SHAREHOLDERS' REPORT

Three and nine-month periods ended May 31, 2016

FINANCIAL HIGHLIGHTS

	Quarters ended			Nine months ended		
	May 31, 2016	May 31, 2015	Change	**May 31, 2016**	May 31, 2015	Change
(in thousands of dollars, except percentages and per share data)	**$**	$	%	**$**	$	%
Operations						
Revenue	**574,005**	557,787	2.9	**1,735,358**	1,633,074	6.3
Adjusted EBITDA[1]	**253,151**	246,977	2.5	**760,434**	710,029	7.1
Integration, restructuring and acquisition costs	**1,126**	5,669	(80.1)	**7,476**	7,008	6.7
Claims and litigations	**10,499**	—	—	**10,499**	—	—
Impairment of goodwill and intangible assets	**450,000**	—	—	**450,000**	—	—
Gain on disposal of a subsidiary	**—**	—	—	**(12,940)**	—	—
Profit (loss) for the period	**(381,886)**	66,285	—	**(239,367)**	186,686	—
Profit (loss) for the period attributable to owners of the Corporation	**(117,670)**	22,584	—	**(59,143)**	64,225	—
Cash Flow						
Cash flow from operating activities	**186,209**	200,686	(7.2)	**487,916**	418,610	16.6
Acquisitions of property, plant and equipment, intangible and other assets	**94,905**	104,807	(9.4)	**359,355**	311,907	15.2
Free cash flow[1]	**91,934**	77,929	18.0	**210,044**	217,574	(3.5)
Financial Condition[2]						
Property, plant and equipment	**—**	—	—	**2,009,566**	2,005,461	0.2
Total assets	**—**	—	—	**5,539,420**	6,205,795	(10.7)
Indebtedness[3]	**—**	—	—	**3,149,406**	3,361,948	(6.3)
Equity attributable to owners of the Corporation	**—**	—	—	**525,962**	603,598	(12.9)
Per Share Data[4]						
Earnings (loss) per share						
Basic	**(7.03)**	1.35	—	**(3.54)**	3.84	—
Diluted	**(7.03)**	1.34	—	**(3.54)**	3.82	—

(1) The indicated terms do not have standardized definitions prescribed by the International Financial Reporting Standards ("IFRS") and, therefore, may not be comparable to similar measures presented by other companies. For more details, please consult the “Non-IFRS financial measures” section of the MD&A.
(2) At May 31, 2016 and August 31, 2015.
(3) Indebtedness is defined as the aggregate of bank indebtedness, principal on long-term debt and obligations under derivative financial instruments.
(4) Per multiple and subordinate voting share.

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

Three and nine-month periods ended May 31, 2016

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 2016 Financial Guidelines" sections of the Corporation's 2015 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 technological changes, changes in markets and competition, increased cord-shaving or cord-cutting of our services, increased programming costs or support structure costs, the successful implementation of our business strategies, regulatory or policy developments, non-renewal of licences or franchises, a failure to renew a critical lease, a failure of supply of equipment or services, a failure in our network head-ends, the inability to enhance our information systems, security breaches, malicious or abusive Internet practices, disasters or other contingencies, general and economic conditions, fluctuations in foreign exchange rates, interest rates, capital markets and changes in tax policy, strikes or labor protests, loss of key executives and the Corporation's controlling shareholder having conflicting interests with shareholders and other stakeholders, many of which are beyond the Corporation's control. For more exhaustive information on these risks and uncertainties, the reader should refer to the "Uncertainties and Main Risk Factors" section of the Corporation's 2015 annual 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, 2016, prepared in accordance with the International Financial Reporting Standards ("IFRS") and the MD&A included in the Corporation's 2015 Annual Report.

2. CORPORATE OBJECTIVES AND STRATEGIES

Cogeco's objectives are to provide outstanding service to its customers and create shareholder value by increasing profitability and ensuring continued revenue growth. The Corporation maximizes profitability and shareholder value by maintaining strict control over spending. In order to achieve this, Cogeco seeks to become more efficient with its processes. In addition, tight controls over processes ensure that shareholders receive timely and factual information on the Corporation’s development.

The Corporation measures its performance, with regard to these objectives by monitoring adjusted EBITDA[(1)] and free cash flow[(1)].

The strategies employed to reach these objectives are specific to each segment described below.

COMMUNICATIONS SEGMENT

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

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

Cogeco Communications measures its performance, with regard to these objectives by monitoring adjusted EBITDA, operating margin, free cash flow and capital intensity. For further details please refer to the 2015 Annual Report of Cogeco Communications Inc. available on www.sedar.com or on the Corporation's website at corpo.cogeco.com.

MEDIA ACTIVITIES

The media activities focus on continuous improvement of its programming and by diversification of its product portfolio in order to increase its market share and thereby its profitability.

2.1 KEY PERFORMANCE INDICATORS

ADJUSTED EBITDA

For the nine-month period ended May 31, 2016, adjusted EBITDA increased by $50.4 million, or 7.1%, to reach $760.4 million compared to $710.0 million for the same period of fiscal 2015 driven by the growth in the Communications segment mainly through the improvement in its American and Canadian broadband services operations, the favorable foreign exchange rates benefiting our foreign operations compared to the comparable period of the prior year combined with the improvement in the media activities, partly offset by a decrease in the Business ICT services operations.

FREE CASH FLOW

For the nine-month period ended May 31, 2016, free cash flow amounted to $210.0 million, a decrease of $7.5 million, or 3.5%, compared to $217.6 million for the same period of the prior year as a result of the claims and litigations in the Business ICT services operations combined with the increases in the acquisitions of property, plant and equipment, intangible and other assets and in current income taxes, partly offset by the improvement of adjusted EBITDA and the decrease in financial expense.

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

3. BUSINESS DEVELOPMENTS AND OTHER

During the third quarter of fiscal 2016, Cogeco Communications recognized a $450 million non-cash pre-tax impairment of goodwill an intangible assets in its Business ICT services segment resulting from changing industry dynamics and related valuations, and lower expectations for future revenue, profitability and cash flow growth.

Numeris' spring 2016 survey in the Montréal region, conducted with the *Portable People Meter* (“PPM”), reported that in the Montréal French market *98.5 FM* is the leading radio station amongst all listeners two years old and over (“2+”), *Rythme FM* has maintained its leadership position amongst all listeners in the 25-54 segment and *CKOI* is well positioned in the same category. In the Montréal English market, *The Beat* is the leading music radio station at work amongst all listeners two years old and over ("2+"). Finally, most of our other regional radio stations in Québec registered good ratings.

4. OPERATING AND FINANCIAL RESULTS

4.1 OPERATING RESULTS

	Quarters ended			Nine months ended		
	May 31, 2016	May 31, 2015	Change	**May 31, 2016**	May 31, 2015	Change
(in thousands of dollars, except percentages)	**$**	$	%	**$**	$	%
Revenue	**574,005**	557,787	2.9	**1,735,358**	1,633,074	6.3
Operating expenses	**320,854**	310,810	3.2	**974,924**	923,045	5.6
Adjusted EBITDA	**253,151**	246,977	2.5	**760,434**	710,029	7.1

REVENUE

Fiscal 2016 third-quarter revenue amounted to $574.0 million, an increase of $16.2 million, or 2.9% compared to the same period of fiscal 2015. For the first nine months, revenue reached $1.74 billion, an increase of $102.3 million, or 6.3%, compared to the first nine months of fiscal 2015. The increase for both periods is mainly attributable to the Communications segment, partly offset by lower revenue in the media activities attributable to the sale of Métromédia CMR Plus Inc. ("Métromédia") on January 5, 2016.

In the Communications segment, fiscal 2016 third-quarter revenue amounted to $540.3 million, an increase of $23.8 million, or 4.6% compared to the same period of fiscal 2015, driven by strong growth of 24.1% in the American broadband services segment with stable revenue in the Canadian broadband services segment, partly offset by a decrease of 7.8% in the Business ICT services segment. For the first nine months of fiscal 2016, revenue amounted to $1.63 billion, an increase of $109.2 million, or 7.2%, compared to the same period of the prior year driven by growth of 33.5% in the American broadband services segment and stable revenue in the Canadian broadband services segment, partly offset by a decrease of 2.8% in the Business ICT services segment. For further details on revenue, please refer to the “Communications segment” section.

OPERATING EXPENSES

Fiscal 2016 third-quarter operating expenses amounted to $320.9 million, an increase of $10.0 million, or 3.2%, compared to the comparable period of fiscal 2015. For the first nine months, operating expenses amounted to $974.9 million, an increase of $51.9 million, or 5.6%, compared to the same period of the prior year. The increase in operating expenses for both periods is mainly attributable to the Communications segment operating results, partly offset by the sale of Métromédia in the media activities.

In the Communications segment, fiscal 2016 third-quarter operating expenses amounted to $292.6 million, an increase of $15.9 million, or 5.7%, compared to the same period of fiscal 2015. For the first nine months of fiscal 2016, operating expenses amounted to $882.6 million, an increase of $59.4 million, or 7.2%, compared to the same period of the prior year. For both periods, operating expenses increased for the American broadband services segment and have declined for the Canadian broadband services and Business ICT services segments. The appreciation of the US dollar compared to the Canadian dollar for the quarter and the appreciation of the US dollar and British Pound compared to the Canadian dollar for the first nine months have also contributed to the increase. For further details on operating expenses, please refer to the “Communications segment" section.

ADJUSTED EBITDA

Fiscal 2016 third-quarter adjusted EBITDA increased by $6.2 million, or 2.5%, to reach $253.2 million and by $50.4 million, or 7.1%, to reach $760.4 million for the first nine months as a result of the improvements in the Communications segment as well as in the media activities for the first nine months, despite the sale of Métromédia on January 5, 2016.

In the Communications segment, for the three and nine-month periods ended May 31, 2016, adjusted EBITDA increased by $3.4 million, or 1.4%, to reach $243.1 million, and by $45.8 million, or 6.6%, to reach $735.6 million, respectively, mainly as a result of the improvement in the American and Canadian broadband services segments combined with favorable foreign exchange rates, except for the British Pound for the quarter, compared to the same periods of the prior year, partly offset by higher management fees paid to Cogeco under the Amended and Restated Management Services Agreement which became effective on September 1, 2015. For further details on adjusted EBITDA, please refer to the "Communications segment" section.

4.2 FIXED CHARGES

	Quarters ended			Nine months ended		
	May 31, 2016	May 31, 2015	Change	**May 31, 2016**	May 31, 2015	Change
(in thousands of dollars, except percentages)	**$**	$	%	**$**	$	%
Depreciation and amortization	**124,828**	117,793	6.0	**382,067**	352,144	8.5
Financial expense	**34,273**	37,632	(8.9)	**106,673**	112,492	(5.2)

For the three and nine-month periods ended May 31, 2016, depreciation and amortization expense reached $124.8 million and $382.1 million, respectively, compared to $117.8 million and $352.1 million for the same periods of the prior year. The increase for the quarter resulted mainly from the appreciation of the US dollar compared to the Canadian dollar and the impact of the acquisition in the Communications segment of MetroCast Communications of Connecticut, LLC (the "Connecticut system"). The increase for the first nine months resulted mainly from additional acquisitions of property, plant and equipment combined with the appreciation of the US and British Pound compared to the Canadian dollar and the impact of the acquisition of the Connecticut system.

For the three and nine-month periods ended May 31, 2016, financial expense decreased by $3.4 million, or 8.9%, to reach $34.3 million compared to $37.6 million and by $5.8 million or 5.2%, to reach $106.7 million compared to $112.5 million, respectively, compared to the same periods of the prior year. The decrease for both periods is mainly due to the repayments in October 2015 of the US$190 million Senior Secured Notes Series A and in January 2016 of the Corporation's Revolving loan, partly offset by the appreciation of the US dollar and British Pound, except for the British Pound for the quarter, compared to the Canadian dollar and the cost of financing related to the acquisition of the Connecticut system.

4.3 IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

Cogeco Communications recognized a non-cash pre-tax impairment loss of $450 million at May 31, 2016 resulting from changing industry dynamics and related valuations, and lower expectations for future revenue, profitability and cash flow growth.

As part of a process initiated in fiscal 2015, Cogeco Communications performed a thorough review of its Business ICT services segment operations, organizational structure and portfolio of products and services. The review resulted in several initiatives primarily focused on profitable sales generation, the streamlining of the product offering, the simplification of operational processes and the announcement, on May 5, 2015, of the combination of its two business units Cogeco Data Services and Peer 1 Hosting to form Cogeco Peer 1. The teams formerly managing both companies have since then been combined and several executive positions have either been replaced or filled during the ensuing period, with the remaining executive positions filled during the third quarter of fiscal 2016. Cogeco Peer 1 now has the structure and capacity in place to serve its various customers across its cloud and managed hosting, colocation and network connectivity services.

Despite continuous efforts to align Cogeco Peer 1's sales structure on its streamlined product offering, the sales performance has not achieved expected growth. Sales of managed hosting services, which are Cogeco Peer 1's main product sold in the United States and Europe, have been substantially lower than expected due to a combination of an accelerated transition out of unprofitable services, slower than planned ramp-up of the sales team, and increased competition in the market from large cloud-based offerings, which now compete with most traditional managed hosting providers. In addition, the fair market value and trading multiples for managed hosting businesses have decreased significantly over the last year due to the entry in the market of these cloud-based offerings. Cogeco Peer 1 is continuing to adapt to the significant capacity and price pressure originating from cloud providers, by continuing to focus on mid-sized customers which require value-added services. Cogeco Peer 1's customer data is primarily hosted on its own infrastructure and to a lower extent on external cloud providers under resell agreements.

In Canada, the sales of colocation services, which typically cater to larger customers, have also been slower than planned but, management is confident to profitably fill its capacity, including the recently built Barrie and Kirkland colocation facilities. As for connectivity services, ongoing pricing pressures are typically offset by volume growth. Additional net growth in network connectivity is expected to result from growing the number of customers per connected building and from maximizing sales on the existing network.

Although management is confident that it now has in place the management team and the operating structure to succeed, the current situation is expected to persist past fiscal 2016. Consequently, management has reviewed downwards its future financial projections, resulting in a decrease in the value of Cogeco Communications' investment in Cogeco Peer 1. As a result, Cogeco Communications tested goodwill and all long-lived assets of Cogeco Peer 1 for impairment at May 31, 2016.

In accordance with current accounting standards, goodwill and intangible assets with indefinite useful lives were tested for impairment at the cash-generating unit ("CGU") level, which is the Business ICT services segment. The recoverable amount of the CGU was calculated based on the higher of value in use and fair value less cost to sell. The value in use was determined using cash flow projections derived from internal financial projections covering a five-year period. They reflect management's expectations of revenue growth, expenses and capital expenditures for each CGU based on past experience and expected growth for the segment. Cash flows beyond the five-year period have been extrapolated using an estimated terminal growth rate determined with regard to projected growth rates for the specific markets in which the CGU participates and are not considered to exceed the long-term average growth rates for those markets. Discount rates applied to the cash flow forecasts are derived from Cogeco Communications' pre-tax weighted average cost of capital, adjusted for the different risk profiles of the individual CGU.

Based on lower expectations for future revenue, profitability and cash flow growth, Cogeco Communications recorded a non-cash impairment loss of $428.5 million on goodwill at May 31, 2016.

Long-lived assets, such as property, plant and equipment and intangible assets with finite useful lives were tested for impairment by comparing the carrying value of the asset or group of assets to the corresponding recoverable amount of the asset or group of assets, in order to determine the extent of the impairment loss, if any. Accordingly, Cogeco Communications completed its impairment testing on the long-lived assets and concluded that the carrying value of the customer relationships exceeded their recoverable amount, calculated as the discounted future cash flows expected to be generated from the asset. As a result, a non-cash impairment loss of $21.5 million was recognized at May 31, 2016 regarding the customer relationships.

As a result, the total impairment losses affected Cogeco Communications' financial results as follows for the three and nine-month periods ended May 31, 2016:

(in thousands of Canadian dollars)	$
Impairment of goodwill (1)	**428,500**
Impairment of intangible assets (2)	**21,500**
Impairment of goodwill and intangible assets	**450,000**
Income taxes	**(16,048)**
Impairment of goodwill and intangible assets net of income taxes	**433,952**

(1) Impairment of goodwill by geographic market includes $111.8 million in Canada, $278.9 million in the United States and $37.8 million in Europe.

(2) Intangible assets were impaired only in the United States.

4.4 CLAIMS AND LITIGATIONS

During the third quarter of fiscal 2016, Cogeco Communications' subsidiary, Cogeco Peer 1, recognized an amount of $10.5 million related to the settlement of claims and costs related to litigations, some of which are currently unresolved.

4.5 GAIN ON DISPOSAL OF A SUBSIDIARY

On January 5, 2016, the Corporation's subsidiary, Cogeco Media Inc., completed the sale of its subsidiary, Métromédia, an out-of-home advertising company, for a cash consideration of $47.5 million, which was subject to a post-closing net working capital adjustment and resulting in a gain on disposal of $12.9 million. For further details on the gain on disposal of a subsidiary, please refer to the "Cash flow analysis" section.

4.6 INCOME TAXES

For the three-month period ended May 31, 2016, income taxes decreased by $5.3 million, or 27.0% to reach $14.3 million compared to $19.6 million for the same period of the prior year. The decrease is mostly attributable to the impact of the impairment of goodwill and intangible assets combined with the favorable impact of the effective tax rates related to the Connecticut system acquisition, partly offset by the revaluation of deferred tax assets and the impact of a higher proportion on the consolidated operating results represented by Cogeco Communications' subsidiary, Atlantic Broadband, which is taxed at a higher rate.

For the nine-month period ended May 31, 2016, income taxes increased by $4.3 million, or 8.4%, to reach $56.0 million compared to $51.7 million for the same period of the prior year. The increase is mostly attributable to the revaluation of deferred tax assets, the impact of a higher proportion on the consolidated operating results represented by Atlantic Broadband's profit which is taxed at a higher rate and the improvement of adjusted EBITDA, partly offset by the impact of the impairment of goodwill and intangible assets combined with the favorable impact of the effective tax rates related to the Connecticut system acquisition.

The Corporation did not recognize income taxes on the taxable gain on disposal of a subsidiary as a result of the utilization of previously unrecognized capital tax losses.

In addition, on July 8, 2015, the United Kingdom government announced corporate tax rate reductions from 20% to 19% on April 1, 2017 and to 18% on April 1, 2020. These rate reductions were substantially enacted on October 26, 2015 and have reduced the deferred tax asset and increased the deferred income taxes by approximately $1.3 million during the nine months of fiscal 2016.

4.7 PROFIT (LOSS) FOR THE PERIOD

Fiscal 2016 third-quarter loss for the period amounted to $381.9 million of which $117.7 million, or $7.03 per share, was attributable to owners of the Corporation, compared to a profit of $66.3 million of which $22.6 million, or $1.35 per share, was attributable to owners of the Corporation for the same period of fiscal 2015 mainly as a result of the non-cash pre-tax impairment of goodwill and intangible assets of $450.0 million and from $10.5 million related to the claims and litigations which both occurred in the Communications segment. The remaining variation is explained by the improvement of adjusted EBITDA combined with the decreases in financial expense, income taxes and integration, restructuring and acquisition costs, partly offset by the increase in depreciation and amortization.

Excluding the impact of the impairment of goodwill and intangible assets and the claims and litigations, the earnings per share for the quarter was positively impacted as a result of higher management fees paid by Cogeco Communications to the Corporation under the Amended and Restated Management Services Agreement. Under the new agreement, management fees are payable on a monthly basis. In the previous fiscal year, management fees were fully paid in the first quarter, contributing to lower profit attributable to owners of the Corporation for the second, third and fourth quarters.

For the nine-month period ended May 31, 2016, the loss for the period amounted to $239.4 million of which $59.1 million, or $3.54 per share, was attributable to owners of the Corporation, compared to a profit of $186.7 million of which $64.2 million, or $3.84 per share, was attributable to owners of the Corporation for the same period of the prior year mainly as a result of the non-cash pre-tax impairment of goodwill and intangible assets of $450.0 million and from $10.5 million related to the claims and litigations which both occurred in the Communications segment. The remaining variation is explained by the improvement of adjusted EBITDA combined with the decrease in financial expense and the gain on disposal of Métromédia, partly offset by increases in depreciation and amortization and income taxes.

The non-controlling interest represents a participation of approximately 68.2% in Cogeco Communications' results. The loss for the period attributable to non-controlling interest amounted to $264.2 million and $180.2 million, respectively, for the third-quarter and first nine months of fiscal 2016 compared to profit for the period of $43.7 million and $122.5 million for the same periods of the prior year.

5. RELATED PARTY TRANSACTIONS

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

On July 14, 2015, the Management Services Agreement pursuant to which Cogeco provides executive, administrative, financial and strategic planning services and other services (the "Management Services") to Cogeco Communications was amended and restated (the "Amended and Restated Management Services Agreement"). Since September 1, 2015, the management fee is now payable on a monthly basis, representing 0.85% of the consolidated revenue of Cogeco Communications, with no maximum level or inflation-based adjustment. Cogeco previously provided the Management Services for an annual fee equal to 2% of Cogeco Communications' gross revenue, subject to an inflation-adjusted maximum annual fee. In addition, Cogeco Communications reimburses Cogeco's out-of-pocket expenses incurred with respect to services provided to Cogeco Communications under the Agreement. For more details on the Amended and Restated Management Services Agreement, refer to the "Related party transactions" section of the Corporation's 2015 annual MD&A.

No direct remuneration is payable to Cogeco's executive officers by Cogeco Communications. However, during the first nine months of fiscal 2016, Cogeco Communications granted 71,650 (61,300 in 2015) stock options to these executive officers as executive officers of Cogeco Communications. During the three and nine-month periods ended May 31, 2016, Cogeco Communications charged Cogeco $162,000 and $442,000 ($128,000 and $355,000 in 2015) with regard to Cogeco Communications' stock options granted to these executive officers.

No Incentive Share Units ("ISUs") of Cogeco Communications were granted to executive officers of Cogeco during the first nine months of fiscal 2016 and 2015. During the three and nine-month periods ended May 31, 2016, Cogeco Communications charged Cogeco $69,000 and $248,000 ($72,000 and $232,000 in 2015) with regard to the ISUs previously granted by Cogeco Communications to executive officers of Cogeco as executive officers of Cogeco Communications.

During the first nine months of fiscal 2016, Cogeco Communications granted 11,150 (11,050 in 2015) Performance Share Units ("PSUs") to executive officers of Cogeco as executive officers of Cogeco Communications and charged Cogeco $135,000 and $364,000 ($58,000 and $131,000 in 2015) with regard to Cogeco Communications' PSUs granted to these executive officers.

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

6. CASH FLOW ANALYSIS

	Quarters ended		Nine months ended	
	May 31, 2016	May 31, 2015	**May 31, 2016**	May 31, 2015
(in thousands of dollars)	**$**	$	**$**	$
Cash flow from operating activities	**186,209**	200,686	**487,916**	418,610
Cash flow from investing activities	**(95,396)**	(104,029)	**(311,377)**	(310,864)
Cash flow from financing activities	**(61,090)**	(39,530)	**(248,722)**	(100,076)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**(256)**	(331)	**(60)**	3,217
Net change in cash and cash equivalents	**29,467**	56,796	**(72,243)**	10,887
Cash and cash equivalents, beginning of the period	**62,479**	17,922	**164,189**	63,831
Cash and cash equivalents, end of the period	**91,946**	74,718	**91,946**	74,718

6.1 OPERATING ACTIVITIES

Fiscal 2016 third-quarter cash flow from operating activities reached $186.2 million, a decrease of $14.5 million, or 7.2%, compared to $200.7 million for the same period of fiscal 2015 mainly as a result of the following:

- the increase of $22.1 million in income taxes paid; and
- the claims and litigations of $10.5 million; partly offset by
- the improvement of $6.2 million in adjusted EBITDA;
- the increase of $5.3 million in changes in non-cash operating activities primarily due to changes in working capital; and
- the decrease of $4.5 million in integration, restructuring and acquisition costs.

For the first nine months of fiscal 2016, cash flow from operating activities reached $487.9 million, an increase of $69.3 million, or 16.6%, compared to $418.6 million for the same period of fiscal 2015 mainly as a result of the following:

- the improvement of $50.4 million in adjusted EBITDA;
- the decrease of $82.0 million in change in non-cash operating activities primarily due to changes in working capital; partly offset by
- the increase of $53.0 million in income taxes paid; and
- the claims and litigations of $10.5 million.

6.2 INVESTING ACTIVITIES

For the three and nine-month periods ended May 31, 2016, investing activities decreased by $8.6 million, or 8.3%, to reach $95.4 million, and increased by $0.5 million, or 0.2%, to reach $311.4 million, respectively, compared to $104.0 million and $310.9 million. The decrease for the quarter is mainly due to lower acquisitions of property, plant and equipment, intangible and other assets. The increase for the first nine months results from the disposal of a subsidiary for $47.2 million net of cash and cash equivalents disposed, partly offset by additional acquisitions of property, plant and equipment, intangible and other assets.

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

For the three-month period ended May 31, 2016, acquisitions of property, plant and equipment amounted to $90.1 million, representing a decrease of $9.9 million compared to $100.7 million for the same period of fiscal 2015, mainly due to the following factors in the Communications segment:

- in Canada, a greater level of customer premise equipment ("CPE") acquisitions in fiscal 2015 due to the launch of TiVo digital advanced services in Québec and in the acquisitions of scalable infrastructure and line extensions to extend and improve network capacity in some of the areas we serve; and
- the completion in fiscal 2015 of pod 1 at the Kirkland, Québec data centre; partly offset by
- in the United States, additional support capital and CPE expenditures both as a result of the launch of TiVo digital advanced services in eastern Connecticut in January 2016 as well as the customers' ongoing interest for this service;
- PSU growth in the United States;
- the acquisition of the Connecticut system in the fourth quarter of fiscal 2015;
- the initial construction of pod 2 at the Kirkland, Québec data centre facility related to a large colocation contract; and
- the appreciation of the US dollar over the Canadian dollar compared to the same period of the prior year.

For the nine-month period ended May 31, 2016, acquisitions of property, plant and equipment amounted to $343.1 million, representing an increase of $47.4 million compared to $300.4 million for the same period of fiscal 2015, mainly due to the following factors in the Communication segment:

- in Canada, the acquisitions of CPE related to the launch of TiVo digital advanced services, additional support capital expenditures for the implementation of a new of a new Customer Relations Management system, additional scalable infrastructure to improve our network in some of the areas we serve;
- in the United States, additional support capital and CPE expenditures both as a result of the launch of TiVo digital advanced services in eastern Connecticut in January 2016 as well as the customers' ongoing interest for this service;
- the initial construction of pod 2 at the Kirkland, Québec data centre facility related to a large colocation contract;
- PSU growth in the United States;
- the acquisition of the Connecticut system in the fourth quarter of fiscal 2015;
- the appreciation of the US dollar and the British Pound over the Canadian dollar compared to the same periods of the prior year; partly offset by
- the completion in fiscal 2015 of the remaining pods at the Barrie, Ontario data centre and pod 1 at the Kirkland, Québec data centre.

For the third quarter and first nine months of fiscal 2016, acquisitions of intangible and other assets amounted to $4.8 million and $16.3 million, respectively, compared to $4.1 million and $11.5 million for the comparable periods of fiscal 2015.

DISPOSAL OF A SUBSIDIARY

On January 5, 2016, the Corporation's subsidiary, Cogeco Media, completed the sale of its subsidiary Métromédia, an out-of-home advertising company, for a cash consideration of $47.5 million, which was subject to a post-closing net working capital adjustment. The selling price has been reduced by selling fees of approximately $0.4 million.The carrying value of the net assets disposed of was $34.1 million resulting in a gain of $12.9 million recorded in the consolidated statements of profit or loss.

The carrying value of assets and liabilities disposed were as follows:

(In thousands of Canadian dollars)	$
Cash and cash equivalents	**272**
Trade and other receivables	**6,113**
Prepaid expenses and other	**331**
Other assets	**930**
Property, plant and equipment	**4,153**
Intangible assets	**9,735**
Goodwill	**20,540**
Trade and other payables	**(3,862)**
Income tax liabilities	**(29)**
Deferred and prepaid revenue	**(1,524)**
Other liabilities	**(100)**
Deferred tax liabilities	**(2,416)**
	34,143

BUSINESS COMBINATION IN FISCAL 2015

On August 20, 2015, Atlantic Broadband, a wholly-owned subsidiary of Cogeco Communications, completed the acquisition of substantially all of the net assets of the Connecticut system, which served 27,256 video, 22,673 Internet and 7,817 telephony customers at August 31, 2015. The transaction, valued at US$200 million, excluding post-closing net working capital adjustment of US$1.3 million, was financed through a combination of cash on hand, a draw-down on the existing Revolving Facility of US$90 million and US$100 million of borrowings under a new Term Loan A-2 Facility issued under the First Lien Credit Facilities. This acquisition enhances Cogeco Communications' footprint in the American market and provides for further growth potential.

During the first quarter of fiscal 2016, Cogeco Communications finalized the purchase price allocation of the Connecticut system. The final purchase price allocation is as follows:

(in thousands of Canadian dollars)	Preliminary August 31, 2015 $	**Final** **November 30, 2015** $
Consideration paid		
Purchase price	261,600	**261,600**
Working capital adjustments	1,640	**1,640**
	263,240	**263,240**
Net assets acquired		
Trade and other receivables	616	**616**
Prepaid expenses and other	1,696	**1,696**
Property, plant and equipment	51,368	**51,368**
Intangible assets	108,564	**115,104**
Goodwill	101,685	**95,145**
Trade and other payables assumed	(689)	**(689)**
	263,240	**263,240**

6.3 FREE CASH FLOW AND FINANCING ACTIVITIES

FREE CASH FLOW

Fiscal 2016 third-quarter free cash flow amounted to $91.9 million, an increase of $14.0 million, or 18.0%, compared to $77.9 million for the third quarter of the prior year mainly as a result of the following:

- the improvement of $6.2 million in adjusted EBITDA;
- the decrease of $9.9 million in acquisitions of property, plant and equipment, intangible and other assets;
- the decrease of $4.5 million in integration, restructuring and acquisition costs;
- the decrease of $3.4 million in financial expense; partly offset by
- the claims and litigations of $10.5 million.

For the first nine months, free cash flow amounted to $210.0 million, a decrease of $7.5 million, or 3.5%, compared to $217.6 million for the same period of the prior year mainly as a result of the following:

- the increase of $47.4 million in acquisitions of property, plant and equipment, intangible and other assets;
- the claims and litigations of $10.5 million; and
- the increase of $8.2 million in current income taxes; partly offset by
- the improvement of $50.4 million in adjusted EBITDA; and
- the decrease of $5.8 million in financial expense.

FINANCING ACTIVITIES

During the third quarter of fiscal 2016, lower Indebtedness level provided for a cash decrease of $43.1 million, as a result of the following:

- the repayments of the revolving facilities of $37.2 million; and
- the repayments of $9.3 million of long-term debt; partly offset by
- the increase of $3.5 million in bank indebtedness.

During the third quarter of fiscal 2015, a lower Indebtedness level provided for a cash decrease of $23.7 million, mainly as a result of the following:

- the repayments of the revolving facilities of $12.6 million;
- the repayments of $7.9 million of long-term debt; and
- the decrease of $3.2 million in bank indebtedness.

During the first nine months of fiscal 2016, lower Indebtedness level provided for a cash decrease of $192.3 million, as a result of the following:

- the repayments of $240.7 million of long-term debt and the settlement of derivative financial instruments mainly related to the US $190 million Senior Secured Notes A maturing in October 2015; partly offset by
- the increase of $21.5 million of the revolving facilities and
- the increase of $26.9 million in bank indebtedness.

During the first nine months of fiscal 2015, a lower Indebtedness level provided for a cash decrease of $49.1 million, as a result of the following:

- the repayments of the revolving facilities of $31.0 million; and
- the repayments of long-term debt of $28.2 million; partly offset by
- the increase of $10.2 million in bank indebtedness.

DIVIDENDS

During the third quarter of fiscal 2016, a quarterly eligible dividend of $0.295 per share was paid to the holders of subordinate and multiple voting shares, for a total of $4.9 million compared to a quarterly eligible dividend paid of $0.255 per share, or $4.3 million, during the third quarter of fiscal 2015. Dividend payments in the first nine months totaled $0.885, or $14.8 million, compared to $0.765 per share, or $12.8 million in the prior year.

In addition, dividends paid by a subsidiary to non-controlling interests during the third quarter and first nine months of fiscal 2016 amounted to $13.0 million and $39.0 million, respectively, compared to $11.6 million and $34.8 million for the same periods of the prior year.

6.4 DIVIDEND DECLARATION

At its July 6, 2016 meeting, the Board of Directors of Cogeco declared a quarterly eligible dividend of $0.295 per share for multiple voting and subordinate voting shares, payable on August 3, 2016 to shareholders of record on July 20, 2016. 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. FINANCIAL POSITION

7.1 WORKING CAPITAL

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

The variations are as follows:

	May 31, 2016	August 31, 2015	Change	Explanations
(in thousands of dollars)	**$**	$	$	
Current assets				
Cash and cash equivalents	**91,946**	164,189	(72,243)	Repayment of the US$190 million Senior Secured Notes Series A in October 2015 combined with the depreciation of the US dollar against the Canadian dollar, partly offset by the net proceeds from the sale of Métromédia in January 2016 and excess cash flow generated from operations.
Trade and other receivables	**134,645**	149,355	(14,710)	Receipt of the amount receivable from the settlement of a claim with a supplier, sale of Métromédia, depreciation of the US dollar and British Pound against the Canadian dollar and decreased trade and other receivables in our foreign operations, partly offset by revenue growth.
Income taxes receivable	**17,920**	10,753	7,167	Excess of income taxes paid, partly offset by the depreciation of the US dollar and British Pound against the Canadian dollar.
Prepaid expenses and other	**24,702**	18,016	6,686	Increase in prepayment of maintenance agreements.
Derivative financial instruments	**—**	49,834	(49,834)	Settlement of the cross-currency swaps related to the US$190 million Senior Secured Notes Series A.
	269,213	392,147	(122,934)	
Current liabilities				
Bank indebtedness	**26,863**	—	26,863	Timing of payments made to suppliers.
Trade and other payables	**248,723**	313,631	(64,908)	Timing of payments made to suppliers.
Provisions	**29,844**	24,445	5,399	Mostly related to the claims and litigations.
Income tax liabilities	**27,865**	54,826	(26,961)	Payments of income taxes.
Deferred and prepaid revenue	**64,180**	63,499	681	Non significant.
Derivative financial instruments	**72**	—	72	Non significant.
Current portion of long-term debt	**12,113**	297,657	(285,544)	Mostly related to the repayment of the US$190 million Senior Secured Notes Series A combined with the deferral of the amortization of the Term Loan A Facility which was extended from November 2017 to September 2019.
	409,660	754,058	(344,398)	
Working capital deficiency	**(140,447)**	(361,911)	221,464	

7.2 OTHER SIGNIFICANT CHANGES

(in thousands of dollars)	**May 31, 2016** **$**	August 31, 2015 $	Change $	Explanations
Non-current assets				
Property, plant and equipment	**2,009,566**	2,005,461	4,105	Capital expenditures exceeding depreciation expense, partly offset by the depreciation of the US dollar and British Pound against the Canadian dollar.
Intangible assets	**2,148,602**	2,221,577	(72,975)	Impairment in the Business ICT operations combined with the sale of Métromédia, the amortization expense exceeding the acquisition of intangible assets and the depreciation of the US dollar and British Pound against the Canadian dollar.
Goodwill	**1,080,511**	1,536,925	(456,414)	Mostly related to the impairment in the Business ICT operations combined with the sale of Métromédia and the depreciation of the US dollar and British against the Canadian dollar.
Non-current liabilities				
Long-term debt	**3,083,715**	3,081,092	2,623	Increased drawings under Cogeco Communications' Canadian Revolving Facility, partly offset by repayments on the First Lien Credit Facilities and the Corporation's Term Revolving Facility as well as the depreciation of the US dollar and British Pound against the Canadian dollar.
Pension plan liabilities and accrued employee benefits	**9,685**	11,105	(1,420)	Payment of the pension plans' actuarial deficits.

7.3 OUTSTANDING SHARE DATA

A description of Cogeco's share data at June 30, 2016 is presented in the table below. Additional details are provided in Note 11 of the consolidated financial statements.

(in thousands of dollars, except number of shares)	Number of shares	Amount **$**
Common shares		
Multiple voting shares	1,842,860	12
Subordinate voting shares	14,989,338	121,976

7.4 FINANCING

In the normal course of business, Cogeco has incurred financial obligations, primarily in the form of long-term debt, operating and finance leases and guarantees. Cogeco's obligations, as reported in the 2015 Annual Report, have not materially changed since August 31, 2015, except as mentioned below.

On May 31, 2016, two of Cogeco Communications' US subsidiaries amended their First Lien Credit Facilities. Under the amendment, the Term A Facility was converted into a Term A-3 Facility which resulted in the extension of the maturity from November 30, 2017 to September 2, 2019 and the harmonization of the quarterly fixed amortization schedule with the Term Loan A-2 Facility. The Revolving Facility was also extended from November 30, 2017 to September 2, 2019. No other changes were made to the terms and conditions of the First Lien Credit Facilities.

On December 8, 2015, the Corporation's subsidiary, Cogeco Communications Inc., amended its Term Revolving Facility. Under the term of the amendment, the maturity was extended by an additional year and consequently, will mature on January 22, 2021.

On October 27, 2015, the Corporation amended its Term Revolving Facility. Under the term of the amendment, the maturity was extended by an additional year and consequently, will mature on February 1, 2021.

On October 14, 2015, a US subsidiary of Cogeco Communications entered into two interest rate swap agreements to fix interest rates on a notional amount of US$150 million (US$75 million each agreement) of its LIBOR based loans. These agreements have the effect of converting the floating US Libor base rate at a fixed rate of 0.6120% and 0.9870%, under Term Loan A and Term Loan A-2 Facilities until October 30, 2017 and July 31, 2019, respectively. Pursuant to the May 31,2016 conversion of Term Loan A into Term Loan A-3, the designation of the US$75 million notional amount of the Term Loan A Facility has been consequently replaced by the Term Loan A-3 Facility.

On May 31, 2016, an amount of $277.8 million was used from the Corporation's Term Revolving Facility and Cogeco Communications' Term Revolving Facility of $850 million, for a remaining availability of $572.2 million. In addition, two subsidiaries of Cogeco Communications also benefit from a Revolving Facility of $196.7 million (US$150 million), of which $124.7 million (US$95.1 million) was used at May 31, 2016 for a remaining availability of $71.9 million (US$54.9 million).

7.5 FINANCIAL MANAGEMENT

Interest rate risk

The Corporation and its subsidiary, Cogeco Communications, are exposed to interest rate risk on its floating interest rate instruments. Interest rate fluctuations have an effect on the repayment of these instruments. At May 31, 2016, all of the Corporation's and Cogeco Communications' long-term debt was at fixed rate, except for the amounts drawn under Cogeco Communications' Term Revolving Facility and First Lien Credit Facilities.

To mitigate such risk, the Corporation's subsidiary, Cogeco Communications, enters into interest rate swap agreements. The following table shows the interest rate swaps outstanding at May 31, 2016:

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

The sensitivity of the Corporation's annual financial expense to a variation of 1% in the interest rate applicable to the unhedged portion of these facilities is approximately $8.1 million based on the outstanding debt at May 31, 2016.

Foreign exchange risk

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

In order to mitigate this risk, on October 2, 2008, the Corporation's subsidiary, Cogeco Communications, entered into cross-currency swap agreements to set the liability for interest and principal payments on its Senior Secured Notes Series A. During the first three months of fiscal 2016 Cogeco Communications settled these cross-currency swaps with a notional amount of US$190 million, following the repayment of its Senior Secured Notes Series A at maturity on October 1, 2015.

The Corporation is also exposed to foreign exchange risk with respect to the interest associated with its long-term debt denominated in US dollars and British Pounds. The impact of a 10% change in the exchange rate of the US dollar and British Pound into Canadian dollars would change financial expense by approximately $7.9 million based on the outstanding debt at May 31, 2016.

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

The following table shows the investments in foreign operations outstanding at May 31, 2016:

Type of hedge	Notional amount of debt	Aggregate investments	Hedged item
Net investment	US$825.5 million	US$885.1 million	Net investments in foreign operations in US dollar
Net investment (1)	£44.1 million	£29.3 million	Net investments in foreign operations in British Pound

(1 Pursuant to the impairment of goodwill on May 31, 2016, the Corporation reduced the notional amount of debt designated by £20.1 million. In addition, on July 5, 2016, the notional amount of the debt was reduced to £24 million.

The exchange rates used to convert the US dollar currency and British Pound currency into Canadian dollar for the statement of financial position accounts at May 31, 2016 was $1.3110 ($1.3157 at August 31, 2015) per US dollar and $1.8989 ($2.0189 at August 31, 2015) per British Pound. A 10% change in the exchange rates of the US dollar and British Pound into Canadian dollars would change comprehensive income by approximately $5 million.

For the three and nine-month periods ended May 31, 2016, the average rates prevailing used to convert the operating results of the Communications segment were as follows:

	Quarters ended			Nine months ended		
	May 31, 2016	May 31, 2015	Change	**May 31, 2016**	May 31, 2015	Change
	$	$	%	**$**	$	%
US dollar vs Canadian dollar	**1.2996**	1.2378	5.0	**1.3370**	1.1870	12.6
British Pound vs Canadian dollar	**1.8669**	1.8715	(0.2)	**1.9699**	1.8389	7.1

The following highlights in Canadian dollars, the impact of a 10% increase in US dollar or British Pound against the Canadian dollar on the Communications segment's operating results for the three and nine-month periods ended May 31, 2016:

	Communications segment			
	Quarters ended		Nine months ended	
	As reported	Exchange rate impact	As reported	Exchange rate impact
(in thousands of dollars)	$	$	$	$
Revenue	**540,257**	**18,966**	**1,632,093**	**58,778**
Operating expenses	**292,555**	**12,169**	**882,566**	**37,233**
Management fees - Cogeco Inc.	**4,587**	**—**	**13,888**	**—**
Adjusted EBITDA	**243,115**	**6,797**	**735,639**	**21,545**
Acquisitions of property, plant and equipment, intangible and other assets	**94,442**	**3,880**	**357,493**	**16,446**
Free cash flow	**84,664**	**975**	**199,404**	**(880)**

8. COMMUNICATIONS SEGMENT

8.1 CUSTOMER STATISTICS

	May 31, 2016			Net additions (losses)		Net additions (losses)	
				Quarters ended		Nine months ended	
	Consolidated	**Canada**	**United States**	**May 31, 2016**	May 31, 2015	**May 31, 2016**	May 31, 2015
PSU[(1)]	**2,511,799**	**1,921,799**	**590,000**	**(3,338)**	(2,401)	**14,097**	6,571
Video service customers	**992,409**	**747,257**	**245,152**	**(8,928)**	(6,438)	**(22,252)**	(25,051)
Internet service customers	**977,538**	**728,086**	**249,452**	**10,382**	6,250	**43,068**	35,604
Telephony service customers	**541,852**	**446,456**	**95,396**	**(4,792)**	(2,213)	**(6,719)**	(3,982)

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

VIDEO

For the three and nine-month periods ended May 31, 2016, video service customers net losses stood at 8,928 and 22,252, respectively, compared to 6,438 and 25,051 for the comparable periods of fiscal 2015. The higher decrease in the quarter is mainly due to competitive offers in the industry, the Internet Protocol Television ("IPTV") footprint growth from competitors in Canada and service category maturity. The lower decrease for the first nine months in video service customers is mainly due to the launch of TiVo's digital advanced video services in fiscal 2015 and on January 12, 2016 in Connecticut, partly offset by competitive offers in the industry, the IPTV footprint growth from competitors in Canada and service category maturity.

INTERNET

For the three and nine-month periods ended May 31, 2016, Internet service customers grew by 10,382 and 43,068, respectively, compared to 6,250 and 35,604 for the same periods of fiscal 2015 as a result of the enhancement of the product offering, the positive impact of the bundle offers, demand for Internet services in the recently acquired Connecticut system, customers' ongoing interest in TiVo's services which requires an Internet subscription and the growth in the business sector.

TELEPHONY

For the three and nine-month periods ended May 31, 2016, telephony service customers net losses stood at 4,792 and 6,719, respectively, compared to 2,213 and 3,982 for the comparable periods of fiscal 2015 mainly attributable to the increasing mobile penetration rate in North America and various unlimited offers launched by mobile operators causing customers to cancel their landline telephony services for mobile telephony services only, partly offset by the continued growth in residential and business sectors in the United States.

8.2 OPERATING RESULTS

	Quarters ended			Nine months ended		
	May 31, 2016	May 31, 2015	Change	**May 31, 2016**	May 31, 2015	Change
(in thousands of dollars, except percentages)	**$**	$	%	**$**	$	%
Revenue	**540,257**	516,426	4.6	**1,632,093**	1,522,897	7.2
Operating expenses	**292,555**	276,663	5.7	**882,566**	823,133	7.2
Management fees – Cogeco Inc.	**4,587**	—	—	**13,888**	9,877	40.6
Adjusted EBITDA	**243,115**	239,763	1.4	**735,639**	689,887	6.6
Operating margin	**45.0%**	46.4%		**45.1%**	45.3%	

REVENUE

Fiscal 2016 third-quarter revenue amounted to $540.3 million, an increase of $23.8 million, or 4.6% compared to the same period of fiscal 2015, driven by strong growth of 24.1% in the American broadband services segment with stable revenue in the Canadian broadband services segment, partly offset by a decrease of 7.8% in the Business ICT services segment. Revenue increased primarily as a result of the acquisition of the Connecticut system and organic growth in the American broadband services segment combined with the appreciation of the US dollar over the Canadian dollar for our foreign operations compared to the comparable period of fiscal 2015, partly offset by lower revenue in the Business ICT services segment resulting from competitive pricing pressure on the managed hosting and network connectivity services as well as an accelerated transition out of unprofitable services.

For the first nine months of fiscal 2016, revenue amounted to $1.63 billion, an increase of $109.2 million, or 7.2%, compared to the same period of the prior year driven by growth of 33.5% in the American broadband services segment and stable revenue in the Canadian broadband services segment, partly offset by a decrease of 2.8% in the Business ICT services segment. Revenue increased mainly due to the acquisition of the Connecticut system and organic growth in the American broadband services segment combined with the favorable foreign exchange rates for our foreign operations compared to the comparable period of fiscal 2015.

OPERATING EXPENSES AND MANAGEMENT FEES

Fiscal 2016 third-quarter operating expenses amounted to $292.6 million, an increase of $15.9 million, or 5.7%, compared to the same period of fiscal 2015. For the first nine months of fiscal 2016, operating expenses amounted to $882.6 million, an increase of $59.4 million, or 7.2%, compared to the same period of the prior year. For both periods, operating expenses increased for the American broadband services segment and have declined for the Canadian broadband services and Business ICT services segments. The appreciation of the US dollar and British Pound, except for the British Pound for the quarter, compared to the Canadian dollar have also contributed to the increase.

For the three and nine-month periods ended May 31, 2016, management fees paid to Cogeco amounted to $4.6 million and $13.9 million, respectively, compared to none and $9.9 million for the same periods of fiscal 2015. Under the Amended and Restated Management Services Agreement, the annual fee is now payable on a monthly basis. In the previous fiscal year, management fees were fully paid in the first quarter.

ADJUSTED EBITDA AND OPERATING MARGIN

For the three and nine-month periods ended May 31, 2016, adjusted EBITDA increased by $3.4 million, or 1.4%, to reach $243.1 million, and by $45.8 million, or 6.6%, to reach $735.6 million, respectively, mainly as a result of the improvement in the American and Canadian broadband services segments combined with favorable foreign exchange rates, except for the British Pound for the quarter, compared to the same periods of the prior year, partly offset by higher management fees paid to Cogeco under the Amended and Restated Management Services Agreement.

For the three and nine-month periods ended May 31, 2016, operating margin decreased to 45.0% from 46.4% and to 45.1% from 45.3%, respectively, compared to the same periods of fiscal 2015 mainly as a result of higher management fees paid to Cogeco combined with lower margins in the American broadband service and Business ICT services segments, partly offset by a higher margin in the Canadian broadband services segment.

9. FISCAL 2016 REVISED FINANCIAL GUIDELINES

The following section contains forward-looking statements concerning the business outlook of Cogeco. For a description of risk factors that could cause actual results to differ materially from what Cogeco currently expects, please refer to the "Uncertainties and main risk factors" section of the present MD&A and the Corporation's 2015 annual MD&A.

9.1 CONSOLIDATED

As a result of revised projections in the Communications segment, the Corporation revised its consolidated projections for the 2016 fiscal year as issued on January 12, 2016.

Fiscal 2016 revised financial guidelines are as follows:

	Revised projections July 6, 2016	Revised projections January 12, 2016
	Fiscal 2016 (1)	Fiscal 2016
(in millions of dollars)	**$**	$
Financial guidelines		
Revenue	**2,305 to 2,325**	2,340 to 2,370
Adjusted EBITDA	**1,005 to 1,020**	1,020 to 1,050
Integration, restructuring and acquisition costs	**8 to 9**	3 to 5
Financial expense	**135 to 145**	145 to 155
Current income taxes	**95 to 105**	110 to 120
Profit (loss) for the year	**(180) to (165)**	285 to 310
Profit (loss) for the year attributable to owners of the Corporation	**(40) to (30)**	100 to 110
Acquisitions of property, plant and equipment, intangible and other assets	**485 to 500**	455 to 470
Free cash flow(2)	**275 to 290**	325 to 355

(1) Fiscal 2016 financial guidelines are based on an estimated USD/CDN exchange rate of 1.30 for the fourth quarter resulting on an estimated average exchange rate of 1.33 for fiscal year 2016.

(2) Free cash flow is calculated as adjusted EBITDA plus non-cash items and less, integration, restructuring and acquisition costs, financial expense, current income taxes and acquisitions of property, plant and equipment, intangible and other assets.

9.2 COMMUNICATIONS SEGMENT

The Corporation revised its financial guidelines for the 2016 fiscal year issued on October 28, 2015 to give effect to the lower than expected operating results from the Business ICT services segment, the appreciation of the Canadian dollar over the US dollar and higher capital expenditures associated with a large colocation contract recently concluded by Cogeco Peer 1.

Management now expects revenue to reach between $2,175 million and $2,195 million. In the Business ICT services segment, lower revenue are expected resulting from a more competitive environment. In addition, revenue from the Canadian broadband services should be lower than originally expected as a result of the impact of the implementation of a small basic service and flexible packaging requirements launched on March 1, 2016. Projections for the American broadband services were maintained as initially projected.

Adjusted EBITDA should reach between $980 million and $995 million as a result of lower revenue in the Business ICT services segment, partly offset by costs reduction initiatives both in the Canadian broadband services and Business ICT services segments.

Free cash flow should reach between $265 million and $280 million due to lower adjusted EBITDA as well as additional capital expenditures in the Business ICT services segment resulting from investments in specialized equipment and the expansion of its data centre footprint with the initial construction of pod 2 at the Kirkland, Québec data centre facility related to a large colocation contract at Cogeco Peer 1.

Fiscal 2016 revised financial guidelines are as follows:

(in millions of dollars)	Revised projections July 6, 2016 Fiscal 2016 (1) $	Projections October 28, 2015 Fiscal 2016 $
Financial guidelines		
Revenue	**2,175 to 2,195**	2,215 to 2,245
Adjusted EBITDA	**980 to 995**	995 to 1,025
Operating margin	**45.1% to 45.3%**	44.9% to 45.7%
Integration, restructuring and acquisition costs	**8 to 10**	3 to 5
Depreciation and amortization	**500 to 510**	495 to 505
Financial expense	**130 to 140**	140 to 150
Current income taxes	**90 to 100**	100 to 110
Profit (loss) for the year	**(210) to (195)**	275 to 300
Acquisitions of property, plant and equipment, intangible and other assets	**480 to 495**	450 to 465
Free cash flow(2)	**265 to 280**	310 to 340
Capital intensity	**22.1% to 22.6%**	20.3% to 20.7%

(1) Fiscal 2016 financial guidelines are based on an estimated USD/CDN exchange rate of 1.30 for the fourth quarter resulting on an estimated average exchange rate of 1.33 for fiscal year 2016.

(2) Free cash flow is calculated as adjusted EBITDA plus non-cash items and less, integration, restructuring and acquisition costs, financial expense, current income taxes and acquisitions of property, plant and equipment, intangible and other assets.

10. FISCAL 2017 PRELIMINARY FINANCIAL GUIDELINES

The following section contains forward-looking statements concerning the business outlook of Cogeco. For a description of risk factors that could cause actual results to differ materially from what Cogeco currently expects, please refer to the "Uncertainties and main risk factors" section of the present MD&A and the Corporation's 2015 annual MD&A.

10.1 CONSOLIDATED

The Corporation's fiscal 2017 preliminary financial guidelines are mainly driven by those of the Communications segment which are described below.

The following table outlines fiscal 2017 preliminary financial guidelines ranges on a consolidated basis:

(in millions of dollars)	Preliminary projections Fiscal 2017 (1) $	Revised projections July 6, 2016 Fiscal 2016 $
Financial guidelines		
Revenue	**2,340 to 2,370**	2,305 to 2,325
Adjusted EBITDA	**1,025 to 1,050**	1,005 to 1,020
Acquisitions of property, plant and equipment, intangible and other assets	**440 to 455**	485 to 500
Free cash flow	**360 to 390**	275 to 290

(1) Fiscal 2017 financial guidelines are based on a USD/CDN exchange rate of 1.30 and a GBP/CDN exchange rate of 2.00 compared to 1.33 and 2.00, respectively, for fiscal 2016 revised financial guidelines. The assumed current income tax effective rate is approximately 21%.

10.2 COMMUNICATIONS SEGMENT

Cogeco Communications expects fiscal 2017 revenue to grow between 2% and 2.5% driven by all its operating segments. In the Canadian and American broadband services segments, revenue growth should stem primarily from targeted marketing initiatives to improve penetration rates of Internet services in the residential and business sectors and telephony services in the business sector while the penetration of residential telephony and video services should decrease in Canada, reflecting service category maturity and competition. We expect the penetration of digital video and Internet services to continue to benefit from customers' ongoing interest in TiVo's digital advanced video services in Canada and the United States. The Canadian and American broadband services segments should also benefit from the impact of rate increases in most of their services and from PSU growth in the United States. In the Business ICT services segment, revenue growth should stem primarily from managed hosting and colocation services due to additional services from its customer base and by increasing capacity utilization of its data centers, including its Barrie, Ontario and Kirkland, Québec data centre facilities.

Adjusted EBITDA should increase by 2% to 3% from revenue growth exceeding operating expenses as a result of cost reduction initiatives from improved systems and processes, partly offset by marketing initiatives and retention strategies to support the revenue growth. Operating margin should remain essentially the same as for fiscal 2016 revised financial guidelines.

Free cash flow should increase significantly by 32% to 36% compared to fiscal 2016 revised financial guidelines as a result of the improvement of the adjusted EBITDA combined with a reduction in capital expenditures and in current income taxes. The business ICT services segment is expected to generate meaningful unleveraged free cash flow through EBITDA growth and declining capital expenditures. Accordingly, generated free cash flow should reduce Indebtedness, net of cash and cash equivalents, thus improving the Corporation's net leverage ratios.

The capital intensity ratio should decrease compared to fiscal 2016 revised guidelines mainly as a result of significantly lower capital expenditures for the Business ICT services segment as the Corporation will have completed strategic investments in its Barrie and Kirkland data centre facilities in fiscal 2016 and there will be a greater focus on capital expenditure optimization. On the other hand, capital intensity in the American broadband services segment will be slightly higher mainly as a result of strategic investments in high growth segments, such as large bulk contracts.

The following table outlines fiscal 2017 preliminary financial guidelines ranges on a consolidated basis:

	Preliminary projections	Revised projections July 6, 2016
	Fiscal 2017 [(1)]	Fiscal 2016
(in millions of dollars)	**$**	$
Financial guidelines		
Revenue	**2,220 to 2,250**	2,175 to 2,195
Adjusted EBITDA	**1,000 to 1,025**	980 to 995
Operating margin	**45.0% to 45.6%**	45.1% to 45.3%
Acquisitions of property, plant and equipment, intangible and other assets	**435 to 450**	480 to 495
Free cash flow	**350 to 380**	265 to 280
Capital intensity	**19.6% to 20.0%**	22.1% to 22.6%

(1) Fiscal 2017 financial guidelines are based on a USD/CDN exchange rate of 1.30 and a GBP/CDN exchange rate of 2.00 compared to 1.33 and 2.00, respectively, for fiscal 2016 revised financial guidelines. The assumed current income tax effective rate is approximately 21%.

11. 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, 2016, 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, 2016.

12. UNCERTAINTIES AND MAIN RISK FACTORS

A detailed description of the uncertainties and main risk factors faced by Cogeco can be found in the 2015 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 2015 Annual Report, which are hereby incorporated by reference.

On April 9, 2015, in *Telecom Notice of Consultation 2015-134*, the Canadian Radio-television and Telecommunications Commission ("CRTC") initiated a proceeding to examine which telecommunications services are required by Canadians to participate meaningfully in the digital economy and the CRTC’s role in ensuring the availability of affordable basic telecommunications services to all Canadians. Currently, the basic service objective essentially includes the local telephony service and only applies to the telephone companies. While broadband Internet services were not included in the definition of the basic telecommunications services during the last policy review, the CRTC did establish that Internet target speeds of 5 Mbps download/1 Mbps upload should be available to all Canadians by the end of 2015. In the Let’s talk broadband proceeding, the CRTC is asking whether broadband Internet services should be defined as basic services; if so, it is asking if the contribution regime should be expanded to support the accessibility and affordability of broadband services across the country and what the new target speeds should be. The CRTC hearing started on April 11, 2016. It is too early at this time to determine if the future policy determination will have a financial impact on the Corporation's operating results.

On December 22, 2015, the Federal Court of Appeal granted Bell Canada and Bell Media leave to appeal Broadcasting Order CRTC 2015-439, Broadcasting Regulatory Policy CRTC 2015-438 and Broadcasting Information Bulletin CRTC 2015-440 relating to a revised Wholesale Code (the "Wholesale Code") to be implemented in 2016. The Wholesale Code imposes a number of requirements with respect to affiliation agreements between programming services and cable and satellite distributors in Canada, including dealing with dispute resolution. Bell Canada and Bell Media argue that the Wholesale Code wrongly interferes with their intellectual property rights in programs under the Copyright Act and that the CRTC lacks jurisdiction to issue the Wholesale Code under the Broadcasting Act. In prior regulatory proceedings before the CRTC, the Corporation's subsidiary, Cogeco Communications, and other independent distributors advocated the adoption of a Wholesale Code so as to ensure that vertically integrated entities such as Bell Canada and Bell Media cannot abuse their market power and impose anticompetitive terms for the distribution of their programming services. Cogeco Communications is challenging Bell Canada and Bell Media’s appeal. It is too early at this time to assess the impact on the Corporation.

13. ACCOUNTING POLICIES

13.1 NEW ACCOUNTING STANDARDS

A number of new standards, interpretations and amendments to existing standards were issued by the International Accounting Standards Board (“IASB”) that are mandatory but not yet effective for the three and nine-month periods ended May 31, 2016 and have not been applied in preparing the condensed interim consolidated financial statements. These standards are described under the "Future accounting developments in Canada" section in the Corporation's 2015 Annual Report available on the SEDAR website at www.sedar.com or on the Corporation's website at corpo.cogeco.com.

13.2 CHANGES IN CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There has been no significant change in Cogeco’s critical accounting policies and estimates since August 31, 2015. A description of the Corporation’s policies and estimates can be found in the 2015 Annual Report, available on the SEDAR website at www.sedar.com or on the Corporation's website at corpo.cogeco.com.

14. 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.

Non-IFRS measure	**Application**	**Calculation**	**Most comparable IFRS measure**
Free cash flow	Management and investors use free cash flow to measure Cogeco's ability to repay debt, distribute capital to its shareholders and finance its growth.	Free cash flow: - Cash flow from operating activities add: - amortization of deferred transaction costs and discounts on long-term debt; - changes in non-cash operating activities; - income taxes paid; and - financial expense paid deduct: - current income taxes; - financial expense; - acquisition of property, plant and equipment; and - acquisition of intangible and other assets.	Cash flow from operating activities
Adjusted EBITDA	Adjusted EBITDA is a key measure commonly reported and used in the telecommunications industry, as it allows comparisons between companies that have different capital structures and is a more current measure since it excludes the impact of historical investments in assets. Adjusted EBITDA is one of the key metrics employed by the financial community to value a business and its financial strength. Adjusted EBITDA for the Cogeco's business units is equal to the segment profit (loss) reported in note 2 of the Condensed Interim Consolidated Financial Statements.	Consolidated adjusted EBITDA: - Profit (loss) for the period add: - income taxes; - financial expense; - depreciation and amortization; - integration, restructuring and acquisition costs; - impairment of property, plant and equipment; - impairment of goodwill and intangible assets; and - claims and litigations deduct: - gain on disposal of a subsidiary.	Profit (loss) for the period

14.1 FREE CASH FLOW RECONCILIATION

	Quarters ended		Nine months ended	
	May 31, 2016	May 31, 2015	**May 31, 2016**	May 31, 2015
(in thousands of dollars)	**$**	$	**$**	$
Cash flow from operating activities	**186,209**	200,686	**487,916**	418,610
Amortization of deferred transaction costs and discounts on long-term debt	**2,314**	2,183	**7,104**	6,476
Changes in non-cash operating activities	**(33,132)**	(27,848)	**28,513**	110,532
Income taxes paid	**40,636**	18,530	**109,055**	56,079
Current income taxes	**(26,442)**	(25,370)	**(74,927)**	(66,753)
Financial expense paid	**51,527**	52,187	**118,411**	117,029
Financial expense	**(34,273)**	(37,632)	**(106,673)**	(112,492)
Acquisition of property, plant and equipment	**(90,092)**	(100,666)	**(343,064)**	(300,436)
Acquisition of intangible and other assets	**(4,813)**	(4,141)	**(16,291)**	(11,471)
Free cash flow	**91,934**	77,929	**210,044**	217,574

14.2 ADJUSTED EBITDA RECONCILIATION

	Quarters ended		Nine months ended	
	May 31, 2016	May 31, 2015	**May 31, 2016**	May 31, 2015
(in thousands of dollars)	**$**	$	**$**	$
Profit (loss) for the period	**(381,886)**	66,285	**(239,367)**	186,686
Income taxes	**14,311**	19,598	**56,026**	51,699
Gain on disposal of a subsidiary	**—**	—	**(12,940)**	—
Financial expense	**34,273**	37,632	**106,673**	112,492
Impairment of goodwill and intangible assets	**450,000**	—	**450,000**	—
Depreciation and amortization	**124,828**	117,793	**382,067**	352,144
Claims and litigations	**10,499**	—	**10,499**	—
Integration, restructuring and acquisition costs	**1,126**	5,669	**7,476**	7,008
Adjusted EBITDA	**263,650**	246,977	**770,933**	710,029

15. SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION

Quarters ended		May 31,	February 29,	February 28,	November 30,			August 31,
(in thousands of dollars, except per share data)	**2016**	2015	**2016**	2015	**2015**	2014	2015	2014
	$	$	**$**	$	**$**	$	$	$
Revenue	**574,005**	557,787	**578,450**	536,904	**582,903**	538,383	554,089	524,523
Adjusted EBITDA	**253,151**	246,977	**252,129**	229,069	**255,154**	233,983	244,562	229,332
Integration, restructuring and acquisition costs	**1,126**	5,669	**4,320**	1,339	**2,030**	—	6,942	956
Claims and litigations	**10,499**	—	**—**	—	**—**	—	(27,431)	—
Impairment of goodwill and intangible asset	**450,000**	—	**—**	—	**—**	—	—	—
Impairment of property, plant and equipment	**—**	—	**—**	—	**—**	—	—	3,296
Gain on disposal of a subsidiary	**—**	—	**(12,940)**	—	**—**	—	—	—
Profit (loss) for the period	**(381,886)**	66,285	**75,688**	55,038	**66,831**	65,363	78,529	59,229
Profit (loss) for the period attributable to owners of the Corporation	**(117,670)**	22,584	**33,330**	14,867	**25,197**	26,774	25,402	15,765
Cash flow from operating activities	**186,209**	200,686	**211,460**	198,925	**90,247**	18,999	275,690	332,216
Acquisitions of property, plant and equipment, intangible and other assets	**94,905**	104,807	**117,220**	103,576	**147,230**	103,524	130,768	166,642
Free cash flow	**91,934**	77,929	**77,172**	68,917	**40,938**	70,728	73,150	18,139
Earnings (loss) per share attributable to the owners of the Corporation(1)								
Basic	**(7.03)**	1.35	**1.99**	0.89	**1.51**	1.60	1.52	0.94
Diluted	**(7.03)**	1.34	**1.98**	0.88	**1.50**	1.59	1.51	0.94

(1) Per multiple and subordinate voting share.

15.1 SEASONAL VARIATIONS

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

16. ADDITIONAL INFORMATION

This MD&A was prepared on July 6, 2016. Additional information relating to the Corporation, including its Annual Information Form, is available on the SEDAR website at www.sedar.com or on the Corporation's website at corpo.cogeco.com.

/s/ Jan Peeters
Jan Peeters
Chairman of the Board

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

Cogeco Inc.
Montréal, Québec
July 6, 2016

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three-month and nine-month periods ended May 31, 2016

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

		Three months ended May 31,		Nine months ended May 31,	
	Notes	**2016**	2015	**2016**	2015
(In thousands of Canadian dollars, except per share data)		**$**	$	**$**	$
Revenue		**574,005**	557,787	**1,735,358**	1,633,074
Operating expenses	*4*	**320,854**	310,810	**974,924**	923,045
Integration, restructuring and acquisition costs		**1,126**	5,669	**7,476**	7,008
Claims and litigations	*2*	**10,499**	—	**10,499**	—
Depreciation and amortization	*5*	**124,828**	117,793	**382,067**	352,144
Impairment of goodwill and intangible assets	*6*	**450,000**	—	**450,000**	—
Financial expense	*7*	**34,273**	37,632	**106,673**	112,492
Gain on disposal of a subsidiary	*16*	**—**	—	**(12,940)**	—
Income taxes	*8*	**14,311**	19,598	**56,026**	51,699
Profit (loss) for the period		**(381,886)**	66,285	**(239,367)**	186,686
Profit (loss) for the period attributable to:					
Owners of the Corporation		**(117,670)**	22,584	**(59,143)**	64,225
Non-controlling interest		**(264,216)**	43,701	**(180,224)**	122,461
		(381,886)	66,285	**(239,367)**	186,686
Earnings (loss) per share					
Basic	*9*	**(7.03)**	1.35	**(3.54)**	3.84
Diluted	*9*	**(7.03)**	1.34	**(3.54)**	3.82

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

	Three months ended May 31,		Nine months ended May 31,	
	2016	2015	**2016**	2015
(In thousands of Canadian dollars)	**$**	$	**$**	$
Profit (loss) for the period	**(381,886)**	66,285	**(239,367)**	186,686
Other comprehensive income (loss)				
Items to be subsequently reclassified to profit or loss				
Cash flow hedging adjustments				
Net change in fair value of hedging derivative financial instruments	**788**	(1,878)	**(49,813)**	29,909
Net change in fair value of hedging derivative financial instruments reclassified to financial expense	**—**	1,254	**48,108**	(29,716)
Related income taxes	**(198)**	257	**402**	(169)
	590	(367)	**(1,303)**	24
Foreign currency translation adjustments				
Net foreign currency translation differences on net investments in foreign operations	**(27,342)**	(4,819)	**(3,917)**	101,205
Net changes in unrealized adjustments on translation of long-term debt designated as hedges of net investments in foreign operations	**19,406**	3,036	**4,550**	(63,191)
	(7,936)	(1,783)	**633**	38,014
	(7,346)	(2,150)	**(670)**	38,038
Items not to be subsequently reclassified to profit or loss				
Defined benefit plans actuarial adjustments				
Remeasurement of net defined benefit liability	**(630)**	3,713	**(5,163)**	(3,924)
Related income taxes	**170**	(1,043)	**1,389**	1,015
	(460)	2,670	**(3,774)**	(2,909)
Other comprehensive income (loss) for the period	**(7,806)**	520	**(4,444)**	35,129
Comprehensive income (loss) for the period	**(389,692)**	66,805	**(243,811)**	221,815
Comprehensive income (loss) for the period attributable to:				
Owners of the Corporation	**(120,323)**	23,695	**(61,910)**	74,265
Non-controlling interest	**(269,369)**	43,110	**(181,901)**	147,550
	(389,692)	66,805	**(243,811)**	221,815

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

	Equity attributable to the owners of the Corporation					
	Share capital	Share-based payment reserve	Accumulated other comprehensive income	Retained earnings	Equity attributable to non-controlling interest	Total shareholders' equity
(In thousands of Canadian dollars)	$	$	$	$	$	$
	(Note 11)		*(Note 12)*			
Balance at August 31, 2014	117,963	5,858	9,131	381,013	1,025,123	1,539,088
Profit for the period	—	—	—	64,225	122,461	186,686
Other comprehensive income (loss) for the period	—	—	12,143	(2,103)	25,089	35,129
Comprehensive income for the period	—	—	12,143	62,122	147,550	221,815
Share-based payment	—	2,716	—	—	3,477	6,193
Issuance of subordinate voting shares by a subsidiary to non-controlling interest	—	(445)	—	—	6,022	5,577
Dividends on multiple voting shares (Note 11 C))	—	—	—	(1,410)	—	(1,410)
Dividends on subordinate voting shares (Note 11 C))	—	—	—	(11,392)	(34,841)	(46,233)
Effect of changes in ownership of a subsidiary on non-controlling interest	—	—	—	354	(354)	—
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	(1,979)	—	—	—	—	(1,979)
Distribution to employees of subordinate voting shares held in trust under the Incentive Share Unit Plan	1,207	(1,265)	—	58	—	—
Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	—	—	—	—	(6,425)	(6,425)
Distribution by a subsidiary to non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	—	(1,162)	—	26	1,136	—
Total distributions to shareholders	(772)	(156)	—	(12,364)	(30,985)	(44,277)
Balance at May 31, 2015	117,191	5,702	21,274	430,771	1,141,688	1,716,626
Balance at August 31, 2015	**117,172**	**6,468**	**26,839**	**453,119**	**1,197,120**	**1,800,718**
Loss for the period	**—**	**—**	**—**	**(59,143)**	**(180,224)**	**(239,367)**
Other comprehensive loss for the period	**—**	**—**	**(200)**	**(2,567)**	**(1,677)**	**(4,444)**
Comprehensive loss for the period	**—**	**—**	**(200)**	**(61,710)**	**(181,901)**	**(243,811)**
Share-based payment	**—**	**3,049**	**—**	**—**	**3,605**	**6,654**
Issuance of subordinate voting shares by a subsidiary to non-controlling interest	**—**	**(395)**	**—**	**—**	**5,588**	**5,193**
Dividends on multiple voting shares (Note 11 C))	**—**	**—**	**—**	**(1,631)**	**—**	**(1,631)**
Dividends on subordinate voting shares (Note 11 C))	**—**	**—**	**—**	**(13,177)**	**(38,985)**	**(52,162)**
Effect of changes in ownership of a subsidiary on non-controlling interest	**—**	**—**	**—**	**11**	**(11)**	**—**
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	**(2,109)**	**—**	**—**	**—**	**—**	**(2,109)**
Distribution to employees of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	**1,426**	**(1,048)**	**—**	**(378)**	**—**	**—**
Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	**—**	**—**	**—**	**—**	**(4,575)**	**(4,575)**
Distribution by a subsidiary to non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	**—**	**(1,230)**	**—**	**(244)**	**1,474**	**—**
Total contributions by (distributions to) shareholders	**(683)**	**376**	**—**	**(15,419)**	**(32,904)**	**(48,630)**
Balance at May 31, 2016	**116,489**	**6,844**	**26,639**	**375,990**	**982,315**	**1,508,277**

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

(In thousands of Canadian dollars)	*Notes*	**May 31, 2016**	August 31, 2015
		$	$
			(restated, Note 3)
Assets			
Current			
Cash and cash equivalents		**91,946**	164,189
Trade and other receivables		**134,645**	149,355
Income taxes receivable		**17,920**	10,753
Prepaid expenses and other		**24,702**	18,016
Derivative financial instruments		**—**	49,834
		269,213	392,147
Non-current			
Other assets		**13,352**	24,084
Property, plant and equipment		**2,009,566**	2,005,461
Intangible assets		**2,148,602**	2,221,577
Goodwill		**1,080,511**	1,536,925
Deferred tax assets		**18,176**	25,601
		5,539,420	6,205,795
Liabilities and Shareholders' equity			
Liabilities			
Current			
Bank indebtedness		**26,863**	—
Trade and other payables		**248,723**	313,631
Provisions		**29,844**	24,445
Income tax liabilities		**27,865**	54,826
Deferred and prepaid revenue		**64,180**	63,499
Derivative financial instruments		**72**	—
Current portion of long-term debt	*10*	**12,113**	297,657
		409,660	754,058
Non-current			
Long-term debt	*10*	**3,083,715**	3,081,092
Deferred and prepaid revenue and other liabilities		**30,949**	30,611
Pension plan liabilities and accrued employee benefits		**9,685**	11,105
Deferred tax liabilities		**497,134**	528,211
		4,031,143	4,405,077
Shareholders' equity			
Equity attributable to the owners of the Corporation			
Share capital	*11 B)*	**116,489**	117,172
Share-based payment reserve		**6,844**	6,468
Accumulated other comprehensive income	*12*	**26,639**	26,839
Retained earnings		**375,990**	453,119
		525,962	603,598
Equity attributable to non-controlling interest		**982,315**	1,197,120
		1,508,277	1,800,718
		5,539,420	6,205,795

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

		Three months ended May 31,		Nine months ended May 31,	
	Notes	**2016**	2015	**2016**	2015
(In thousands of Canadian dollars)		**$**	$	**$**	$
Cash flow from operating activities					
Profit (loss) for the period		**(381,886)**	66,285	**(239,367)**	186,686
Adjustments for:					
Depreciation and amortization	*5*	**124,828**	117,793	**382,067**	352,144
Impairment of goodwill and intangible assets	*6*	**450,000**	—	**450,000**	—
Financial expense	*7*	**34,273**	37,632	**106,673**	112,492
Income taxes	*8*	**14,311**	19,598	**56,026**	51,699
Share-based payment	*11 D)*	**2,613**	1,684	**7,256**	6,149
Loss on disposals and write-offs of property, plant and equipment		**536**	136	**1,487**	1,548
Gain on disposal of a subsidiary	*16*	**—**	—	**(12,940)**	—
Defined benefit plans contributions, net of expense		**565**	427	**(7,307)**	(8,468)
		245,240	243,555	**743,895**	702,250
Changes in non-cash operating activities	*13*	**33,132**	27,848	**(28,513)**	(110,532)
Financial expense paid		**(51,527)**	(52,187)	**(118,411)**	(117,029)
Income taxes paid		**(40,636)**	(18,530)	**(109,055)**	(56,079)
		186,209	200,686	**487,916**	418,610
Cash flow from investing activities					
Acquisition of property, plant and equipment		**(90,092)**	(100,666)	**(343,064)**	(300,436)
Acquisition of intangible and other assets		**(4,813)**	(4,141)	**(16,291)**	(11,471)
Disposal of a subsidiary, net of cash and cash equivalents disposed	*16*	**—**	—	**47,228**	—
Other		**(491)**	778	**750**	1,043
		(95,396)	(104,029)	**(311,377)**	(310,864)
Cash flow from financing activities					
Increase (decrease) in bank indebtedness		**3,534**	(3,216)	**26,863**	10,192
Net increase (decrease) under the revolving facilities		**(37,238)**	(12,579)	**21,489**	(31,028)
Repayment of long-term debt and settlement of derivative financial instruments		**(9,346)**	(7,861)	**(240,650)**	(28,220)
Transaction costs on long-term debt conversion and increase in deferred transaction costs		**(668)**	—	**(1,140)**	(550)
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	*11 B)*	**—**	—	**(2,109)**	(1,979)
Dividends paid on multiple voting shares	*11 C)*	**(544)**	(470)	**(1,631)**	(1,410)
Dividends paid on subordinate voting shares	*11 C)*	**(4,391)**	(3,797)	**(13,177)**	(11,392)
Issuance of subordinate voting shares by a subsidiary to non-controlling interest		**592**	26	**5,193**	5,577
Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans		**—**	—	**(4,575)**	(6,425)
Dividends paid on subordinate voting shares by a subsidiary to non-controlling interest		**(13,029)**	(11,633)	**(38,985)**	(34,841)
		(61,090)	(39,530)	**(248,722)**	(100,076)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		**(256)**	(331)	**(60)**	3,217
Net change in cash and cash equivalents		**29,467**	56,796	**(72,243)**	10,887
Cash and cash equivalents, beginning of the period		**62,479**	17,922	**164,189**	63,831
Cash and cash equivalents, end of the period		**91,946**	74,718	**91,946**	74,718

NATURE OF OPERATIONS

Cogeco Inc. ("Cogeco" or the "Corporation" or the "Parent Corporation") is a Canadian public corporation whose subordinate voting shares are listed on the Toronto Stock Exchange ("TSX") under the trading symbol "CGO". Cogeco is a diversified holding corporation which operates in the communications and media sectors.

Through its Cogeco Communications Inc. ("Cogeco Communications") subsidiary, the Corporation provides its residential and business customers with video, Internet and telephony services through its two-way broadband fibre networks. Cogeco Communications operates in Canada as Cogeco Cable Canada GP Inc. ("Cogeco Connexion") in Québec and Ontario, and in the United States as Atlantic Broadband LLC ("Atlantic Broadband") in western Pennsylvania, south Florida, Maryland/Delaware, South Carolina and eastern Connecticut. Through its subsidiary, Cogeco Peer 1 Inc. ("Cogeco Peer 1"), Cogeco Communications provides its business customers with a suite of information technology services (colocation, network connectivity, managed hosting, cloud services and managed IT services), through data centres, extensive FastFiber Network™ and points-of-presence in North America and Europe.

Through its subsidiary, Cogeco Media Acquisitions Inc. ("Cogeco Media"), the Corporation owns and operates radio stations across most of Québec with complementary radio formats serving a wide range of audiences as well as Cogeco News, its news agency.

The Corporation also operated Métromédia CMR Plus Inc. ("Cogeco Métromédia"), an out-of-home advertising company specialized in the public transit sector, until it was sold on January 5, 2016 (see Note 16).

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 of the information required for full annual financial statements. Certain information and footnote disclosure normally included in annual financial statements were omitted or condensed where such information is not considered material to the understanding of the Corporation's interim financial information. As such, these condensed interim consolidated financial statements should be read in conjunction with the Corporation's 2015 annual consolidated financial statements.

These condensed interim consolidated financial statements have been prepared with the accounting policies the Corporation adopted in its 2015 annual consolidated financial statements. 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 Cogeco.

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 video and Internet services are generally lower in the second half of the fiscal year as a result of a decrease in economic activity due to the beginning of the vacation period, the end of the television season, and students leaving their campuses at the end of the school year. 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 the Pennsylvania region, and to a lesser extent in South Carolina, eastern Connecticut, Maryland and Delaware in the United States. In the United States, the Miami region is also subject to seasonal fluctuations due to the winter season residents returning home from late spring through the fall.

The condensed interim consolidated financial statements were approved by the Board of Directors of Cogeco at its meeting held on July 6, 2016.

2. OPERATING SEGMENTS

The Corporation's segment profit (loss) for the period is reported in two operating segments: Communications segment 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 its Cogeco Communications subsidiary, its residential and business customers with video, Internet 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 name in western Pennsylvania, south Florida, Maryland/Delaware, South Carolina and eastern Connecticut. Through its subsidiary, Cogeco Peer 1, Cogeco Communications provides its business customers with a suite of information and communications technology services (colocation, network connectivity, managed hosting, cloud services and a rich portfolio of managed IT services), through data centres, extensive FastFiber Network™ and points-of-presence in North America and Europe.

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

The Other segment is comprised of radio, out-of-home advertising, head office activities as well as inter-segment eliminations. Through its subsidiary, Cogeco Media, the Corporation owns and operates radio stations across most of Québec 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. Through its subsidiary, Cogeco Métromédia, Cogeco operated an out-of-home advertising company specialized in the public transit sector, until it was sold on January 5, 2016.

The Corporation and its chief operating decision maker assess the performance of each operating segment based on the segment's profit (loss), 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 agreed to amounts between the parties.

						Three months ended May 31,
	Communications segment		**Other**		**Consolidated**	
	2016	2015	**2016**	2015	**2016**	2015
	$	$	**$**	$	**$**	$
Revenue (1)	**540,257**	516,426	**33,748**	41,361	**574,005**	557,787
Operating expenses	**292,555**	276,663	**28,299**	34,147	**320,854**	310,810
Management fees – Cogeco Inc. (2)	**4,587**	—	**(4,587)**	—	**—**	—
Segment profit	**243,115**	239,763	**10,036**	7,214	**253,151**	246,977
Integration, restructuring and acquisition costs (3)	**1,126**	5,669	**—**	—	**1,126**	5,669
Claims and litigations (4)	**10,499**	—	**—**	—	**10,499**	—
Depreciation and amortization	**123,928**	116,351	**900**	1,442	**124,828**	117,793
Impairment of goodwill and intangible assets *(Note 6)*	**450,000**	—	**—**	—	**450,000**	—
Financial expense	**32,792**	35,743	**1,481**	1,889	**34,273**	37,632
Income taxes	**12,127**	17,851	**2,184**	1,747	**14,311**	19,598
Profit (loss) for the period	**(387,357)**	64,149	**5,471**	2,136	**(381,886)**	66,285
Acquisition of property, plant and equipment	**89,629**	99,577	**463**	1,089	**90,092**	100,666
Acquisition of intangible and other assets	**4,813**	4,141	**—**	—	**4,813**	4,141

(1) For the three-month period ended May 31, 2016, revenue by geographic market includes $391,702 in Canada ($398,667 in 2015), $173,170 in the United States ($149,233 in 2015) and $9,133 in Europe ($9,887 in 2015).

(2) Starting in fiscal 2016, the management fees represent 0.85% of the consolidated revenue of the Corporation's subsidiary Cogeco Communications, while in the prior years the fees were calculated as 2% of the consolidated revenue of Cogeco Communications, subject to a maximum amount usually reached in the first three-months of the fiscal year.

(3) Comprised of acquisition and integration costs at Atlantic Broadband and restructuring costs at Cogeco Peer 1.

(4) Comprised of costs related to the settlement of claims and costs related to litigations, some of which are currently unresolved.

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

	Communications segment		Other		Consolidated	
Nine months ended May 31,	2016	2015	2016	2015	2016	2015
	$	$	$	$	$	$
		(restated, Note 3)				*(restated, Note 3)*
Revenue (1)	**1,632,093**	1,522,897	**103,265**	110,177	**1,735,358**	1,633,074
Operating expenses	**882,566**	823,133	**92,358**	99,912	**974,924**	923,045
Management fees – Cogeco Inc. (2)	**13,888**	9,877	**(13,888)**	(9,877)	**—**	—
Segment profit	**735,639**	689,887	**24,795**	20,142	**760,434**	710,029
Integration, restructuring and acquisition costs (3)	**7,476**	7,008	**—**	—	**7,476**	7,008
Claims and litigations (4)	**10,499**	—	**—**	—	**10,499**	—
Depreciation and amortization	**378,664**	347,799	**3,403**	4,345	**382,067**	352,144
Impairment of goodwill and intangible assets *(Note 6)*	**450,000**	—	**—**	—	**450,000**	—
Financial expense	**101,984**	106,995	**4,689**	5,497	**106,673**	112,492
Gain on disposal of a subsidiary	**—**	—	**(12,940)**	—	**(12,940)**	—
Income taxes	**51,225**	48,321	**4,801**	3,378	**56,026**	51,699
Profit (loss) for the period	**(264,209)**	179,764	**24,842**	6,922	**(239,367)**	186,686
Total assets (5)	**5,343,858**	6,014,038	**195,562**	191,757	**5,539,420**	6,205,795
Property, plant and equipment (5)	**1,995,209**	1,985,421	**14,357**	20,040	**2,009,566**	2,005,461
Intangible assets (5)	**2,068,684**	2,131,483	**79,918**	90,094	**2,148,602**	2,221,577
Goodwill (5)	**1,061,925**	1,497,800	**18,586**	39,125	**1,080,511**	1,536,925
Acquisition of property, plant and equipment	**341,632**	297,803	**1,432**	2,633	**343,064**	300,436
Acquisition of intangible and other assets	**15,861**	11,471	**430**	—	**16,291**	11,471

(1) For the nine-month period ended May 31, 2016, revenue by geographic market includes $1,170,929 in Canada ($1,173,862 in 2015), $535,071 in the United States ($429,226 in 2015) and $29,358 in Europe ($29,986 in 2015).

(2) Starting in fiscal 2016, the management fees represent 0.85% of the consolidated revenue of the Corporation's subsidiary Cogeco Communications, while in the prior years the fees were calculated as 2% of the consolidated revenue of Cogeco Communications, subject to a maximum amount usually reached in the first three-months of the fiscal year.

(3) Comprised of acquisition and integration costs at Atlantic Broadband and restructuring costs at Cogeco Peer 1 and Cogeco Connexion.

(4) Comprised of costs related to the settlement of claims and costs related to litigations, some of which are currently unresolved.

(5) At May 31, 2016 and August 31, 2015.

The following tables set out certain geographic market information at May 31, 2016 and August 31, 2015:

At May 31, 2016	Canada	United States	Europe	Total
	$	**$**	**$**	**$**
Property, plant and equipment	**1,470,307**	**495,792**	**43,467**	**2,009,566**
Intangible assets	**1,132,383**	**1,008,746**	**7,473**	**2,148,602**
Goodwill	**240,453**	**823,697**	**16,361**	**1,080,511**

At August 31, 2015	Canada	United States	Europe	Total
	$	$	$	$
		(restated, Note 3)		*(restated, Note 3)*
Property, plant and equipment	1,449,557	504,073	51,831	2,005,461
Intangible assets	1,152,048	1,059,528	10,001	2,221,577
Goodwill	372,835	1,106,494	57,596	1,536,925

3. BUSINESS COMBINATION

BUSINESS COMBINATION IN FISCAL 2015

On August 20, 2015, Atlantic Broadband, a wholly-owned subsidiary of Cogeco Communications, completed the acquisition of substantially all of the net assets of MetroCast Communications of Connecticut, LLC (the "Connecticut system"), which served 27,256 video, 22,673 Internet and 7,817 telephony customers at August 31, 2015. The transaction, valued at US$200 million, excluding a post-closing net working capital adjustment of US$1.3 million, was financed through a combination of cash on hand, a draw-down on the existing Revolving Facility of US$90 million and US$100 million of borrowings under a new Term Loan A-2 Facility issued under the First Lien Credit Facilities. This acquisition enhances Cogeco Communications' footprint in the American market and provides for further growth potential.

During the first three months of fiscal 2016, Cogeco Communications finalized the purchase price allocation of the Connecticut system. The final purchase price allocation is as follows:

	Preliminary	**Final**
	August 31, 2015	**November 30, 2015**
(In thousands of Canadian dollars)	$	$
Consideration paid		
Purchase price	261,600	**261,600**
Working capital adjustments	1,640	**1,640**
	263,240	**263,240**
Net assets acquired		
Trade and other receivables	616	**616**
Prepaid expenses and other	1,696	**1,696**
Property, plant and equipment	51,368	**51,368**
Intangible assets	108,564	**115,104**
Goodwill	101,685	**95,145**
Trade and other payables assumed	(689)	**(689)**
	263,240	**263,240**

The finalization of the purchase price allocation had no significant impact on the statement of comprehensive income for the year ended August 31, 2015, while the impact on the statement of financial position at August 31, 2015 is as follows:

	As previously reported	Adjustments	As currently reported
	$	$	$
Intangible assets	2,214,998	6,579	2,221,577
Goodwill	1,543,504	(6,579)	1,536,925

4. OPERATING EXPENSES

	Three months ended May 31,		Nine months ended May 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Salaries, employee benefits and outsourced services	**107,657**	107,494	**324,847**	313,358
Service delivery costs(1)	**165,041**	156,654	**501,034**	461,685
Customer related costs(2)	**19,612**	17,382	**56,647**	57,728
Other external purchases(3)	**28,544**	29,280	**92,396**	90,274
	320,854	310,810	**974,924**	923,045

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

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

(3) Include office building expenses, professional service fees, Canadian Radio-television and Telecommunications Commission ("CRTC") fees and other administrative expenses.

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

5. DEPRECIATION AND AMORTIZATION

	Three months ended May 31,		Nine months ended May 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Depreciation of property, plant and equipment	**107,411**	101,394	**328,307**	303,935
Amortization of intangible assets	**17,417**	16,399	**53,760**	48,209
	124,828	117,793	**382,067**	352,144

6. IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

The Corporation's subsidiary, Cogeco Communications, recognized a non-cash pre-tax impairment loss of $450 million at May 31, 2016 resulting from changing industry dynamics and related valuations, and lower expectations for future revenue, profitability and cash flow growth.

As part of a process initiated in fiscal 2015, Cogeco Communications performed a thorough review of its Business ICT services segment operations, organizational structure and portfolio of products and services. The review resulted in several initiatives primarily focused on profitable sales generation, the streamlining of the product offering, the simplification of operational processes and the announcement, on May 5, 2015, of the combination of its two business units Cogeco Data Services and Peer 1 Hosting to form Cogeco Peer 1. The teams formerly managing both companies have since then been combined and several executive positions have either been replaced or filled during the ensuing period, with the remaining executive positions filled during the third quarter of fiscal 2016.

Despite continuous efforts to align Cogeco Peer 1’s sales structure on its streamlined product offering, the sales performance has not achieved expected growth. Sales of managed hosting services, which are Cogeco Peer 1’s main product sold in the United States and Europe, have been substantially lower than expected due to a combination of an accelerated transition out of unprofitable services, slower than planned ramp-up of the sales team, and increased competition in the market from large cloud-based offerings, which now compete with most traditional managed hosting providers. In addition, the fair market value and trading multiples for managed hosting businesses have decreased significantly over the last year due to the entry in the market of these cloud-based offerings. Cogeco Peer 1 is continuing to adapt to the significant capacity and price pressure originating from cloud providers, by continuing to focus on mid-sized customers which require value-added services. Cogeco Peer 1’s customer data is primarily hosted on its own infrastructure and to a lower extent on external cloud providers under resell agreements.

In Canada, the sales of colocation services, which typically cater to larger customers, have also been slower than planned. As for connectivity services, ongoing pricing pressures are typically offset by volume growth. Additional net growth in network connectivity is expected to result from growing the number of customers per connected building and from maximizing sales on the existing network.

Although management is confident that it now has in place the management team and the operating structure to succeed, the current situation is expected to persist past fiscal 2016. Consequently, management has reviewed downwards its future financial projections, resulting in a decrease in the value of Cogeco Communications’ investment in Cogeco Peer 1. As a result, Cogeco Communications tested goodwill and all long-lived assets of Cogeco Peer 1 for impairment at May 31, 2016.

In accordance with current accounting standards, goodwill and intangible assets with indefinite useful lives were tested for impairment at the cash-generating unit (“CGU”) level, which is the Business ICT services segment. The recoverable amount of the CGU was calculated based on the higher of value in use and fair value less cost to sell. The value in use was determined using cash flow projections derived from internal financial projections covering a five-year period. They reflect management's expectations of revenue growth, expenses and capital expenditures for each CGU based on past experience and expected growth for the segment. Cash flows beyond the five-year period have been extrapolated using an estimated terminal growth rate determined with regard to projected growth rates for the specific markets in which the CGU participates and are not considered to exceed the long-term average growth rates for those markets. Discount rates applied to the cash flow forecasts are derived from the subsidiary's pre-tax weighted average cost of capital, adjusted for the different risk profiles of the individual CGU.

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

The following represent the key assumptions that were used to determine the recoverable amount of Cogeco Communications' Business ICT services segment in the impairment tests performed at May 31,2016:

	At May 31, 2016		At August 31, 2015	
	Pre-tax discount rate	**Terminal growth rate**	Pre-tax discount rate	Terminal growth rate
Cogeco Communications' CGU	**%**	**%**	%	%
Business ICT services	**11.3**	**3.2**	**11.4**	**3.2**

Based on lower expectations for future revenue, profitability and cash flow growth, Cogeco Communications recorded a non-cash impairment loss of $428.5 million on goodwill at May 31, 2016.

Long-lived assets, such as property, plant and equipment and intangible assets with finite useful lives were tested for impairment by comparing the carrying value of the asset or group of assets to the corresponding recoverable amount of the asset or group of assets, in order to determine the extent of the impairment loss, if any. Accordingly, Cogeco Communications completed its impairment testing on the long-lived assets and concluded that the carrying value of the customer relationships exceeded their recoverable amount, calculated as the discounted future cash flows expected to be generated from the asset. As a result, a non-cash impairment loss of $21.5 million was recognized at May 31, 2016 regarding the customer relationships.

The impairment of goodwill and intangible assets that affected Cogeco Communications' financial results for the three and nine-month periods ended May 31, 2016 is as follows :

	$
Impairment of goodwill (1)	**428,500**
Impairment of intangible assets (2)	**21,500**
Impairment of goodwill and intangible assets	**450,000**
Income taxes	**(16,048)**
Impairment of goodwill and intangible assets net of income taxes	**433,952**

(1) Impairment of goodwill by geographic market includes $111.8 million in Canada, $278.9 million in the United States and $37.8 million in Europe.
(2) Intangible assets were impaired only in the United States.

7. FINANCIAL EXPENSE

	Three months ended May 31,		Nine months ended May 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Interest on long-term debt	**33,694**	34,645	**104,371**	102,482
Net foreign exchange losses (gains)	**(571)**	349	**(1,972)**	1,535
Amortization of deferred transaction costs	**623**	598	**1,884**	1,820
Capitalized borrowing costs (1)	**(509)**	(117)	**(1,318)**	(258)
Other	**1,036**	2,157	**3,708**	6,913
	34,273	37,632	**106,673**	112,492

(1) For the three and nine-month periods ended May 31, 2016 and 2015, the weighted average interest rate used in the capitalization of borrowing costs was 4.5%.

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

8. INCOME TAXES

	Three months ended May 31,		Nine months ended May 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Current	**26,442**	25,370	**74,927**	66,753
Deferred	**(12,131)**	(5,772)	**(18,901)**	(15,054)
	14,311	19,598	**56,026**	51,699

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,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Profit (loss) before income taxes	**(367,575)**	85,883	**(183,341)**	238,385
Combined Canadian income tax rate	**26.93%**	26.71%	**27.15%**	26.58%
Income taxes at combined Canadian income tax rate	**(98,972)**	22,938	**(49,783)**	63,371
Adjustment for losses or profit subject to lower or higher tax rates	**(695)**	695	**3,260**	3,530
Revaluation of deferred tax assets	**12,278**	—	**10,518**	—
Impact on deferred taxes as a result of changes in substantively enacted tax rates	**(343)**	—	**1,294**	—
Income taxes arising from non-deductible expenses (1)	**107,450**	474	**108,042**	2,063
Non-taxable portion of capital gain	**—**	—	**(1,760)**	—
Tax impacts related to foreign operations	**(5,423)**	(4,692)	**(16,616)**	(13,466)
Other	**16**	183	**1,071**	(3,799)
Income taxes at effective income tax rate	**14,311**	19,598	**56,026**	51,699

(1) Comprised of $107.2 million of non-deductible impairment of goodwill and intangible assets.

9. EARNINGS (LOSS) PER SHARE

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

	Three months ended May 31,		Nine months ended May 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Profit (loss) for the period attributable to the owners of the Corporation	**(117,670)**	22,584	**(59,143)**	64,225
Weighted average number of multiple and subordinate voting shares outstanding	**16,727,192**	16,734,904	**16,728,792**	16,739,566
Effect of dilutive incentive share units (1)	**—**	78,482	**—**	80,369
Effect of dilutive performance share units (1)	**—**	18,987	**—**	14,648
Weighted average number of diluted multiple and subordinate voting shares outstanding	**16,727,192**	16,832,373	**16,728,792**	16,834,583
Earnings (loss) per share				
Basic	**(7.03)**	1.35	**(3.54)**	3.84
Diluted	**(7.03)**	1.34	**(3.54)**	3.82

(1) The weighted average dilutive potential of subordinate voting shares which amounted to 103,472 and 103,136 for the three and nine-month periods ended May 31, 2016, is anti-dilutive due to the loss for the period.

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

10. LONG-TERM DEBT

	Maturity	Interest rate		May 31, 2016	August 31, 2015
		%		$	$
Parent Corporation					
Term Revolving Facility (1)					
Revolving loan	February 2021	—		**—**	14,977
Unsecured Debentures	November 2021	6.50		**34,777**	34,752
Senior Unsecured Notes	March 2020	6.00		**49,111**	48,956
Finance lease	January 2017	3.23		**18**	40
Subsidiaries					
Term Revolving Facility (2)					
Canadian Revolving Facility					
Revolving loan – US$126.2 million (US$70.5 million at August 31, 2015)	January 2021	1.90	(3) (4)	**165,448**	92,757
Revolving loan – £44.1 million (£54 million at August 31, 2015)	January 2021	1.97	(3)	**83,742**	109,021
UK Revolving Facility – £4.4 million (£4.7 million at August 31, 2015)	January 2021	1.95	(3)	**8,355**	9,489
Senior Secured Notes					
Series A – US$25 million	September 2024	4.14		**32,647**	32,755
Series B - US$150 million	September 2026	4.29		**195,856**	196,515
Senior Secured Notes					
Series A – US$190 million (5)	October 2015	—		**—**	249,953
Series B	October 2018	7.60		**54,837**	54,789
Senior Secured Notes - US$215 million	June 2025	4.30		**280,631**	281,559
Senior Secured Debentures Series 2	November 2020	5.15		**199,131**	199,002
Senior Secured Debentures Series 3	February 2022	4.93		**198,834**	198,703
Senior Secured Debentures Series 4	May 2023	4.18		**297,719**	297,510
Senior Unsecured Debenture	March 2018	5.94		**99,930**	99,901
Senior Unsecured Notes – US$400 million	May 2020	4.88		**519,691**	520,759
First Lien Credit Facilities (6)					
Term Loan A Facility – US$145 million at August 31, 2015	November 2017	—		**—**	188,224
Term Loan A-2 Facility – US$98.2 million (US$100 million at August 31, 2015)	September 2019	2.58	(3) (7)	**126,950**	129,391
Term Loan A-3 Facility - US$124.6 million	September 2019	2.58	(3) (7)	**161,109**	—
Term Loan B Facility – US$362.6 million (US$369.4 million at August 31, 2015)	November 2019	3.25	(3)	**465,119**	473,653
Revolving Facility – US$93 million (US$111 million at August 31, 2015)	September 2019	2.58	(3)	**121,923**	146,043
				3,095,828	3,378,749
Less current portion				**12,113**	297,657
				3,083,715	3,081,092

(1) On October 27, 2015, the Corporation amended its Term Revolving Facility. Under the terms of the amendment, the maturity was extended by an additional year until February 1, 2021.

(2) On December 8, 2015, the Corporation's subsidiary, Cogeco Communications, amended its Term Revolving Facility resulting in the extension of the maturity date by an additional year until January 22, 2021.

(3) Interest rate on debt includes applicable margin.

(4) US$90.7 million drawn under the Revolving loan facility have been hedged until July 5, 2016, using cross-currency swap agreements which set the amount redeemable at maturity at CAD$119 million and the effective interest rate on the Canadian dollar equivalent at 2.07%.

(5) On October 1, 2015, Cogeco Communications repaid the matured Senior Secured Notes Series A and settled the related cross-currency swap agreements. These swap agreements had the effect of fixing the exchange rate applicable to the principal portion of the debt at $1.0625 per US dollar and ensuring an effective interest rate of 7.24% on the Canadian dollar equivalent of the US denominated debt.

(6) On May 31, 2016 the First Lien Credit Facilities were amended. Under the amendment, the Term Loan A Facility was converted into a Term Loan A-3 Facility which resulted in the extension of the maturity from November 2017 to September 2019. The Revolving Facility maturity was also extended from November 2017 to September 2019. Transaction costs of US$0.5 million were incurred in connection with the amendment. All other terms and conditions remained the same.

(7) On October 14, 2015, a US subsidiary of Cogeco Communications entered into two interest rate swap agreements to fix the interest rate on a notional amount of US$150 million (US$75 million each agreement) of its LIBOR based loans.These agreements have the effect of converting the floating US Libor base rate at fixed rates of 0.6120% and 0.9870%, under Term Loan A and Term Loan A-2 Facilities, until October 30, 2017 and July 31, 2019, respectively. Pursuant to the May 31, 2016 conversion of Term Loan A into Term Loan A-3, the designation of the US$75 million notional amount of the Term Loan A Facility has been consequently replaced by the Term Loan A-3 Facility.

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

11. SHARE CAPITAL

A) AUTHORIZED

Unlimited number of:

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, 2016	August 31, 2015
	$	$
1,842,860 multiple voting shares	12	12
14,989,338 subordinate voting shares	121,976	121,976
	121,988	121,988
65,742 subordinate voting shares held in trust under the Incentive Share Unit Plan (78,482 at August 31, 2015)	(3,277)	(3,730)
39,264 subordinate voting shares held in trust under the Performance Share Unit Plan (19,152 at August 31, 2015)	(2,222)	(1,086)
	116,489	117,172

During the first nine months of fiscal 2016, subordinate voting shares held in trust under the Incentive Share Unit Plan transactions were as follows:

	Number of shares	Amount
		$
Balance at August 31, 2015	78,482	3,730
Subordinate voting shares acquired	17,050	963
Subordinate voting shares distributed to employees	(29,790)	(1,416)
Balance at May 31, 2016	65,742	3,277

During the first nine months of fiscal 2016, subordinate voting shares held in trust under the Performance Share Unit Plan transactions were as follows:

	Number of shares	Amount
		$
Balance at August 31, 2015	19,152	1,086
Subordinate voting shares acquired	20,299	1,146
Subordinate voting shares distributed to employees	(187)	(10)
Balance at May 31, 2016	39,264	2,222

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

C) DIVIDENDS

For the nine-month period ended May 31, 2016, quarterly eligible dividends of $0.295 per share, for a total of $0.885 per share, were paid to the holders of multiple and subordinate voting shares, totaling $14.8 million, compared to quarterly eligible dividends of $0.255 per share, for a total of $0.765 per share or $12.8 million for the nine-month period ended May 31, 2015.

At its July 6, 2016 meeting, the Board of Directors of Cogeco declared a quarterly eligible dividend of $0.295 per share for multiple voting and subordinate voting shares, payable on August 3, 2016 to shareholders of record on July 20, 2016.

D) SHARE-BASED PAYMENT PLANS

The Corporation and its subsidiary, Cogeco Communications, offer for the benefit of their employees and those of their subsidiaries, Employee Stock Purchase Plans 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 2015 annual consolidated financial statements of the Corporation.

For the nine-month period ended May 31, 2016, 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, 2016 and August 31, 2015.

Under the Stock Option Plan of Cogeco Communications, the following options were granted and are outstanding at May 31, 2016:

	Options	Weighted average exercise price
		$
Outstanding at August 31, 2015	**721,973**	**47.24**
Granted [(1)]	**173,125**	**67.48**
Exercised [(2)]	**(138,199)**	**37.57**
Cancelled	**(72,873)**	**52.07**
Outstanding at May 31, 2016	**684,026**	**53.80**
Exercisable at May 31, 2016	**227,989**	**44.76**

(1) During the nine-month period ended May 31, 2016, the Corporation's subsidiary, Cogeco Communications, granted 71,650 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 $63.54.

As a result, a compensation expense of $376,000 and $915,000 ($350,000 and $966,000 in 2015) was recorded for the three and nine-month periods ended May 31, 2016 related to this plan.

The weighted average fair value of stock options granted by Cogeco Communications for the nine-month period ended May 31, 2016 was $11.36 ($11.78 in 2015) 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:

	2016	2015
	%	%
Expected dividend yield	**2.08**	1.96
Expected volatility	**22.34**	22.88
Risk-free interest rate	**0.97**	1.62
Expected life in years	**6.1**	6.2

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

Under the ISU Plan of the Corporation, the following ISUs were granted and are outstanding at May 31, 2016:

Outstanding at August 31, 2015	78,482
Granted	17,400
Distributed	(29,790)
Cancelled	(815)
Outstanding at May 31, 2016	**65,277**

Under the ISU Plan of Cogeco Communications, the following ISUs were granted and are outstanding at May 31, 2016:

Outstanding at August 31, 2015	217,779
Granted (1)	38,325
Distributed	(87,994)
Cancelled	(7,673)
Outstanding at May 31, 2016	**160,437**

(1) During the nine-month period ended May 31, 2016, the Corporation's subsidiary, Cogeco Communications, did not grant ISUs to Cogeco's executive officers as executive officers of Cogeco Communications.

A compensation expense of $1,136,000 and $4,060,000 ($1,485,000 and $4,416,000 in 2015) was recorded for the three and nine-month periods ended May 31, 2016 related to these plans.

Under the PSU Plan of the Corporation, the following PSUs were granted and are outstanding at May 31, 2016:

Outstanding at August 31, 2015	19,139
Granted	20,250
Distributed	(187)
Cancelled	(1,156)
Dividend equivalents	639
Outstanding at May 31, 2016	**38,685**

Under the PSU Plan of Cogeco Communications, the following PSUs were granted and are outstanding at May 31, 2016:

Outstanding at August 31, 2015	49,862
Granted (1)	43,925
Distributed	(1,411)
Cancelled	(6,424)
Dividend equivalents	1,589
Outstanding at May 31, 2016	**87,541**

(1) During the nine-month period ended May 31, 2016, the Corporation's subsidiary, Cogeco Communications, granted 11,150 PSUs to Cogeco's executive officers as executive officers of Cogeco Communications.

A compensation expense of $632,000 and $1,679,000 ($275,000 and $811,000 in 2015) was recorded for the three and nine-month periods ended May 31, 2016 related to these plans.

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

Under the DSU Plan of the Corporation, the following DSUs were issued and are outstanding at May 31, 2016:

Outstanding at August 31, 2015	**47,814**
Issued	**10,753**
Dividend equivalents	**917**
Outstanding at May 31, 2016	**59,484**

Under the DSU Plan of Cogeco Communications, the following DSUs were issued and are outstanding at May 31, 2016:

Outstanding at August 31, 2015	**26,579**
Issued	**5,155**
Dividend equivalents	**549**
Outstanding at May 31, 2016	**32,283**

A compensation expense of $469,000 and $602,000 (compensation expense reduction of $426,000 and a compensation expense of $594,000 in 2015) was recorded for the three and nine-month periods ended May 31, 2016 related to these plans.

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

	Cash flow hedge reserve	Foreign currency translation	Total
	$	$	$
Balance at August 31, 2014	427	8,704	9,131
Other comprehensive income	8	12,135	12,143
Balance at May 31, 2015	435	20,839	21,274
Balance at August 31, 2015	**438**	**26,401**	**26,839**
Other comprehensive income (loss)	**(389)**	**189**	**(200)**
Balance at May 31, 2016	**49**	**26,590**	**26,639**

13. STATEMENTS OF CASH FLOWS

CHANGES IN NON-CASH OPERATING ACTIVITIES

	Three months ended May 31,		Nine months ended May 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Trade and other receivables	**(2,605)**	6,947	**10,373**	(3,511)
Prepaid expenses and other	**5,298**	4,218	**1,436**	(1,405)
Trade and other payables	**22,283**	11,777	**(49,917)**	(110,997)
Provisions	**6,634**	3,441	**6,983**	2,807
Deferred and prepaid revenue and other liabilities	**1,522**	1,465	**2,612**	2,574
	33,132	27,848	**(28,513)**	(110,532)

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

14. EMPLOYEE BENEFITS

The Corporation and its subsidiaries offer their employees either contributory 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,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Defined benefit plans				
Recognized in operating expenses (salaries, employee benefits and outsourced services)				
Current service cost	**848**	807	**2,544**	2,260
Administrative expense	**72**	70	**214**	195
Recognized in financial expense (other)				
Net interest	**48**	102	**144**	308
Defined contribution and collective registered retirement saving plans				
Recognized in operating expenses (salaries, employee benefits and outsourced services)	**2,303**	2,386	**7,474**	7,461
	3,271	3,365	**10,376**	10,224

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

Liquidity risk

At May 31, 2016, an amount of $277.8 million was used from the Corporation's Term Revolving Facility and Cogeco Communications' Term Revolving Facility of $850 million, for a remaining availability of $572.2 million. In addition, two subsidiaries of Cogeco Communications also benefit from a Revolving Facility of $196.7 million (US$150 million), of which $124.7 million (US$95.1 million) was used at May 31, 2016 for a remaining availability of $71.9 million (US$54.9 million).

Interest rate risk

The Corporation and its subsidiary, Cogeco Communications, are exposed to interest rate risk on its floating interest rate instruments. Interest rate fluctuations have an effect on the repayment of these instruments. At May 31, 2016, all of the Corporation's and Cogeco Communications' long-term debt was at fixed rate, except for the amounts drawn under Cogeco Communications' Term Revolving Facility and First Lien Credit Facilities.

To mitigate such risk, the Corporation's subsidiary, Cogeco Communications, enters into interest rate swap agreements. The following table shows the interest rate swaps outstanding at May 31, 2016:

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

The sensitivity of the Corporation's annual financial expense to a variation of 1% in the interest rate applicable to the unhedged portion of these facilities is approximately $8.1 million based on the outstanding debt at May 31, 2016.

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

Foreign exchange risk

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

In order to mitigate this risk, on October 2, 2008, the Corporation's subsidiary, Cogeco Communications, entered into cross-currency swap agreements to set the liability for interest and principal payments on its Senior Secured Notes Series A (see note 10). During the first three months of fiscal 2016 Cogeco Communications settled these cross-currency swaps with a notional amount of US$190 million, following the repayment of its Senior Secured Notes Series A at maturity on October 1, 2015.

The Corporation is also exposed to foreign exchange risk with respect to the interest associated with its long-term debt denominated in US dollars and British Pounds. The impact of a 10% change in the exchange rate of the US dollar and British Pound into Canadian dollars would change financial expense by approximately $7.9 million based on the outstanding debt at May 31, 2016.

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

The following table shows the investments in foreign operations outstanding at May 31, 2016:

Type of hedge	Notional amount of debt	Aggregate investments	Hedged item
Net investment	US$825.5 million	US$885.1 million	Net investments in foreign operations in US dollar
Net investment (1)	£44.1 million	£29.3 million	Net investments in foreign operations in British Pound

(1) Pursuant to the impairment of goodwill on May 31, 2016, the Corporation reduced the notional amount of debt designated by £20.1 million. In addition, on July 5, 2016, the notional amount of the debt was reduced to £24 million.

The exchange rates used to convert the US dollar currency and British Pound currency into Canadian dollar for the statement of financial position accounts at May 31, 2016 was $1.3110 ($1.3157 at August 31, 2015) per US dollar and $1.8989 ($2.0189 at August 31, 2015) per British Pound. A 10% change in the exchange rates of the US dollar and British Pound into Canadian dollars would change comprehensive income by approximately $5 million.

B) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	May 31, 2016		August 31, 2015	
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Long-term debt	**3,095,828**	**3,199,258**	3,378,749	3,483,581

C) CAPITAL MANAGEMENT

At May 31, 2016 and August 31, 2015, the Corporation was in compliance with all of its debt covenants and was not subject to any other externally imposed capital requirements.

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

	May 31, 2016	August 31, 2015
Net secured indebtedness(1) / adjusted EBITDA(2)	**2.3**	2.6
Net indebtedness(3) / adjusted EBITDA(2)	**3.0**	3.4
Adjusted EBITDA(2) / financial expense(2)	**7.0**	6.4

(1) Net secured indebtedness is defined as the total of bank indebtedness, principal on long-term debt and obligations under derivative financial instruments, less cash and cash equivalents and principal on Unsecured Debentures, Senior Unsecured Debenture and Senior Unsecured Notes.
(2) Calculation based on adjusted EBITDA and financial expense for the twelve-month periods ended May 31, 2016 and August 31, 2015.
(3) Net indebtedness is defined as the total of bank indebtedness, principal on long-term debt and obligations under derivative financial instruments, less cash and cash equivalents.

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

	May 31, 2016	August 31, 2015
Net secured indebtedness(1)(2) / adjusted EBITDA(3)	**2.1**	2.1
Net indebtedness(2)(4) / adjusted EBITDA(3)	**3.0**	3.0
Adjusted EBITDA(3) / financial expense(3)	**7.0**	6.3

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

(2) Excluding Atlantic Broadband and other non-significant unrestricted subsidiaries' cash and cash equivalents and non-recourse First Lien Credit Facilities.

(3) Calculation based on adjusted EBITDA and financial expense for the twelve-month periods ended May 31, 2016 and August 31, 2015 excluding Atlantic Broadband and other non-significant unrestricted subsidiaries.

(4) Net indebtedness is defined as the total of bank indebtedness, principal on long-term debt and obligations under derivative financial instruments, less cash and cash equivalents.

16. DISPOSAL OF A SUBSIDIARY

On January 5, 2016, the Corporation's subsidiary, Cogeco Media, completed the sale of its subsidiary Cogeco Métromédia, an out-of-home advertising company, for a cash consideration of $47.5 million, which was subject to a post-closing net working capital adjustment. The selling price has been reduced by selling fees of approximately $0.4 million. The carrying value of the net assets disposed was $34.1 million resulting in a pre-tax gain of $12.9 million recorded in the consolidated statements of profit or loss.

The carrying values of assets and liabilities disposed were as follows:

(In thousands of Canadian dollars)	**$**
Cash and cash equivalents	**272**
Trade and other receivables	**6,113**
Prepaid expenses and other	**331**
Other assets	**930**
Property, plant and equipment	**4,153**
Intangible assets	**9,735**
Goodwill	**20,540**
Trade and other payables	**(3,862)**
Income tax liabilities	**(29)**
Deferred and prepaid revenue	**(1,524)**
Other liabilities	**(100)**
Deferred tax liabilities	**(2,416)**
	34,143

COMMUNICATIONS SEGMENT CUSTOMER STATISTICS

	May 31, 2016	February 29, 2016	November 30, 2015	August 31, 2015	May 31, 2015
CONSOLIDATED					
Primary service units	**2,511,799**	**2,515,137**	**2,510,979**	2,497,702	2,448,755
Video service customers	**992,409**	**1,001,337**	**1,009,098**	1,014,661	998,043
Internet service customers	**977,538**	**967,156**	**953,134**	934,470	905,057
Telephony service customers	**541,852**	**546,644**	**548,747**	548,571	545,655
CANADA					
Primary service units	**1,921,799**	**1,932,343**	**1,933,527**	1,926,542	1,936,923
Video service customers	**747,257**	**755,366**	**761,209**	765,358	774,977
Penetration as a percentage of homes passed	**43.9%**	**44.6%**	**45.0%**	45.4%	46.7%
Internet service customers	**728,086**	**724,379**	**716,577**	704,555	700,090
Penetration as a percentage of homes passed	**42.8%**	**42.7%**	**42.4%**	41.8%	42.2%
Telephony service customers	**446,456**	**452,598**	**455,741**	456,629	461,856
Penetration as a percentage of homes passed	**26.3%**	**26.7%**	**26.9%**	27.1%	27.8%
UNITED STATES					
Primary service units	**590,000**	**582,794**	**577,452**	571,160	511,832
Video service customers	**245,152**	**245,971**	**247,889**	249,303	223,066
Penetration as a percentage of homes passed	**41.4%**	**41.7%**	**42.0%**	42.2%	42.9%
Internet service customers	**249,452**	**242,777**	**236,557**	229,915	204,967
Penetration as a percentage of homes passed	**42.1%**	**41.1%**	**40.1%**	38.9%	39.4%
Telephony service customers	**95,396**	**94,046**	**93,006**	91,942	83,799
Penetration as a percentage of homes passed	**16.1%**	**15.9%**	**15.8%**	15.5%	16.1%