flow	119,153	140,393	353,113	381,544

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

12.2 ADJUSTED EBITDA RECONCILIATION

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

	Three months ended		Nine months ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
<i>(in thousands of dollars)</i>	\$	\$	\$	\$
Profit for the period from continuing operations	97,496	102,559	305,096	272,972
Income taxes	29,059	23,490	84,315	67,268
Financial expense	41,626	42,802	95,668	137,088
Depreciation and amortization	130,251	119,929	377,933	361,659
Integration, restructuring and acquisition costs	12	1,155	5,550	12,012
Adjusted EBITDA	298,444	289,935	868,562	850,999

13. SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION

Three months ended	May 31,	February 29,	February 28,	November 30,	August 31,
	2020	2019	2020	2019	2019
(in thousands of dollars, except per share data)	\$	\$	\$	\$	\$
Operations					
Revenue	626,013	617,617	610,797	608,574	618,469
Adjusted EBITDA	298,444	289,935	279,609	284,863	290,509
Integration, restructuring and acquisition costs	12	1,155	5,458	3,823	80
Profit for the period from continuing operations	97,496	102,559	113,384	87,646	94,216
Profit (loss) for the period from discontinued operations	—	82,451	—	(5,369)	—
Profit for the period	97,496	185,010	113,384	82,277	94,216
Profit for the period from continuing operations attributable to owners of the Corporation	31,118	33,744	34,975	27,366	31,284
Profit for the period attributable to owners of the Corporation	31,118	59,883	34,975	25,667	31,284
Cash flow					
Cash flow from operating activities	292,075	267,388	236,117	204,665	151,071
Acquisitions of property, plant and equipment	123,778	97,169	111,222	94,138	122,030
Free cash flow ⁽¹⁾	119,153	140,393	125,067	128,229	108,893
Earnings (loss) per share⁽²⁾					
Basic					
From continuing operations	1.96	2.09	2.19	1.69	1.96
From discontinued operations	—	1.62	—	(0.10)	—
From continuing and discontinued operations	1.96	3.71	2.19	1.58	1.96
Diluted					
From continuing operations	1.94	2.07	2.18	1.67	1.94
From discontinued operations	—	1.61	—	(0.10)	—
From continuing and discontinued operations	1.94	3.68	2.18	1.57	1.94
Dividends per share	0.475	0.43	0.475	0.43	0.475

(1) Excludes the non-cash gain on debt modification recognized in 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 Communications segment, the number of Internet and video services customers are generally lower in the second half of the fiscal year as a result of a decrease in economic activity due to the beginning of the vacation period, the end of the television season, and students leaving their campuses at the end of the school year. Cogeco Communications offers its services in several towns with education institutions. In the United States, certain areas are also subject to seasonal fluctuations due to the winter and summer seasons.

14. ADDITIONAL INFORMATION

This MD&A was prepared on July 15, 2020. Additional information relating to the Corporation, including its Annual Report and Annual Information Form, is available on the SEDAR website at www.sedar.com or on the Corporation's website at corpo.cogeco.com.

/s/ Louis Audet

Louis Audet

Executive Chairman of the Board

/s/ Philippe Jetté

Philippe Jetté

President and Chief Executive Officer

Cogeco Inc.
Montréal, Québec
July 15, 2020



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine-month periods ended May 31, 2020

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

		Three months ended May 31,		Nine months ended May 31,	
	Notes	2020	2019	2020	2019
		\$	\$	\$	\$
<i>(In thousands of Canadian dollars, except per share data)</i>					
Revenue	3	626,013	617,617	1,855,279	1,833,552
Operating expenses	7	327,569	327,682	986,717	982,553
Integration, restructuring and acquisition costs	4	12	1,155	5,550	12,012
Depreciation and amortization	8	130,251	119,929	377,933	361,659
Financial expense	9	41,626	42,802	95,668	137,088
Profit before income taxes		126,555	126,049	389,411	340,240
Income taxes	10	29,059	23,490	84,315	67,268
Profit for the period from continuing operations		97,496	102,559	305,096	272,972
Profit for the period from discontinued operations		—	82,451	—	73,460
Profit for the period		97,496	185,010	305,096	346,432
Profit for the period attributable to:					
Owners of the Corporation		31,118	59,883	97,377	111,718
Non-controlling interest		66,378	125,127	207,719	234,714
		97,496	185,010	305,096	346,432
Earnings per share					
Basic	11				
Profit for the period from continuing operations		1.96	2.09	6.11	5.46
Profit for the period from discontinued operations		—	1.62	—	1.44
Profit for the period		1.96	3.71	6.11	6.90
Diluted	11				
Profit for the period from continuing operations		1.94	2.07	6.06	5.41
Profit for the period from discontinued operations		—	1.61	—	1.43
Profit for the period		1.94	3.68	6.06	6.84

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

	Three months ended May 31,		Nine months ended May 31,	
	2020	2019	2020	2019
<i>(In thousands of Canadian dollars)</i>	\$	\$	\$	\$
Profit for the period	97,496	185,010	305,096	346,432
Other comprehensive income				
Items to be subsequently reclassified to profit or loss				
<i>Cash flow hedging adjustments</i>				
Net change in fair value of hedging derivative financial instruments	(24,260)	(35,624)	(34,089)	(53,912)
Related income taxes	6,429	9,440	9,033	14,287
	(17,831)	(26,184)	(25,056)	(39,625)
<i>Foreign currency translation adjustments</i>				
Net foreign currency translation differences on net investments in foreign operations	49,181	46,865	68,050	62,189
Net changes on translation of long-term debt designated as hedges of net investments in foreign operations	(13,964)	(21,820)	(19,188)	(29,802)
Realized foreign currency translation adjustments on disposal of a subsidiary	—	(29,809)	—	(29,809)
Related income taxes	(176)	—	(244)	—
	35,041	(4,764)	48,618	2,578
	17,210	(30,948)	23,562	(37,047)
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	5,304	(10,106)	4,590	(16,280)
Related income taxes	(1,406)	2,682	(1,146)	4,388
	3,898	(7,424)	3,444	(11,892)
	21,108	(38,372)	27,006	(48,939)
Comprehensive income for the period	118,604	146,638	332,102	297,493
Comprehensive income for the period attributable to:				
Owners of the Corporation	35,387	42,216	102,027	88,175
Non-controlling interest	83,217	104,422	230,075	209,318
	118,604	146,638	332,102	297,493

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

	Equity attributable to owners of the Corporation					Total shareholders' equity
	Share capital	Share-based payment reserve	Accumulated other comprehensive income	Retained earnings	Equity attributable to non-controlling interest	
<i>(In thousands of Canadian dollars)</i>	\$	\$	\$	\$	\$	\$
	<i>(Note 13)</i>		<i>(Note 14)</i>			
Balance at August 31, 2018	108,838	9,147	36,335	556,588	1,700,783	2,411,691
Profit for the period	—	—	—	111,718	234,714	346,432
Other comprehensive loss for the period	—	—	(15,695)	(7,848)	(25,396)	(48,939)
Comprehensive income (loss) for the period	—	—	(15,695)	103,870	209,318	297,493
Share-based payment	—	3,743	—	—	3,102	6,845
Issuance of subordinate voting shares by a subsidiary to non-controlling interest	—	(233)	—	—	4,127	3,894
Dividends (Note 13 C))	—	—	—	(20,887)	(53,082)	(73,969)
Effect of changes in ownership of a subsidiary on non-controlling interest	—	—	—	(2,079)	2,079	—
Purchase and cancellation of subordinate voting shares	(1,922)	—	—	(15,887)	—	(17,809)
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	(3,371)	—	—	—	—	(3,371)
Distribution to employees of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	2,714	(1,999)	—	(715)	—	—
Purchase and cancellation of subordinate voting shares by a subsidiary	—	—	—	(3,202)	(11,258)	(14,460)
Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	—	—	—	—	(2,504)	(2,504)
Distribution to employees, by a subsidiary, of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	—	(1,447)	—	(96)	1,543	—
Total contributions by (distributions to) shareholders	(2,579)	64	—	(42,866)	(55,993)	(101,374)
Balance at May 31, 2019	106,259	9,211	20,640	617,592	1,854,108	2,607,810
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 contributions by (distributions to) 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

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

	Notes	May 31, 2020 \$	August 31, 2019 \$
<i>(In thousands of Canadian dollars)</i>			
			<i>(restated, Note 6)</i>
Assets			
Current			
Cash and cash equivalents	15 B)	526,537	559,393
Trade and other receivables		94,775	98,375
Income taxes receivable		14,932	18,767
Prepaid expenses and other		29,742	24,184
Derivative financial instrument		13	109
		665,999	700,828
Non-current			
Other assets		46,548	40,412
Property, plant and equipment		2,159,257	2,024,173
Intangible assets		2,979,949	2,936,999
Goodwill		1,501,644	1,401,451
Deferred tax assets		20,182	21,174
		7,373,579	7,125,037
Liabilities and Shareholders' equity			
Liabilities			
Current			
Trade and other payables		228,017	276,782
Provisions		33,346	36,803
Income tax liabilities		29,383	16,693
Contract liabilities and other liabilities		47,980	43,768
Balance due on business combinations		4,928	6,520
Derivative financial instruments		6,330	—
Current portion of long-term debt	12	230,094	22,624
		580,078	403,190
Non-current			
Long-term debt	12	3,342,241	3,439,399
Derivative financial instruments		74,062	46,044
Contract liabilities and other liabilities		12,097	14,450
Pension plan liabilities and accrued employee benefits		22,115	24,186
Deferred tax liabilities		618,746	573,889
		4,649,339	4,501,158
Shareholders' equity			
Equity attributable to owners of the Corporation			
Share capital	13 B)	104,813	106,106
Share-based payment reserve		9,922	9,165
Accumulated other comprehensive income	14	13,234	10,116
Retained earnings		634,044	629,381
		762,013	754,768
Equity attributable to non-controlling interest		1,962,227	1,869,111
		2,724,240	2,623,879
		7,373,579	7,125,037

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

		Three months ended May 31,		Nine months ended May 31,	
	Notes	2020	2019	2020	2019
<i>(In thousands of Canadian dollars)</i>		\$	\$	\$	\$
Cash flow from operating activities					
Profit for the period from continuing operations		97,496	102,559	305,096	272,972
Adjustments for:					
Depreciation and amortization	8	130,251	119,929	377,933	361,659
Financial expense	9	41,626	42,802	95,668	137,088
Income taxes	10	29,059	23,490	84,315	67,268
Share-based payment		2,498	1,286	7,861	7,376
(Gain) loss on disposals and write-offs of property, plant and equipment		(1,599)	938	(359)	1,619
Defined benefit plans expense, net of contributions		363	657	1,944	1,890
		299,694	291,661	872,458	849,872
Changes in non-cash operating activities	15 A)	24,543	10,398	(53,297)	(101,801)
Financial expense paid		(38,700)	(43,464)	(110,336)	(132,657)
Income taxes (paid) received		6,538	8,793	(29,562)	(40,242)
		292,075	267,388	679,263	575,172
Cash flow from investing activities					
Acquisition of property, plant and equipment		(123,778)	(97,169)	(357,030)	(292,456)
Business combinations, net of cash and cash equivalents acquired	6	(81,745)	—	(81,745)	(56,050)
Proceeds on disposals of property, plant and equipment		5,291	382	7,185	1,608
		(200,232)	(96,787)	(431,590)	(346,898)
Cash flow from financing activities					
Decrease in bank indebtedness		(732)	(33,174)	—	(949)
Net increase (decrease) under the revolving facilities		24,242	(422,994)	25,544	(418,536)
Repayment of notes, debentures and credit facilities		(5,859)	(5,754)	(63,603)	(72,004)
Repayment of lease liabilities		(1,689)	—	(4,812)	—
Repayment of balance due on a business combination		—	—	(3,228)	(655)
Increase in deferred transaction costs		(98)	—	(680)	(612)
Purchase and cancellation of subordinate voting shares	13 B)	(2,958)	(14,163)	(11,386)	(17,809)
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	13 B)	—	(3,371)	(2,801)	(3,371)
Dividends paid on multiple voting shares	13 C)	(761)	(780)	(2,383)	(2,339)
Dividends paid on subordinate voting shares	13 C)	(6,761)	(6,150)	(20,288)	(18,548)
Issuance of subordinate voting shares by a subsidiary to non-controlling interest		1,326	2,605	6,670	3,894
Purchase and cancellation of subordinate voting shares by a subsidiary		(59,425)	(14,460)	(145,902)	(14,460)
Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans		—	(2,504)	(5,643)	(2,504)
Dividends paid on subordinate voting shares by a subsidiary to non-controlling interest		(18,695)	(17,709)	(57,294)	(53,082)
		(71,410)	(518,454)	(285,806)	(600,975)
Effect of exchange rate changes on cash and cash equivalents denominated in a foreign currency		2,987	1,710	5,277	966
Net change in cash and cash equivalents from continuing operations		23,420	(346,143)	(32,856)	(371,735)
Net change in cash and cash equivalents from discontinued operations		—	734,405	—	733,807
Cash and cash equivalents, beginning of the period		503,117	60,162	559,393	86,352
Cash and cash equivalents, end of the period		526,537	448,424	526,537	448,424

COGECO INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2020

(unaudited)

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

NATURE OF OPERATIONS

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

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

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

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

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

1. BASIS OF PRESENTATION

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

These condensed interim consolidated financial statements have been prepared with the accounting policies the Corporation adopted in its 2019 annual consolidated financial statements, unless as mentioned in Note 2. The accounting policies have been applied consistently to all periods presented in the condensed interim consolidated financial statements unless otherwise indicated.

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

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

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

The condensed interim consolidated financial statements were approved by the Board of Directors of the Corporation at its meeting held on July 15, 2020.

COGECO INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2020

(unaudited)

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

2. ACCOUNTING POLICY DEVELOPMENTS

ADOPTION OF NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

IFRS 16

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

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

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

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

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

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

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

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

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

COGECO INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2020

(unaudited)

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

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

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

IFRIC 23

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

3. REVENUE

	Communications		Other		Consolidated	
	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$
Residential ⁽¹⁾	532,908	515,407	—	—	532,908	515,407
Commercial ⁽²⁾	67,319	64,903	—	—	67,319	64,903
Other ⁽³⁾	5,594	7,035	20,192	30,272	25,786	37,307
	605,821	587,345	20,192	30,272	626,013	617,617

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

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

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

	Communications		Other		Consolidated	
	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$
Residential ⁽¹⁾	1,560,003	1,537,029	—	—	1,560,003	1,537,029
Commercial ⁽²⁾	198,938	189,053	—	—	198,938	189,053
Other ⁽³⁾	20,174	22,065	76,164	85,405	96,338	107,470
	1,779,115	1,748,147	76,164	85,405	1,855,279	1,833,552

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

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

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

COGECO INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2020

(unaudited)

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

4. OPERATING SEGMENTS

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

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

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

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

Three months ended May 31,						
	Communications		Other		Consolidated	
	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$
Revenue ⁽¹⁾	605,821	587,345	20,192	30,272	626,013	617,617
Operating expenses	304,921	298,444	22,648	29,238	327,569	327,682
Management fees – Cogeco Inc.	6,183	4,974	(6,183)	(4,974)	—	—
Segment profit	294,717	283,927	3,727	6,008	298,444	289,935
Integration, restructuring and acquisition costs ⁽²⁾	12	1,003	—	152	12	1,155
Depreciation and amortization	129,041	119,141	1,210	788	130,251	119,929
Financial expense	40,356	42,093	1,270	709	41,626	42,802
Profit before income taxes	125,308	121,690	1,247	4,359	126,555	126,049
Income taxes	28,584	22,119	475	1,371	29,059	23,490
Profit for the period from continuing operations	96,724	99,571	772	2,988	97,496	102,559
Profit for the period from discontinued operations	—	82,451	—	—	—	82,451
Profit for the period	96,724	182,022	772	2,988	97,496	185,010
Acquisition of property, plant and equipment	123,653	96,116	125	1,053	123,778	97,169

(1) For the three-month period ended May 31, 2020, revenue by geographic market includes \$340,739 in Canada (\$356,080 in 2019) and \$285,274 in the United States (\$261,537 in 2019).

(2) For the three-month period ended May 31, 2020, comprised of costs related to the acquisitions of Thames Valley Communications and iTéact in the Communications segment. For the three-month period ended May 31, 2019, comprised primarily of costs resulting from an operational optimization program that included a voluntary departure program in the Communications segment and acquisition and integration costs in the Other segment.

COGECO INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2020

(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,						
	Communications		Other		Consolidated	
	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$
Revenue ⁽¹⁾	1,779,115	1,748,147	76,164	85,405	1,855,279	1,833,552
Operating expenses	907,694	901,147	79,023	81,406	986,717	982,553
Management fees – Cogeco Inc.	17,227	14,670	(17,227)	(14,670)	—	—
Segment profit	854,194	832,330	14,368	18,669	868,562	850,999
Integration, restructuring and acquisition costs ⁽²⁾	5,531	10,438	19	1,574	5,550	12,012
Depreciation and amortization	374,413	359,169	3,520	2,490	377,933	361,659
Financial expense	91,791	135,065	3,877	2,023	95,668	137,088
Profit before income taxes	382,459	327,658	6,952	12,582	389,411	340,240
Income taxes	82,016	63,153	2,299	4,115	84,315	67,268
Profit for the period from continuing operations	300,443	264,505	4,653	8,467	305,096	272,972
Profit for the period from discontinued operations	—	73,460	—	—	—	73,460
Profit for the period	300,443	337,965	4,653	8,467	305,096	346,432
				(restated, Note 6)		(restated, Note 6)
Total assets ⁽³⁾	7,157,104	6,951,079	216,475	173,958	7,373,579	7,125,037
Property, plant and equipment ⁽³⁾	2,124,782	2,007,610	34,475	16,563	2,159,257	2,024,173
Intangible assets ⁽³⁾	2,893,794	2,850,844	86,155	86,155	2,979,949	2,936,999
Goodwill ⁽³⁾	1,473,632	1,373,439	28,012	28,012	1,501,644	1,401,451
Acquisition of property, plant and equipment	355,795	289,446	1,235	3,010	357,030	292,456

- (1) For the nine-month period ended May 31, 2020, revenue by geographic market includes \$1,039,739 in Canada (\$1,060,437 in 2019) and \$815,540 in the United States (\$773,115 in 2019).
- (2) For the nine-month period ended May 31, 2020, comprised of costs resulting from organizational changes and costs related to the acquisitions of Thames Valley Communications and iTéract in the Communications segment and integration costs in the Other segment. For the nine-month period ended May 31, 2019, comprised primarily of costs resulting from an operational optimization program that included a voluntary departure program in the Communications segment and acquisition and integration costs in the Other segment.
- (3) At May 31, 2020 and August 31, 2019.

The following tables set out certain geographic market information at May 31, 2020 and August 31, 2019:

At May 31, 2020			
	Canada	United States	Total
	\$	\$	\$
Property, plant and equipment	1,198,729	960,528	2,159,257
Intangible assets	1,092,009	1,887,940	2,979,949
Goodwill	36,845	1,464,799	1,501,644

At August 31, 2019			
	Canada	United States	Total
	\$	\$	\$
	(restated, Note 6)		(restated, Note 6)
Property, plant and equipment	1,141,346	882,827	2,024,173
Intangible assets	1,082,451	1,854,548	2,936,999
Goodwill	32,674	1,368,777	1,401,451

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5. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS

The Corporation tests goodwill and intangible assets with indefinite life for impairment annually, or more frequently when indicators of impairment are identified. The Corporation completes its annual testing during the fourth quarter of the fiscal year.

However, in the third quarter of fiscal 2020, the Corporation tested the goodwill and long-lived assets of its Radio broadcasting CGU for impairment, due to the financial performance indicators being lower than initially projected. The recoverable amount was determined to be higher than its carrying amount and no impairment loss was recognized at May 31, 2020.

6. BUSINESS COMBINATIONS

Acquisitions in the Communications segment in fiscal 2020

Acquisition of Thames Valley Communications

On March 10, 2020, Cogeco Communications' subsidiary, Atlantic Broadband, completed the acquisition of Thames Valley Communications, a broadband services company operating in Southeastern Connecticut, for a net consideration of US\$50 million.

Acquisition of iTéract

On May 1, 2020, Cogeco Communications' subsidiary, Cogeco Connexion, completed the acquisition of iTéract Inc., a telecommunications service provider operating in southern Québec using a combination of fixed-wireless and fibre-to-the-home technologies, and owner of 15 spectrum licenses, for \$16 million.

These acquisitions were accounted for using the purchase method and are subject to post closing adjustments. The preliminary allocation of the purchase price of these acquisitions is as follows:

	At May 31, 2020		
	Thames Valley Communications	iTéract	TOTAL
	Preliminary	Preliminary	
	\$	\$	\$
Purchase price			
Consideration paid at closing	70,982	14,399	85,381
Balance due on a business combination	—	1,600	1,600
	70,982	15,999	86,981
Net assets acquired			
Cash and cash equivalents	3,631	5	3,636
Trade and other receivables	1,152	12	1,164
Income taxes receivable	177	—	177
Prepaid expenses and other	171	1	172
Other assets	—	5	5
Property, plant and equipment ⁽¹⁾	19,401	2,936	22,337
Intangible assets	6,391	12,468	18,859
Goodwill	44,747	4,171	48,918
Trade and other payables	(1,982)	(238)	(2,220)
Contract liabilities and other liabilities	(718)	—	(718)
Long-term debt ⁽²⁾	(245)	—	(245)
Deferred tax liabilities	(1,743)	(3,361)	(5,104)
	70,982	15,999	86,981

(1) Includes \$245 of right-of-use assets.

(2) Includes solely lease liabilities.

The goodwill recorded on these acquisitions is mainly attributable to the expected growth in both residential and business services, and to the strength of the assembled workforce. The financial information of these acquisitions is not material to the Corporation's consolidated financial results, and therefore has not been disclosed.

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Acquisition in the Other segment in fiscal 2019 and finalized in fiscal 2020

Acquisition of 10 regional radio stations

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

The acquisition was accounted for using the purchase method and was subject to post closing adjustments. The final allocation of the purchase price of this acquisition was completed in fiscal 2020 and is as follows:

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

7. OPERATING EXPENSES

	Three months ended May 31,		Nine months ended May 31,	
	2020 \$	2019 \$	2020 \$	2019 \$
Salaries, employee benefits and outsourced services	110,067	106,673	334,263	316,438
Service delivery costs ⁽¹⁾	172,161	167,961	502,723	507,578
Customer related costs ⁽²⁾	22,512	22,480	71,938	66,254
Other external purchases ⁽³⁾	22,829	30,568	77,793	92,283
	327,569	327,682	986,717	982,553

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

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

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

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8. DEPRECIATION AND AMORTIZATION

	Three months ended May 31,		Nine months ended May 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Depreciation of property, plant and equipment ⁽¹⁾	115,162	105,649	334,270	319,224
Amortization of intangible assets	15,089	14,280	43,663	42,435
	130,251	119,929	377,933	361,659

(1) The depreciation of right-of-use assets amounted to \$2,235 and \$6,321 for three and nine-month periods of fiscal 2020.

9. FINANCIAL EXPENSE

	Three months ended May 31,		Nine months ended May 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Interest on long-term debt, excluding interest on lease liabilities	40,347	44,744	120,890	137,578
Interest on lease liabilities	631	—	1,872	—
Gain on debt modification ⁽¹⁾	—	—	(22,898)	—
Net foreign exchange loss (gain)	347	(2,144)	345	(2,452)
Amortization of deferred transaction costs	238	486	953	1,428
Capitalized borrowing costs ⁽²⁾	(169)	(224)	(462)	(522)
Other	232	(60)	(5,032)	1,056
	41,626	42,802	95,668	137,088

(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.

(2) For the three and nine-month periods ended May 31, 2020 and 2019, the weighted average interest rate used in the capitalization of borrowing costs was 4.5%.

10. INCOME TAXES

	Three months ended May 31,		Nine months ended May 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Current	15,851	13,510	46,156	45,354
Deferred	13,208	9,980	38,159	21,914
	29,059	23,490	84,315	67,268

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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,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Profit before income taxes	126,555	126,049	389,411	340,240
Combined Canadian income tax rate	26.5 %	26.5 %	26.5 %	26.5 %
Income taxes at combined Canadian income tax rate	33,537	33,403	103,194	90,164
Difference in operations' statutory income tax rate	658	(959)	1,875	63
Impact on deferred taxes as a result of changes in substantively enacted tax rates	(23)	(288)	11	7
Impact on income taxes arising from non-deductible expenses and non-taxable profit	500	(1,662)	(575)	(490)
Tax impacts related to foreign operations	(5,610)	(7,255)	(18,223)	(21,116)
Other	(3)	251	(1,967)	(1,360)
Income taxes at effective income tax rate	29,059	23,490	84,315	67,268

11. EARNINGS PER SHARE

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

	Three months ended May 31,		Nine months ended May 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Profit for the period from continuing operations attributable to owners of the Corporation	31,118	33,744	97,377	88,424
Profit for the period from discontinued operations attributable to owners of the Corporation	—	26,139	—	23,294
Profit for the period attributable to owners of the Corporation	31,118	59,883	97,377	111,718
Weighted average number of multiple and subordinate voting shares outstanding	15,878,062	16,128,430	15,931,722	16,195,800
Effect of dilutive incentive share units	61,886	63,858	62,646	63,117
Effect of dilutive performance share units	67,011	72,727	66,199	72,511
Weighted average number of diluted multiple and subordinate voting shares outstanding	16,006,959	16,265,015	16,060,567	16,331,428
Earnings per share				
Basic				
Profit for the period from continuing operations	1.96	2.09	6.11	5.46
Profit for the period from discontinued operations	—	1.62	—	1.44
Profit for the period	1.96	3.71	6.11	6.90
Diluted				
Profit for the period from continuing operations	1.94	2.07	6.06	5.41
Profit for the period from discontinued operations	—	1.61	—	1.43
Profit for the period	1.94	3.68	6.06	6.84

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12. LONG-TERM DEBT

A) Notes, debentures and credit facilities

	Maturity	Interest rate %	May 31, 2020 \$	August 31, 2019 \$
Corporation				
Term Revolving Facility ⁽¹⁾				
Revolving loan	February 2025	2.54 ⁽⁶⁾	49,578	—
Revolving loan - US\$16.7 million at August 31, 2019	February 2025	—	—	22,203
Unsecured Debentures	November 2021	6.50	35,257	34,901
Finance lease	—	—	—	60
Subsidiaries ⁽²⁾				
Senior Secured Notes				
Series A – US\$25 million	September 2024	4.14	34,396	33,155
Series B - US\$150 million	September 2026	4.29	206,280	198,845
Senior Secured Notes - US\$215 million	June 2025	4.30	295,672	284,996
Senior Secured Debentures Series 2 ⁽³⁾	November 2020	5.15	199,902	199,744
Senior Secured Debentures Series 3	February 2022	4.93	199,617	199,457
Senior Secured Debentures Series 4	May 2023	4.18	298,944	298,697
First Lien Credit Facilities ⁽⁴⁾				
Senior Secured Term Loan B Facility - US\$1,631 million (US\$1,678.8 million at August 31, 2019) ⁽⁵⁾	January 2025	2.17 ^{(6) (7)}	2,187,192	2,189,965
			3,506,838	3,462,023
Less current portion			223,340	22,624
			3,283,498	3,439,399

- (1) On December 20, 2019, the Corporation amended its \$100 million Term Revolving Facility by extending the maturity date by an additional year until February 3, 2025.
- (2) On December 6, 2019, the Corporation's subsidiary, Cogeco Communications, reduced the Term Revolving Facility from \$800 million to \$750 million and extended its maturity date by an additional year until January 24, 2025.
- (3) On June 19, 2020, Cogeco Communications announced that it will proceed with an early redemption of its Senior Secured Debentures Series 2. The redemption date will be July 20, 2020.
- (4) On December 6, 2019, the maturity date of the US\$150 million Senior Secured Revolving Facility, benefiting two subsidiaries related to Atlantic Broadband, was extended by an additional 18 months until July 4, 2024.
- (5) On February 3, 2020, Cogeco Communications amended its Senior Secured Term Loan B Facility, whereby the most significant change consisted in the reduction of the interest rate by 0.25%.
- (6) Interest rate on debt includes the applicable credit spread.
- (7) A US subsidiary of Cogeco Communications entered into interest rate swap agreements to fix the interest rate on a notional amount of US\$1.1 billion of its LIBOR based loans. These agreements have the effect of converting the floating US Libor base rate into fixed rates ranging from 2.017% to 2.262% for maturities between January 31, 2021 and November 30, 2024, under the Senior Secured Term Loan B Facility. Taking into account these agreements, the effective interest rate on the Senior Secured Term Loan B Facility is 3.50%.

B) Lease liabilities

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

The weighted average interest rate on lease liabilities was approximately 3.85% as at May 31, 2020.

	May 31, 2020 \$
Lease liabilities	65,497
Less current portion	6,754
	58,743

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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, 2020	August 31, 2019
	\$	\$
1,602,217 multiple voting shares (1,812,860 at August 31, 2019)	10	12
14,399,638 subordinate voting shares (14,308,445 at August 31, 2019)	115,237	116,198
	115,247	116,210
61,875 subordinate voting shares held in trust under the Incentive Share Unit Plan (63,075 at August 31, 2019)	(5,046)	(4,577)
67,675 subordinate voting shares held in trust under the Performance Share Unit Plan (72,691 at August 31, 2019)	(5,388)	(5,527)
	104,813	106,106

During the first nine months of fiscal 2020, multiple voting share transactions were as follows:

	Number of shares	Amount
		\$
Balance at August 31, 2019	1,812,860	12
Conversion of multiple voting shares into subordinate voting shares ⁽¹⁾	(210,643)	(2)
Balance at May 31, 2020	1,602,217	10

(1) Prior to the sale, in January 2020, of multiple voting shares held by Gestion Audem Inc., by way of a private placement, the multiple voting shares were converted into subordinate voting shares. Gestion Audem retained control of Cogeco upon completion of this transaction.

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

	Number of shares	Amount
		\$
Balance at August 31, 2019	14,308,445	116,198
Purchase and cancellation of subordinate voting shares ⁽¹⁾	(119,450)	(963)
Conversion of multiple voting shares into subordinate voting shares	210,643	2
Balance at May 31, 2020	14,399,638	115,237

(1) During the first nine months of fiscal 2020, under its NCIB program, Cogeco purchased and cancelled 119,450 (236,658 in 2019) subordinate voting shares with an average stated value of \$1 million (\$1.9 million in 2019), for consideration of \$11.4 million (\$17.8 million in 2019). The excess of the purchase price over the average stated value of the shares totaled \$10.4 million (\$15.9 million in 2019) and was charged to retained earnings.

NORMAL COURSE ISSUER BID ("NCIB")

On July 31, 2019, the Corporation announced that the TSX accepted its renewed notice of intention for a NCIB, enabling it to acquire for cancellation up to 300,000 subordinate voting shares from August 2, 2019 to August 1, 2020.

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

	Number of shares	Amount \$
Balance at August 31, 2019	63,075	4,577
Subordinate voting shares acquired	18,150	1,880
Subordinate voting shares distributed to employees	(19,350)	(1,411)
Balance at May 31, 2020	61,875	5,046

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

	Number of shares	Amount \$
Balance at August 31, 2019	72,691	5,527
Subordinate voting shares acquired	8,888	921
Subordinate voting shares distributed to employees	(13,904)	(1,060)
Balance at May 31, 2020	67,675	5,388

C) DIVIDENDS

For the nine-month period ended May 31, 2020, quarterly eligible dividends of \$0.475 per share, for a total of \$1.425 per share or \$22.7 million, were paid to the holders of multiple and subordinate voting shares, compared to quarterly eligible dividends of \$0.43 per share, for a total of \$1.29 per share or \$20.9 million for the nine-month period ended May 31, 2019.

For the nine-month period ended May 31, 2020, quarterly eligible dividends of \$0.58 per share, for a total of \$1.74 per share or \$57.3 million, were paid by the Corporation's subsidiary, Cogeco Communications, to non-controlling interest, compared to quarterly eligible dividends of \$0.525 per share, for a total of \$1.575 per share or \$53.1 million for the nine-month period ended May 31, 2019.

	Nine months ended May 31,	
	2020	2019
	\$	\$
Attributable to owners of the Corporation		
Dividends on multiple voting shares	2,383	2,339
Dividends on subordinate voting shares	20,288	18,548
	22,671	20,887
Attributable to non-controlling interest		
Dividends on subordinate voting shares	57,294	53,082

At its July 15, 2020 meeting, the Board of Directors of Cogeco declared a quarterly eligible dividend of \$0.475 per share for multiple and subordinate voting shares payable on August 12, 2020 to shareholders of record on July 29, 2020.

D) SHARE-BASED PAYMENT PLANS

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

For the nine-month period ended May 31, 2020, 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, 2020 and August 31, 2019.

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Under the Stock Option Plan of Cogeco Communications, the following options were granted and are outstanding at May 31, 2020:

	Options	Weighted average exercise price \$
Outstanding at August 31, 2019	715,614	65.93
Granted ⁽¹⁾	207,150	114.19
Exercised ⁽²⁾	(105,765)	63.07
Cancelled	(14,400)	71.58
Outstanding at May 31, 2020	802,599	78.66
Exercisable at May 31, 2020	290,879	59.93

(1) During the nine-month period ended May 31, 2020, Cogeco Communications granted 110,875 stock options to Cogeco's executive officers as executive officers of Cogeco Communications.

(2) The weighted average share price for options exercised during the period was \$110.44.

A compensation expense of \$531,000 and \$1,449,000 (\$44,000 and \$976,000 in 2019) was recorded for the three and nine-month periods ended May 31, 2020 related to this plan.

The weighted average fair value of stock options granted by Cogeco Communications for the nine-month period ended May 31, 2020 was \$18.43 per option. The weighted average fair value of each option granted was estimated at the grant date for purposes of determining share-based payment expense using the Black-Scholes option pricing model based on the following weighted-average assumptions:

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

Under the ISU Plan of the Corporation, the following ISUs were granted and are outstanding at May 31, 2020:

Outstanding at August 31, 2019	63,075
Granted	18,150
Distributed	(19,350)
Outstanding at May 31, 2020	61,875

Under the ISU Plan of Cogeco Communications, the following ISUs were granted and are outstanding at May 31, 2020:

Outstanding at August 31, 2019	71,825
Granted	28,225
Distributed	(21,268)
Cancelled	(3,141)
Outstanding at May 31, 2020	75,641

A compensation expense of \$1,023,000 and \$2,717,000 (\$938,000 and \$2,761,000 in 2019) was recorded for the three and nine-month periods ended May 31, 2020 related to these plans.

Under the PSU Plan of the Corporation, the following PSUs were granted and are outstanding at May 31, 2020:

Outstanding at August 31, 2019	72,515
Granted	17,575
Distributed	(13,904)
Cancelled	(9,934)
Dividend equivalents	1,006
Outstanding at May 31, 2020	67,258

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Under the PSU Plan of Cogeco Communications, the following PSUs were granted and are outstanding at May 31, 2020:

Outstanding at August 31, 2019	107,551
Granted ⁽¹⁾	39,425
Distributed	(30,335)
Cancelled	(3,873)
Dividend equivalents	1,830
Outstanding at May 31, 2020	114,598

(1) During the nine-month period ended May 31, 2020, Cogeco Communications granted 14,375 PSUs to Cogeco's executive officers as executive officers of Cogeco Communications.

A compensation expense of \$1,243,000 and \$3,120,000 (\$840,000 and \$3,108,000 in 2019) was recorded for the three and nine-month periods ended May 31, 2020 related to these plans.

Under the DSU Plan of the Corporation, the following DSUs were issued and are outstanding at May 31, 2020:

Outstanding at August 31, 2019	32,877
Issued	4,679
Dividend equivalents	543
Outstanding at May 31, 2020	38,099

Under the DSU Plan of Cogeco Communications, the following DSUs were issued and are outstanding at May 31, 2020:

Outstanding at August 31, 2019	42,679
Issued ⁽¹⁾	7,233
Dividend equivalents	761
Outstanding at May 31, 2020	50,673

(1) During the nine-month period ended May 31, 2020, Cogeco Communications issued 1,847 DSUs to Board directors of Cogeco.

A compensation expense reduction of \$299,000 and a compensation expense of \$575,000 were recorded for the three and nine-month periods ended May 31, 2020 related to these plans. A compensation expense of \$1,720,000 and \$2,787,000 was recorded for the respective periods of fiscal 2019 related to these plans.

14. ACCUMULATED OTHER COMPREHENSIVE INCOME

	Cash flow hedge reserve \$	Foreign currency translation \$	Total \$
Balance at August 31, 2018	8,166	28,169	36,335
Other comprehensive loss	(12,545)	(3,150)	(15,695)
Balance at May 31, 2019	(4,379)	25,019	20,640
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

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15. ADDITIONAL CASH FLOW INFORMATION

A) CHANGES IN NON-CASH OPERATING ACTIVITIES

	Three months ended May 31,		Nine months ended May 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Trade and other receivables	16,398	4,969	6,371	(2,631)
Prepaid expenses and other	4,644	4,058	(4,722)	(4,325)
Other assets	(940)	(1,338)	(5,354)	(5,091)
Trade and other payables	5,843	(2,549)	(49,681)	(101,467)
Provisions	1,535	2,622	(4,852)	6,817
Contract liabilities and other liabilities	(2,937)	2,636	4,941	4,896
	24,543	10,398	(53,297)	(101,801)

B) CASH AND CASH EQUIVALENTS

	May 31, 2020	August 31, 2019
	\$	\$
Cash	426,558	559,393
Cash equivalents ⁽¹⁾	99,979	—
	526,537	559,393

(1) Comprised of Canada Treasury bills.

16. EMPLOYEE BENEFITS

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

The total expense related to these plans is as follows:

	Three months ended May 31,		Nine months ended May 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Defined benefit plans				
Recognized in operating expenses (salaries, employee benefits and outsourced services)				
Current service cost	947	781	2,841	2,343
Administrative expense	75	119	225	357
Recognized in financial expense (other)				
Net interest	135	(49)	406	(132)
Defined contribution and collective registered retirement saving plans				
Recognized in operating expenses (salaries, employee benefits and outsourced services)	2,454	2,489	7,265	7,375
	3,611	3,340	10,737	9,943

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17. FINANCIAL INSTRUMENTS

A) FINANCIAL RISK MANAGEMENT

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

Liquidity risk

At May 31, 2020, the Corporation had used \$50 million of its \$100 million Term Revolving Facility and an amount of \$0.02 million was used from Cogeco Communications' Term Revolving Facility of \$750 million, for remaining availabilities of \$50 million and \$749.98 million, respectively. In addition, two subsidiaries of Cogeco Communications also benefit from a Senior Secured Revolving Facility of \$206.8 million (US\$150 million), of which \$3.3 million (US\$2.4 million) was used at May 31, 2020 for a remaining availability of \$203.5 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, 2020, all of the Corporation's and Cogeco Communications' long-term debt were at fixed rate, except for the amounts drawn under the Corporation's Term Revolving Facility and Cogeco Communications' First Lien Credit Facilities which are subject to floating interest rates.

To reduce the risk on the floating interest rate instruments 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, 2020:

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

The sensitivity of the Corporation's annual financial expense to an increase of 1% in the interest rate applicable to the unhedged portion of these facilities would represent an increase of approximately \$7.8 million based on the outstanding debt and swap agreements at May 31, 2020.

Foreign exchange risk

Cogeco Communications is exposed to foreign exchange risk with respect to the interest associated with its long-term debt denominated in US dollars. The impact of a 10% increase in the exchange rate of the US dollar into Canadian dollars would increase the annual financial expense by approximately \$10.2 million based on the outstanding debt and swap agreements at May 31, 2020.

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

The following table shows the aggregate investments in foreign operations attributable to owners of Cogeco Communications and the notional amount of debt borrowed to hedge these investments at May 31, 2020:

Type of hedge	Notional amount of debt	Aggregate investments	Hedged item
Net investments	US\$390 million	US\$1,061 million	Net investments in foreign operations in US dollar

The exchange rate used to convert the US dollar currency into Canadian dollars for the statement of financial position accounts at May 31, 2020 was \$1.3787 (\$1.3295 at August 31, 2019) per US dollar. A 10% decrease in the exchange rate of the US dollar into Canadian dollars would decrease other comprehensive income by approximately \$92.5 million.

Market risk

The Corporation and its subsidiary, Cogeco Communications, use derivative instruments to manage the cash flow exposure to the risk of changes in the price of their subordinate voting shares under the DSU plans. As such, the Corporation and Cogeco Communications use equity swap agreements to economically hedge the market price appreciation risk of their subordinate voting shares.

COGECO INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2020

(unaudited)

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

The following table shows the Corporation's equity derivative contracts outstanding at May 31, 2020:

Type of hedge	Notional	Maturity	Average share price	Hedged item
Economic	37,100 units	January 2021	\$93.33	Equity price exposure

The following table shows Cogeco Communications' equity derivative contracts outstanding at May 31, 2020:

Type of hedge	Notional	Maturity	Average share price	Hedged item
Economic	48,000 units	January 2021	\$102.61	Equity price exposure

As at May 31, 2020 the fair value of the equity swaps was \$0.2 million and recognized as a liability. A 10% increase in the market price of the subordinate voting shares at May 31, 2020 would result in a gain of approximately \$0.8 million due to the equity swaps fair value appreciation, offset by a \$0.8 million increase in the DSU plans expense.

B) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	May 31, 2020		August 31, 2019	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Long-term debt, excluding lease liabilities	3,506,838	3,643,383	3,462,023	3,580,480

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, 2020 and August 31, 2019, the Corporation and Cogeco Communications were in compliance with all of their debt covenants and were not subject to any other externally imposed capital requirements.

The 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 the 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, 2020	August 31, 2019
Net indebtedness ⁽¹⁾ / adjusted EBITDA ⁽²⁾	2.7	2.6
Adjusted EBITDA ⁽²⁾ / financial expense ⁽²⁾	7.3	6.3

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

(2) Calculation based on adjusted EBITDA and financial expense for the twelve-month period ended May 31, 2020 and for the year ended August 31, 2019. Financial expense for the twelve-month period ended May 31, 2020 excludes the gain on debt modification of \$22.9M.

18. RELATED PARTY TRANSACTIONS

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 adjustment 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, 2020, management fees paid to Cogeco amounted to \$6.2 million and \$17.2 million, respectively, compared to \$5.0 million and \$14.7 million for the same periods of fiscal 2019.

No direct remuneration is payable to Cogeco's executive officers by Cogeco Communications. However, during the nine-month periods ended May 31, 2020 and 2019, 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,	
	2020	2019
Stock options	110,875	97,725
PSUs	14,375	14,625
DSUs	1,847	2,469

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,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Stock options	331	256	901	749
ISUs	8	15	30	45
PSUs	351	304	1,048	806
DSUs	6	69	149	393
	696	644	2,128	1,993

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

19. SUBSEQUENT EVENT

Redemption of Senior Secured Debentures

On June 19, 2020, Cogeco Communications announced that it will proceed with an early redemption of its \$200 million Senior Secured Debentures Series 2 due November 16, 2020. The redemption date will be July 20, 2020.

COMMUNICATIONS SEGMENT CUSTOMER STATISTICS

	May 31, 2020	February 29, 2020	November 30, 2019	August 31, 2019	May 31, 2019
CONSOLIDATED					
Primary service units	2,739,903	2,719,347	2,722,302	2,711,812	2,707,227
Internet service customers	1,281,762	1,253,183	1,246,358	1,234,380	1,229,399
Video service customers	939,453	945,085	954,964	962,138	965,008
Telephony service customers	518,688	521,079	520,980	515,294	512,820
CANADA					
Primary service units	1,802,631	1,812,140	1,818,732	1,810,366	1,813,212
Internet service customers	803,073	795,950	794,895	788,243	785,703
Penetration as a percentage of homes passed	45.3%	44.9%	45.0%	44.7%	44.6%
Video service customers	627,608	638,833	646,326	649,583	657,747
Penetration as a percentage of homes passed	35.4%	36.1%	36.6%	36.8%	37.4%
Telephony service customers	371,950	377,357	377,511	372,540	369,762
Penetration as a percentage of homes passed	21.0%	21.3%	21.4%	21.1%	21.0%
UNITED STATES					
Primary service units	937,272	907,207	903,570	901,446	894,015
Internet service customers	478,689	457,233	451,463	446,137	443,696
Penetration as a percentage of homes passed	52.2%	51.8%	51.3%	50.8%	50.7%
Video service customers	311,845	306,252	308,638	312,555	307,261
Penetration as a percentage of homes passed	34.0%	34.7%	35.1%	35.6%	35.1%
Telephony service customers	146,738	143,722	143,469	142,754	143,058
Penetration as a percentage of homes passed	16.0%	16.3%	16.3%	16.2%	16.3%