Press release
For immediate release

COGECO reports continuous growth in cable sector and integration of newly acquired radio stations

Montréal, April 8, 2011 – Today, COGECO Inc. (TSX: CGO) ("COGECO" or the "Company") announced its financial results for the second quarter and first six months of fiscal 2011, ended February 28, 2011.

For the second quarter and first six months of fiscal 2011:

- Revenue increased by 6.6% to reach $350.6 million in the quarter, and by 5.5% to reach $693.4 million in the first six months;
- Operating income before amortization[(1)] grew by 9.3% to reach $136 million in the quarter and by 7.6% to reach $273 million in the first six months when compared to the same periods of fiscal 2010;
- Operating margin[(1)] increased to 38.8% when compared to 37.8% in the quarter, and to 39.4% from 38.6% in the first six months of the year when compared to fiscal 2010;
- In the second quarter, Cogeco Cable redeemed the $175 million Senior Secured Notes Series B, bearing interest at 7.73%, from the net proceeds of the issuance, in the first quarter of fiscal 2011, of the $200 million Senior Secured Debentures Series 2, bearing interest at 5.15%. A one-time make-whole premium of $8.8 million was paid on the redemption, which increased financial expense during the second quarter and first six months;
- Net income amounted to $10.6 million essentially the same when compared to $10.5 million in the second quarter of the prior year. For the first six months of fiscal 2011, net income amounted to $26.6 million, compared to $33.3 million in the prior year. In the first half of fiscal 2010, net income included a favourable income tax adjustment, net of non-controlling interest, of $9.6 million related to the reduction of Ontario provincial corporate income tax rates for the cable subsidiary. Excluding this amount, net income in the first six months of fiscal 2011 represents a growth of $3 million, or 12.6%, when compared to adjusted net income[(1)] of $23.6 million in the corresponding period of fiscal 2010;
- Free cash flow[(1)] of $48.2 million was posted in the second quarter, $2.4 million, or 5.3% higher than $45.8 million in the comparable period of the prior year. In the first six months, free cash flow amounted to $23.9 million, compared to $112.9 million in the first half of fiscal 2010. This reduction is primarily due to the recognition of current income tax expense relating to the modifications to Cogeco Cable's corporate structure which reduced the future income tax expense accordingly and the increase in financial expense;
- Quarterly dividends of $0.12 per share were paid to the holders of subordinate and multiple voting shares, a quarterly increase of $0.02 per share, or 20%, when compared to quarterly dividends of $0.10 per share in the first half of fiscal 2010. Dividend payments in the first six months totalled $0.24 per share in fiscal 2011, compared to $0.20 per share in fiscal 2010;
- On February 1, 2011, the Company concluded its acquisition of Corus Entertainment Inc.'s Québec radio stations (the "Québec Radio Stations Acquisition") for $80 million, subject to customary closing adjustments and conditions;
- In the cable sector, revenue-generating units ("RGU")[(2)] grew by 57,079 net additions in the second quarter and by 147,948 net additions in the first six months for a total of 3,327,297 RGU at February 28, 2011.

"In the second quarter, COGECO has continued to show solid growth in its cable sector and has finalized the Québec Radio Stations Acquisition. In the cable sector, Cogeco Cable increased its customer base with 57,079 RGU net additions essentially in its Digital Television, HSI and Telephony services from both its Canadian and European operations during the second quarter. We are on target to deliver the performance we have projected by providing to our customers a superior offering through various improvements and the best-in-class customer service," said Louis Audet, President and CEO of COGECO. "

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(1) The indicated terms do not have standard definitions prescribed by Canadian Generally Accepted Accounting Principles ("GAAP") and therefore, may not be comparable to similar measures presented by other companies. For more details, please consult the "Non-GAAP financial measures" section of the Management's Discussion and Analysis.

(2) Represents the sum of Basic Cable, High Speed Internet ("HSI"), Digital Television and Telephony service customers.

"With the completion of the acquisition Corus Entertainment Inc.'s Québec radio stations on February 1st, 2011, Cogeco Diffusion, COGECO's radio subsidiary, became one of Québec's largest radio broadcasters. The integration of the newly acquired radio stations is going according to plan. Cogeco Diffusion now operates thirteen (13) radio stations throughout the province of Québec that positively contribute to our revenue. Cogeco Diffusion has converted its Gatineau, Trois-Rivières and Sherbrooke stations to the CKOI brand. Five (5) stations strong, the CKOI network now focuses on men 25-54 with music, sports and local news. Women 25-54 are well served with the RYTHME FM network; its flagship Montreal station has increased its leadership position in the French market," declared Mr. Audet.

ABOUT COGECO

COGECO (www.cogeco.ca) is a diversified communications company. Through its Cogeco Cable subsidiary, COGECO provides its residential customers with Audio, Analogue and Digital Television, as well as HSI and Telephony services using its two-way broadband cable networks. Cogeco Cable also provides, to its commercial customers, through its subsidiary Cogeco Data Services, data networking, e-business applications, video conferencing, hosting services, Ethernet, private line, VoIP, HSI access, data storage, data security and co-location services and other advanced communication solutions. Through its Cogeco Diffusion subsidiary, COGECO owns and operates 13 radio stations across most of Québec with complementary radio formats serving a wide range of audiences. COGECO's subordinate voting shares are listed on the Toronto Stock Exchange (TSX: CGO). The subordinate voting shares of Cogeco Cable are also listed on the Toronto Stock Exchange (TSX: CCA).

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Source: **COGECO Inc.**
Pierre Gagné
Senior Vice President and Chief Financial Officer
Tel.: 514-764-4700

Information: **Media**
Marie Carrier
Director, Communications
Tel.: 514-764-4761

Analyst Conference Call: **Friday, April 8, 2011 at 11:00 a.m.** (EDT)
Media representatives may attend as listeners only.

Please use the following dial-in number to have access to the conference call by dialling five minutes before the start of the conference:

Canada/USA Access Number: 1 800 820-0231
International Access Number: + 1 416 640-5926
Confirmation Code: 5366022
By Internet at www.cogeco.ca/investors

A rebroadcast of the conference call will be available until April 15, 2011, by dialling:
Canada and USA access number: 1 888 203-1112
International access number: + 1 647 436-0148
Confirmation code: 5366022



SHAREHOLDERS' REPORT

Second quarter ended February 28, 2011

FINANCIAL HIGHLIGHTS

($000, except percentages and per share data)	Quarters ended February 28, 2011 $	2010 $	Change %	Six months ended February 28, 2011 $	2010 $	Change %
	(unaudited)	(unaudited)		**(unaudited)**	(unaudited)	
Operations						
Revenue	**350,644**	329,087	6.6	**693,410**	657,090	5.5
Operating income before amortization[1]	**135,952**	124,363	9.3	**272,983**	253,626	7.6
Operating margin[1]	**38.8%**	37.8%	–	**39.4%**	38.6%	–
Operating income	**70,525**	58,370	20.8	**144,417**	121,932	18.4
Net income	**10,645**	10,511	1.3	**26,620**	33,259	(20.0)
Adjusted net income[1]	**10,645**	10,511	1.3	**26,620**	23,639	12.6
Cash Flow						
Cash flow from operating activities	**96,664**	117,498	(17.7)	**154,236**	116,088	32.9
Cash flow from operations[1]	**120,675**	120,331	0.3	**163,174**	255,849	(36.2)
Capital expenditures and increase in deferred charges	**72,462**	74,549	(2.8)	**139,261**	142,936	(2.6)
Free cash flow[1]	**48,213**	45,782	5.3	**23,913**	112,913	(78.8)
Financial condition[2]						
Fixed assets	**–**	–	–	**1,349,932**	1,328,866	1.6
Total assets	**–**	–	–	**2,856,927**	2,744,656	4.1
Indebtedness[3]	**–**	–	–	**1,034,004**	961,354	7.6
Shareholders' Equity	**–**	–	–	**403,146**	381,635	5.6
RGU growth	**57,079**	68,782	(17.0)	**147,948**	158,567	(6.7)
Per Share Data[4]						
Earnings per share						
Basic	**0.64**	0.63	1.6	**1.59**	1.99	(20.1)
Diluted	**0.63**	0.63	–	**1.58**	1.98	(20.2)
Adjusted earnings per share[1]						
Basic	**0.64**	0.63	1.6	**1.59**	1.41	12.8
Diluted	**0.63**	0.63	–	**1.58**	1.41	12.1

(1) The indicated terms do not have standardized definitions prescribed by Canadian Generally Accepted Accounting Principles ("GAAP") and therefore, may not be comparable to similar measures presented by other companies. For more details, please consult the "Non-GAAP financial measures" section of the Management's Discussion and Analysis.

(2) At February 28, 2011 and August 31, 2010.

(3) Indebtedness is defined as the total of bank indebtedness, promissory note payable, principal on long-term debt and obligations under derivative financial instruments.

(4) Per multiple and subordinate voting share.

FORWARD-LOOKING STATEMENTS

Certain statements in this report may constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to COGECO's 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. In particular, statements regarding the Company's future operating results and economic performance and its 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. While management considers these assumptions to be reasonable based on information currently available to the Company, they may prove to be incorrect. The Company cautions the reader that the economic downturn experienced over the past two years makes forward-looking information and the underlying assumptions subject to greater uncertainty and that, consequently, they may not materialize, or the results may significantly differ from the Company's expectations. It is impossible for COGECO to predict with certainty the impact that the current economic downturn may have on future results. Forward-looking information is also subject to certain factors, including risks and uncertainties (described in the "Uncertainties and main risk factors" section of the Company's 2010 annual Management's Discussion and Analysis (MD&A)) that could cause actual results to differ materially from what COGECO currently expects. These factors include technological changes, changes in market and competition, governmental or regulatory developments, general economic conditions, the development of new products and services, the enhancement of existing products and services, and the introduction of competing products having technological or other advantages, many of which are beyond the Company's control. Therefore, future events and results may vary significantly from what management currently foresees. The reader should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While management may elect to, the Company is under no obligation (and expressly disclaims any such obligation), and does not undertake to update or alter this information before the next quarter.

This report should be read in conjunction with the Company's consolidated financial statements, and the notes thereto, prepared in accordance with Canadian GAAP and the MD&A included in the Company's 2010 Annual Report. Throughout this discussion, all amounts are in Canadian dollars unless otherwise indicated.



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Second quarter ended February 28, 2011

CORPORATE STRATEGIES AND OBJECTIVES

COGECO Inc.'s ("COGECO" or the "Company") objectives are to maximize shareholder value by increasing profitability and ensuring continued growth. The strategies employed to reach these objectives, supported by tight controls over costs and business processes, are specific to each sector. For the cable sector, sustained corporate growth and the continuous improvement of networks and equipment are the main strategies used. The radio activities focus on continuous improvement of programming in order to increase market share, and, thereby, profitability. COGECO uses operating income before amortization[(1)], operating margin[(1)], free cash flow[(1)] and revenue-generating units ("RGU")[(2)] growth in order to measure its performance against these objectives for the cable sector.

Cable sector

During the first six months of fiscal 2011, the Company's subsidiary, Cogeco Cable Inc. ("Cogeco Cable" or the "Cable subsidiary"), invested approximately $66.3 million in its network infrastructure and equipment to upgrade its capacity, improve its robustness and extend its territories in order to better serve and increase its service offerings for new and existing clientele.

RGU growth and service offerings in the cable sector

During the first six months ended February 28, 2011, the number of RGU in the Cable subsidiary increased by 147,948, or 4.7%, to reach 3,327,297 RGU, mainly as a result of targeted marketing initiatives in the Canadian operations and customer acquisition and retention strategies in the European operations designed to improve penetration, and to the continuing interest for high definition ("HD") television service. As a result of the sustained growth in the first half of the fiscal year, Cogeco Cable expects to achieve its fiscal 2011 revised guidelines of 275,000 net additions, representing growth of approximately 8.6% when compared to August 31, 2010. RGU growth is expected to stem primarily from the continued strong interest in Digital Television services, enhanced service offerings, and through promotional activities.

Operating income before amortization and operating margin

For the first half of fiscal 2011, operating income before amortization grew by $19.4 million, or 7.6%, to reach $273 million, and operating margin increased to 39.4%, from 38.6%, in line to achieve Management's revised projection of $560 million in operating income before amortization for fiscal 2011.

Free cash flow

For the six month period ended February 28, 2011, COGECO achieved free cash flow of $23.9 million, compared to $112.9 million for the first half of the previous fiscal year, a decrease of $89 million. The decrease in free cash flow in the first six months of fiscal 2011 reflects the timing of the recognition of income tax liabilities as a result of modifications made to Cogeco Cable's corporate structure in fiscal 2009. Management expects to achieve its free cash flow revised guidelines for fiscal 2011 of $80 million.

Other

BBM Canada's fall 2010 survey and radio broadcast week measures from August 31, 2010 to February, 28, 2011, conducted with the Portable People Meter ("PPM"), show that Rythme FM has maintained its leadership position in the competitive Montréal region market.

On April 30, 2010, the Company concluded an agreement with Corus Entertainment Inc. ("Corus") to acquire its Québec radio stations ("Québec Radio Stations Acquisition") for $80 million, subject to customary closing adjustments and conditions, which was concluded on February 1, 2011.

OPERATING RESULTS – CONSOLIDATED OVERVIEW

	Quarters ended February 28,			Six months ended February 28,		
($000, except percentages)	**2011 $**	2010 $	Change %	**2011 $**	2010 $	Change %
	(unaudited)	(unaudited)		**(unaudited)**	(unaudited)	
Revenue	**350,644**	329,087	6.6	**693,410**	657,090	5.5
Operating costs	**214,692**	204,724	4.9	**420,427**	403,464	4.2
Operating income before amortization	**135,952**	124,363	9.3	**272,983**	253,626	7.6
Operating margin	**38.8%**	37.8%		**39.4%**	38.6%	

Revenue

Fiscal 2011 second-quarter revenue improved by $21.6 million, or 6.6%, to reach $350.6 million primarily due to the cable sector and to the one-month results of the Québec Radio Stations Acquisition. Revenue amounted to $693.4 million in the first six months of fiscal 2011, $36.3 million, or 5.5%, higher than in the first half of fiscal 2010.

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

(2) Represents the sum of Basic Cable, High Speed Internet ("HSI"), Digital Television and Telephony service customers.

Cable revenue increased by $16.2 million, or 5%, for the second quarter and by $30.3 million, or 4.8%, in the first half when compared to the same periods of the prior year. For further details on the Company's operating results, please refer to the "Cable sector" section.

Revenue from the radio activities improved by $5.4 million, or 62% in the second quarter and by $6 million, or 31%, in the first six months, mainly from the Québec Radio Stations Acquisition.

Operating costs

For the second quarter and first half of fiscal 2011, operating costs amounted to $214.7 million and $420.4 million, increases, mainly in the cable sector as well as from the Québec Radio Stations Acquisition, of $10 million, or 4.9%, and of $17 million, or 4.2%, when compared to the prior year.

Operating costs in the Cable sector increased by $4.4 million, or 2.2%, for the second quarter and by $11.7 million, or 3%, in the first half when compared to the same periods of the prior year. For further details on the Company's operating results, please refer to the "Cable sector" section.

Operating costs from the radio activities grew by $5.2 million in the second quarter and $5.1 million in the first six months, representing increases of 77.9% in the quarter and 35.5% in the first six months, mainly from the Québec Radio Stations Acquisition.

Operating income before amortization and operating margin

Mainly as a result of growth in the cable sector, operating income before amortization grew by $11.6 million, or 9.3%, in the second quarter to reach $136 million, and by $19.4 million, or 7.6%, at $273 million for the first half of fiscal 2011, when compared to the same periods the previous year. COGECO's second quarter operating margin increased to 38.8%, from 37.8% in the second quarter of the previous year. For the first six months, COGECO's operating margin increased to 39.4% from 38.6% in the first half of fiscal 2010. For further details on the Company's operating results, please refer to the "Cable sector" section.

FIXED CHARGES

	Quarters ended February 28,			Six months ended February 28,		
($000, except percentages)	**2011 $**	2010 $	Change %	**2011 $**	2010 $	Change %
	(unaudited)	(unaudited)		**(unaudited)**	(unaudited)	
Amortization	**65,427**	65,993	(0.9)	**128,566**	131,694	(2.4)
Financial expense	**24,501**	15,187	61.3	**41,406**	31,464	31.6

Second-quarter 2011 amortization amounted to $65.4 million, compared to $66 million for the same period of the prior year. For the first half of fiscal 2011, amortization amounted to $128.6 million, compared to $131.7 million in the prior year. The decreases are mainly attributable to the Cable subsidiary's reduction in amortization in the European operations stemming from certain acquired assets that are now fully amortized and the depreciation of the Euro in relation to the Canadian dollar in fiscal 2011, partly offset by additional capital expenditures in the Canadian operations arising from customer premise equipment acquisitions to support RGU growth.

Financial expense amounted to $24.5 million in the second quarter compared to $15.2 million in the prior year. In the first six months of fiscal 2011, financial expense amounted to $41.4 million, compared to $31.5 million in the first half of the prior year. Financial expense increases are primarily due to the payment, in the cable sector, of a make-whole premium amounting to $8.8 million on the early repayment, on December 22, 2010, of the $175 million Senior Secured Notes Series B due on October 31, 2011, partly offset by the impact of the lower interest rate on the $200 million Senior Secured Debentures Series 2 issued on November 16, 2010 by Cogeco Cable and the financial expense impact from fluctuations in the level of bank indebtedness.

INCOME TAXES

Fiscal 2011 second-quarter income tax expense amounted to $14.3 million, compared to $12.5 million in the prior year. The increase of $1.8 million, or 14%, is mainly due to operating income before amortization growth, partly offset by an increase in financial expense and the previously announced annual declines in the enacted Canadian federal and provincial income tax rates.

For the first six months, income tax expense amounted to $32.5 million, compared to an income tax recovery of $1.3 million in the prior year. The income tax recovery in the first six months of the prior year included the impact, in the cable sector, of the reduction in corporate income tax rates announced on March 26, 2009 by the Ontario provincial government and considered substantively enacted on November 16, 2009 (the "reduction of Ontario provincial corporate income tax rates"), which reduced future income tax expense by $29.8 million. Excluding this prior year impact, income tax expense would have amounted to $28.5 million for the first six months of fiscal 2010. The increases in fiscal 2011 income tax expense are mainly due to the operating income before amortization growth combined with the decrease in amortization, partly offset by the increase in financial expense and the previously announced annual declines in the enacted Canadian federal and provincial income tax rates.

NON-CONTROLLING INTEREST

The non-controlling interest represents a participation of approximately 67.8% in Cogeco Cable's results. During the three and six month periods ended February 28, 2011, the net income attributable to non-controlling interest amounted to $21.2 million and $43.9 million, respectively, due to the cable sector's positive results, compared to $20.2 million in the second quarter of fiscal 2010, and $58.5 million in the first half of fiscal 2010 mainly as a result of the income tax recovery from the reduction of Ontario provincial corporate income tax rates.

NET INCOME

Fiscal 2011 second quarter net income amounted to $10.6 million, or $0.64 per share, essentially the same when compared to $10.5 million, or $0.63 per share for the same period in 2010, as the growth in operating income before amortization in the second quarter of fiscal 2011 was offset by the make-whole premium on early repayment of debt described in the "Fixed charges" section amounting to $2 million net of income taxes and non-controlling interest.

Net income in the first half of fiscal 2011 amounted to $26.6 million, or $1.59 per share. In the comparable period of fiscal 2010, net income amounted to $33.3 million, or $1.99 per share which included the reduction of Ontario provincial corporate income tax rates described in the "Income Taxes" section. Excluding this prior year effect, fiscal 2011 net income increased by $3 million, or 12.6%, and $0.18 per share, or 12.8%, when compared to adjusted net income[(1)] of $23.6 million, or $1.41 per share[(1)], for the first half of fiscal 2010. Net income progression has resulted mainly from the growth in operating income before amortization and the decrease in amortization expense, partly offset by make-whole premium on early repayment of debt of $2 million net of income taxes and non-controlling interest.

CASH FLOW AND LIQUIDITY

	Quarters ended February 28,		Six months ended February 28,	
($000)	**2011** **$**	2010 $	**2011** **$**	2010 $
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Operating activities				
Cash flow from operations	**120,675**	120,331	**163,174**	255,849
Changes in non-cash operating items	**(24,011)**	(2,833)	**(8,938)**	(139,761)
	96,664	117,498	**154,236**	116,088
Investing activities[(1)]	**(148,345)**	(74,447)	**(215,144)**	(142,673)
Financing activities[(1)]	**(119,631)**	(42,694)	**51,636**	4,759
Effect of exchange rate changes on cash and cash equivalents denominated in a foreign currency	**94**	(1,102)	**(135)**	(900)
Net change in cash and cash equivalents	**(171,218)**	(745)	**(9,407)**	(22,726)
Cash and cash equivalents, beginning of period	**197,653**	17,477	**35,842**	39,458
Cash and cash equivalents, end of period	**26,435**	16,732	**26,435**	16,732

(1) Excludes assets acquired under capital leases.

Fiscal 2011 second quarter cash flow from operations reached $120.7 million, essentially the same when compared to $120.3 million in the second quarter of the prior year. Changes in non-cash operating items required cash outflows of $24 million, mainly as a result of decreases in accounts payable and accrued liabilities and income tax liabilities, combined with increases in accounts receivable and prepaid expenses and other. In the prior year, changes in non-cash operating items required cash outflows of $2.8 million, mainly as a result of increases in income taxes receivable and accounts receivable, partly offset by increases in accounts payable and accrued liabilities and deferred and prepaid revenue and other liabilities.

In the first six months of fiscal 2011, cash flow from operations reached $163.2 million, $92.7 million, or 36.2%, lower than the comparable period last year. This reduction is primarily due to the recognition of current income tax expense relating to the modifications to Cogeco Cable's corporate structure which reduced the future income tax expense accordingly and the increase in financial expense. Changes in non-cash operating items required cash outflows of $8.9 million, mainly as a result of a decrease in accounts payable and accrued liabilities and an increase in accounts receivable, partly offset by an increase in income tax liabilities. In the prior year, changes in non-cash operating items required cash outflows of $139.8 million, mainly as a result of decreases in accounts payable and accrued liabilities and income tax liabilities and increases in income taxes receivable and accounts receivable.

In the second quarter of fiscal 2011, investing activities amounted to $148.3 million as a result of the net outflows related to the Québec Radio Stations Acquisition for an amount of $75.9 million described below, capital expenditures and the increase in deferred charges. This represents an increase of $73.9 million, or 99.3% when compared to $74.4 million for the corresponding period of last year. In the first half of fiscal 2011, investing activities amounted to $215.1 million compared to $142.7 million in the first six months of fiscal 2010, an increase of $72.5 million, or 50.8%.

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

On April 30, 2010, the Company concluded an agreement with Corus to acquire its Québec radio stations for $80 million, subject to customary closing adjustments and conditions, including approval by the CRTC. On June 30, 2010, the Company submitted its application for approval of the Québec Radio Stations Acquisition to the CRTC. On December 17, 2010, the CRTC approved the transaction essentially as proposed. On January 11, 2011, the Company was served with an application by Astral to the Court for leave to appeal the CRTC decision approving the transaction, and a related application by Astral for a stay of execution of that decision until final judgement of the Court. On February 21, 2011 the Court has rejected applications filed by Astral in the matter of the Québec Radio Stations Acquisition. The transaction with Corus was concluded on February 1, 2011.

Pursuant to this acquisition, and as part of the CRTC's decision on the Company's transfer application, the Company has put up for sale two radio stations acquired in the transaction, CFEL-FM in the Québec City market and CJTS-FM in the Sherbrooke market. Accordingly, the assets and liabilities of the two acquired radio stations put up for sale have been classified as held for sale in the preliminary purchase price allocation presented below. In addition to the two acquired radio stations above, and also as part of the CRTC's decision, the Company has put up for sale radio station CJEC-FM, which it owned prior to the Québec Radio Stations Acquisition, in the Québec City market. Radio stations for which divestiture has been required by the CRTC, and the sale process, are managed by a trustee approved by the CRTC pursuant to a voting trust agreement.

This acquisition was accounted for using the purchase method. The results have been consolidated as of the acquisition date. The preliminary allocation of the purchase price of the acquisition, pending the completion of the valuation of the net assets acquired, is as follows:

	$
	(unaudited)
Consideration	
Paid	
Purchase of shares	**75,000**
Acquisition costs	**1,530**
	76,530
Promissory note payable, non-interest bearing and due on February 1, 2012	**5,000**
Investment previously accounted for	**200**
Acquisition costs previously recorded as deferred charges	**435**
Preliminary working capital adjustment payable	**4,000**
	86,165
Net assets acquired	
Cash and cash equivalents	**647**
Accounts receivable	**14,132**
Income tax receivable	**92**
Prepaid expenses and other	**527**
Current future income tax assets	**1,018**
Fixed assets	**11,497**
Deferred charges and other	**99**
Broadcasting licenses	**48,193**
Goodwill	**27,227**
Non-current future income taxes assets	**2,272**
Non-current assets held for sale	**9,531**
Accounts payable and accrued liabilities assumed	**(9,058)**
Income tax liabilities assumed	**(194)**
Current liabilities related to assets held for sale	**(797)**
Deferred and prepaid income and other liabilities	**(7,390)**
Non-current future income taxes liabilities	**(10,656)**
Non-current liabilities related to assets held for sale	**(975)**
	86,165

Capital expenditures amounted to $70.2 million in the second quarter, a decrease of $1.9 million, or 2.6%, when compared to $72.1 million in the second quarter of the prior fiscal year. The most significant variations are in the cable sector and are due to the following factors:

- Decreases in upgrades and rebuilds and in line extensions which surpassed the increase in scalable infrastructure. This net decrease stems from the timing of the various initiatives undertaken by Cogeco Cable in order to expand its network and improve its capacity;
- An increase in customer premise equipment spending mainly due to the timing of equipment purchases to support RGU growth in the Canadian operations, which offset the decrease in customer premise equipment spending reflecting lower RGU growth in the European operations and the depreciation of the value of the Euro relative to the Canadian dollar.

In the first half of fiscal 2011, capital expenditures amounted to $133.5 million, a decrease of $3.8 million, or 2.7%, when compared to $137.3 million in the second quarter of the prior fiscal year. The most significant variations are in the cable sector and are due to the following factors:

- A decrease in customer premise equipment spending mainly due to lower RGU growth in the European operations and the depreciation of the value of the Euro relative to the Canadian dollar, partly offset by an increase in customer premise equipment spending to support RGU growth in the Canadian operations;
- Decreases in upgrades and rebuilds and in line extensions stemming from the timing of the various initiatives undertaken by Cogeco Cable in order to expand its network and improve its capacity;
- An increase in scalable infrastructure in the Canadian operations to improve network capacity in existing areas served;

In the second quarter, free cash flow amounted to $48.2 million, compared to $45.8 million in the comparable period of fiscal 2010, representing an increase of $2.4 million, or 5.3%. The growth in free cash flow over the prior year is due to the increase in operating income before amortization in the second quarter of fiscal 2011, partly offset by the increase in financial expense.

In the first six months, free cash flow amounted to $23.9 million, a decrease of $89 million, or 78.8%, when compared to $112.9 million in the first half of fiscal 2010. The decline in free cash flow over the prior year is due to an increase of $104.2 million in current income tax expense in the cable sector stemming from modifications to Cogeco Cable's corporate structure and the increase in financial expense, which offset the increase in operating income before amortization and the decrease in capital expenditures in the first half of fiscal 2011.

In the second quarter of fiscal 2011, Indebtedness affecting cash decreased by $116.6 million mainly due to the decrease in cash and cash equivalents of $171.2 million and the free cash flow of $48.2 million, partly offset by the Québec Radio Stations Acquisition for a net amount of $75.9 million, the cash outflows of $24 million from the changes in non-cash operating items and the dividend payment of $7.6 million described below. Indebtedness mainly decreased through the repayment, on December 22, 2010, of Cogeco Cable's $175 million Senior Secured Notes Series B due on October 31, 2011 and the related make-whole premium on early repayment, partly offset by a net increase of $59.9 million on the Company's Term Revolving Facilities. In the second quarter of the prior year, Indebtedness affecting cash decreased by $37.1 million mainly due to the free cash flow of $45.8 million, partly offset by the dividend payment of $6.3 million described below and the decrease in non-cash operating items of $2.8 million. Indebtedness mainly decreased through a net repayment of $36.5 million on Cogeco Cable's Term Facility.

During the second quarter of fiscal 2011, a dividend of $0.12 per share was paid by the Company to the holders of subordinate and multiple voting shares, totalling $2 million, compared to a dividend of $0.10 per share, or $1.7 million the year before. In addition, dividends paid by a subsidiary to non-controlling interests in the second quarter of fiscal 2011 amounted to $5.6 million, for consolidated dividend payments of $7.6 million, compared to $4.6 million, for consolidated dividend payments of $6.3 million in the second quarter of the prior year.

In the first half of fiscal 2011, indebtedness affecting cash increased by $65.5 million mainly due to the Québec Radio Stations Acquisition for a net amount of $75.9 million, the dividend payments totalling $15.2 million described below and the cash outflows of $8.9 million from the changes in non-cash operating items. The increase was partly offset by the free cash flow of $23.9 million generated in the first half of the fiscal year and the decrease in cash and cash equivalents of $9.4 million. Indebtedness mainly increased through the issuance, on November 16, 2010, of Senior Secured Debentures Series 2 ("Fiscal 2011 debentures") for net proceeds of $198.3 million and a net increase of $46.1 million on the Company's Term Revolving Facilities. The increase was partly offset by the repayment of the $175 million Senior Secured Notes Series B described above. For the comparable period of fiscal 2010, Indebtedness affecting cash increased by $19.5 million mainly due to the decrease in non-cash operating items of $139.8 million and the dividend payment of $12.6 million described below, partly offset by the free cash flow of $112.9 million and the decrease in cash and cash equivalents of $22.7 million. Indebtedness mainly increased through an increase of $49.6 million in bank indebtedness, partly offset by net repayments totalling $28.1 million on the Company's Term Facilities, including net repayments of $21.6 million by the cable subsidiary.

During the first six months of fiscal 2011, quarterly dividends of $0.12 per share, for a total of $0.24 per share, were paid to the holders of subordinate and multiple voting shares, totalling $4 million, compared to quarterly dividends of $0.10 per share, for a total of $0.20 per share, or $3.4 million the year before. In addition, dividends paid by a subsidiary to non-controlling interests in the first half of fiscal 2011 amounted to $11.2 million, for consolidated dividend payments of $15.2 million, compared to $9.2 million for consolidated dividend payments of $12.6 million in the first half of the prior year.

As at February 28, 2011, the Company had a working capital deficiency of $164.2 million compared to $202.9 million as at August 31, 2010. The decrease in the deficiency is mainly attributable to the cable sector and caused by decreases in accounts payable and accrued liabilities and future income tax liabilities, combined with an increase in accounts receivable. This decrease was partly offset by an increase in income tax liabilities and a decrease in cash and cash equivalents. As part of the usual conduct of its business, COGECO maintains a working capital deficiency due to a low level of accounts receivable as a large portion of Cogeco Cable's customers pay before their services are rendered, unlike accounts payable and accrued liabilities, which are paid after products are delivered or services are rendered, thus enabling the cable subsidiary to use cash and cash equivalents to reduce Indebtedness.

At February 28, 2011, the Company had used $74 million of its $100 million Term Revolving Facility for a remaining availability of $26 million. Cogeco Cable had used $101.8 million of its $750 million Term Revolving Facility for a remaining availability of $648.2 million.

Transfers of funds from non-wholly owned subsidiaries to COGECO are subject to approval by the subsidiaries' Boards of Directors and may also be restricted under the terms and conditions of certain debt instruments. In accordance with applicable corporate and securities laws, significant transfers of funds from COGECO may be subject to approval by minority shareholders.

FINANCIAL POSITION

Since August 31, 2010, there have been significant changes to the balances of "income tax liabilities", "future income tax liabilities", "future income tax assets", "accounts payable and accrued liabilities", "long-term debt", "cash and cash equivalents", "broadcasting licences", "goodwill", "assets held for sale", "accounts receivable", "fixed assets", "derivative financial instruments", "deferred and prepaid revenue and other liabilities", "promissory note payable" and "non-controlling interest".

The increase of $74.9 million in income tax liabilities and the decreases of $43.2 million in future income tax liabilities and $7.1 million in future income tax assets primarily reflect the timing of the recognition of income tax liabilities as a result of modifications made to Cogeco Cable's corporate structure, combined with the impact of the Québec Radio Stations Acquisition. The $55.9 million decrease in accounts payable and accrued liabilities is related to the timing of supplier payments, partly offset by the Québec Radio Stations Acquisition. The increase of $51 million in long-term debt and the $9.4 million decrease in cash and cash equivalents are due to the factors previously discussed in the "Cash Flow and Liquidity" section combined with the fluctuations in foreign exchange rates. The increases of $48.2 million in broadcasting licences, $27 million in goodwill and $10.3 million in assets held for sale stem from the Québec Radio Stations Acquisition. The $30.8 million increase in accounts receivable is due to the Québec Radio Stations acquisition combined with the increase in revenues and the timing of payments received from customers. The $21.1 million increase in fixed assets reflects the assets acquired in the Québec Radio Stations Acquisition and the capital expenditures discussed in the "Cash Flow and Liquidity" section which surpassed the amortization expense and the impact of the depreciation of the Euro in relation to the Canadian dollar. The $20 million decrease in derivative financial instruments is due to the factors discussed in the "Financial management" section. The increases of $8 million in deferred and prepaid revenue and other liabilities and $5 million in promissory note payable are mainly due to the Québec Radio Stations acquisition. The $34.2 million increase in non-controlling interest is due to improvements in the cable subsidiary's operating results in the current fiscal year.

A description of COGECO's share data as at March 31, 2011 is presented in the table below:

	Number of shares	Amount ($000)
Common shares		
Multiple voting shares	1,842,860	12
Subordinate voting shares	14,989,338	121,976

In the normal course of business, COGECO has incurred financial obligations, primarily in the form of long-term debt, operating and capital leases and guarantees. COGECO's obligations, discussed in the 2010 Annual Report, have not materially changed since August 31, 2010, except as mentioned below.

On November 16, 2010, Cogeco Cable completed, pursuant to a public debt offering, the issue of $200 million Senior Secured Debentures Series 2 for net proceeds of $198.3 million, net of discounts and transaction costs. These debentures mature on November 16, 2020 and bear interest at 5.15% per annum, payable semi-annually. These debentures are indirectly secured by a first priority fixed and floating charge and a security interest on substantially all present and future real and personal property and undertaking of every nature and kind of Cogeco Cable and certain of its subsidiaries. The net proceeds of sale of the debentures were used to redeem in full, on December 22, 2010, Cogeco Cable's Senior Secured Notes Series B due October 31, 2011 for an amount of $175 million plus accrued interest and make-whole premium, and the remainder for working capital and general corporate purposes.

The Company benefits from Term Revolving Facility of up to $100 million with a group of financial institutions led by a large Canadian bank, which acts as agent for the banking syndicate. The Term Revolving Facility of up to $100 million includes a swingline limit of $7.5 million, is extendable by additional one-year periods on an annual basis, subject to lenders' approval, and if not extended, matures three years after its issuance or the last extension, as the case may be. The Term Revolving Facility is composed of two tranches of $50 million each, one of which was subject to the completion of the Québec Radio Stations Acquisition and which became available on February 1, 2011 with the conclusion of the transaction. The Term Revolving Facility was extended at that same date and currently matures on February 1, 2014. The Term Revolving Facility can be repaid at any time without penalty. The Term Revolving Facility is indirectly secured by a first priority fixed and floating charge and a security interest on substantially all present and future real and personal property and undertaking of every nature and kind of the Company and certain of its subsidiaries, excluding the capital stock and assets of the Company's subsidiary, Cogeco Cable, and guaranteed by its subsidiaries excluding Cogeco Cable. Under the terms and conditions of the credit agreement, the Company must comply with certain restrictive covenants. Generally, the most significant restrictions are related to permitted investments, dividends on multiple and subordinate voting shares and reimbursement of long-term debt as well as incurrence and maintenance of certain financial ratios primarily linked to the operating income before amortization, financial expense and total indebtedness. The Term Revolving Facility bears interest, at the Company's option, on bankers' acceptance, LIBOR in Euros or in US dollars, bank prime rate or US base rate plus the applicable margin, and commitment fees are payable on the unused portion.

DIVIDEND DECLARATION

At its April 7, 2011 meeting, the Board of Directors of COGECO declared a quarterly eligible dividend of $0.12 per share for subordinate and multiple voting shares, payable on May 5, 2011, to shareholders of record on April 21, 2011. The declaration, amount and date of any future dividend will continue to be considered and approved by the Board of Directors of the Company based upon the Company'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, their amount and frequency may vary.

FINANCIAL MANAGEMENT

Cogeco Cable has entered into a swap agreement with a financial institution to fix the floating benchmark interest rate with respect to a portion of the Euro-denominated loans outstanding under the Term Revolving Facility, and previously the Term Facility, for a notional amount of €111.5 million, which has been reduced to €95.8 million on July 28, 2009, and to €69.6 million on July 28, 2010. The interest rate swap to hedge these loans has been fixed at 2.08% until the maturity of the swap agreement on July 28, 2011. In addition to the interest rate swap of 2.08%, Cogeco Cable will continue to pay the applicable margin on these loans in accordance with its Term Revolving Facility. In the first six months of fiscal 2011, the fair value of interest rate swap increased by $0.8 million, which is recorded as an increase of other comprehensive income, net of income taxes and non-controlling interest, compared to a decrease of $0.2 million which was recorded as a decrease of other comprehensive income, net of income taxes and non-controlling interest, in the prior year.

Cogeco Cable has also entered into cross-currency swap agreements to set the liability for interest and principal payments on its US$190 million Senior Secured Notes Series A maturing on October 1, 2015. These agreements have the effect of converting the U.S. interest coupon rate of 7.00% per annum to an average Canadian dollar interest rate of 7.24% per annum. The exchange rate applicable to the

principal portion of the debt has been fixed at $1.0625 per US dollar. In the first half of fiscal 2011, amounts due under the US$190 million Senior Secured Notes Series A decreased by $18.1 million due to the US dollar's depreciation relative to the Canadian dollar. The fair value of cross-currency swaps decreased by a net amount of $20.9 million, of which a decrease of $18.1 million offsets the foreign exchange gain on the debt denominated in US dollars. The difference of $2.8 million was recorded as a decrease of other comprehensive income, net of income taxes and non-controlling interest. In the first six months of the prior year, amounts due under the US$190 million Senior Secured Notes Series A decreased by $8.1 million due to the US dollar's depreciation over the Canadian dollar. The fair value of cross-currency swaps decreased by a net amount of $7.2 million, of which $8.1 million offsets the foreign exchange gain on the debt denominated in US dollars. The difference of $0.9 million was recorded as an increase of other comprehensive income, net of income taxes and non-controlling interest.

Furthermore, Cogeco Cable's net investment in self-sustaining foreign subsidiaries is exposed to market risk attributable to fluctuations in foreign currency exchange rates, primarily changes in the values of the Canadian dollar versus the Euro. This risk is mitigated since the major part of the purchase price for Cabovisão was borrowed directly in Euros. This debt is designated as a hedge of a net investment in self-sustaining foreign subsidiaries and, accordingly, Cogeco Cable recorded a foreign exchange loss of $1.4 million in the first six months of fiscal 2011, compared to $5 million in the comparable period of the prior year, which is deferred and recorded in the consolidated statement of comprehensive income, net of non-controlling interest. The exchange rate used to convert the Euro currency into Canadian dollars for the balance sheet accounts as at February 28, 2011 was $1.3406 per Euro compared to $1.3515 per Euro as at August 31, 2010. The average exchange rates prevailing during the second quarter and first six months of fiscal 2011 used to convert the operating results of the European operations were $1.3369 per Euro and $1.3601 per Euro, respectively, compared to $1.4905 per Euro and $1.5318 per Euro in the comparable periods of fiscal 2010. Since Cogeco Cable's consolidated financial statements are expressed in Canadian dollars but a portion of its business is conducted in the Euro currency, exchange rate fluctuations can increase or decrease revenue, operating income before amortization, net income and the carrying value of assets and liabilities.

The following table shows the Canadian dollar impact of a 10% fluctuation in the average exchange rate of the Euro currency into Canadian dollars on European operating results for the six month period ended February 28, 2011:

Six months ended February 28, 2011 *($000)*	**As reported** **$** **(unaudited)**	**Exchange rate impact** **$** **(unaudited)**
Revenue	**85,324**	**8,532**
Operating income before amortization	**8,417**	**842**

The Company is also impacted by foreign currency exchange rates, primarily changes in the values of the US dollar relative to the Canadian dollar with regards to purchases of equipment, as the majority of customer premise equipment in the cable sector is purchased and subsequently paid in US dollars. Please consult the "Fixed charges" section of this MD&A and the "Foreign Exchange Risk" section in note 14 of the consolidated financial statements for further details.

CABLE SECTOR

CUSTOMER STATISTICS

		Net additions (losses)				% of Penetration[1]	
		Quarters ended February 28,		Six months ended February 28,		February 28,	
	February 28, 2011	**2011**	2010	**2011**	2010	**2011**	2010
RGU	**3,327,297**	**57,079**	68,782	**147,948**	158,567	**–**	–
Basic Cable service customers	**1,140,855**	**(1,543)**	(794)	**6,083**	7,563	**–**	–
HSI service customers	**753,700**	**10,992**	16,861	**31,456**	39,576	**67.4**	63.6
Digital Television service customers	**790,585**	**29,666**	26,243	**71,315**	58,463	**69.9**	59.0
Telephony service customers	**642,157**	**17,964**	26,472	**39,094**	52,965	**59.4**	53.3

(1) As a percentage of Basic Cable service customers in areas served.

In the cable sector, second quarter and first six-month RGU net additions amounted to 57,079 and 147,948, respectively, compared to 68,782 and 158,567 RGU in the comparable periods of the previous fiscal year.

Fiscal 2011 second-quarter and first six month RGU net additions were lower than in the comparable periods of the prior year, as the RGU growth generated by the Canadian operations, despite higher penetration rates, category maturity and aggressive competition, was offset by lower RGU growth in the European operations. Economic conditions in Portugal continued to be difficult, and Management has not yet detected clear signs of a sustained economic recovery. Consequently, Cogeco Cable continues to closely control costs and is focusing on generating RGU growth in the near term.

Basic Cable service customers net losses stood at 1,543 for the quarter, compared to 794 in the second quarter of the prior year. For the first six months, Basic Cable service customers increased by 6,083, compared to 7,563 in the prior year. In the quarter, Telephony service customers grew by 17,964 compared to 26,472 for the same period last year, and the number of net additions to the HSI service stood at 10,992 customers compared to 16,861 customers in the second quarter of the prior year. For the first six months, net additions of Telephony service customers amounted to 39,094 compared to 52,965 for the same period last year, and the number HSI service customers grew by 31,456 compared to 39,576 in the first half of the prior year. HSI and Telephony net additions continue to stem from the enhancement of the

product offering, the impact of the bundled offer (Cogeco Complete Connection) of Television, HSI and Telephony services in the Canadian operations, and promotional activities. For the three and six-month periods ended February 28, 2011, additions to the Digital Television service stood at 29,666 and 71,315 customers, compared to 26,243 and 58,463 for the comparable periods of the prior year. Digital Television service net additions are due to targeted marketing initiatives to improve penetration, the launch of new HD channels and the continuing interest for HD television service.

OPERATING RESULTS

	Quarters ended February 28,			Six months ended February 28,		
($000, except percentages)	**2011 $**	2010 $	Change %	**2011 $**	2010 $	Change %
	(unaudited)	(unaudited)		**(unaudited)**	(unaudited)	
Revenue	**336,569**	320,397	5.0	**668,088**	637,762	4.8
Operating costs	**199,669**	195,106	2.3	**395,116**	383,524	3.0
Management fees – COGECO Inc.	**2,528**	2,678	(5.6)	**9,172**	9,019	1.7
Operating income before amortization	**134,372**	122,613	9.6	**263,800**	245,219	7.6
Operating margin	**39.9%**	38.3%		**39.5%**	38.4%	

Revenue

Fiscal 2011 second-quarter revenue improved by $16.2 million, or 5%, to reach $336.6 million, when compared to the prior year. For the first half of fiscal 2011, revenue amounted to $668.1 million, $30.3 million, or 4.8% higher when compared to $637.8 million in the comparable period of fiscal 2010.

Driven by RGU growth combined with an increase in sales and rentals of home terminal devices stemming from the strong growth in Digital Television services, rate increases implemented in the second half of fiscal 2010 and the revenue related to the new levy amounting to 1.5% of gross Cable Television service revenue imposed by the CRTC in order to finance the new Local Programming Improvement Fund ("LPIF"), the Canadian operations' second-quarter revenue rose by $23.1 million, or 8.5%, to reach $294.5 million, and first six-month revenue increased by $47 million, or 8.8%, at $582.8 million.

In the second quarter of fiscal 2011 the European operations' revenue decreased by $6.9 million, or 14.1%, at $42.1 million. First six-month revenue amounted to $85.3 million, $16.6 million, or 16.3%, less than in the prior year. These declines in revenue were mainly due to the depreciation of the Euro in relation to the Canadian dollar and reflect the impact of retention strategies implemented in the second half of fiscal 2009 in order to offset the recurring intense promotions and advertising initiatives from competitors in the Portuguese market. Revenue from the European operations in the local currency for the three and six-month periods ended February 28, 2011 amounted to €31.5 million and €62.7 million, decreases of €1.4 million, or 4.2%, and €3.8 million, or 5.7%, respectively, when compared to the same periods of the prior year.

Operating costs

For the second quarter of fiscal 2011, operating costs, excluding management fees payable to COGECO Inc., increased by $4.6 million, to reach $199.7 million, an increase of 2.3% compared to the prior year. For the first six months, operating costs, excluding management fees payable to COGECO Inc. amounted to $395.1 million, $11.6 million, or 3% higher than in the first half of fiscal 2010.

In the Canadian operations, for the three and six months ended February 28, 2011, operating costs excluding management fees payable to COGECO Inc. increased by $7.6 million, or 4.9%, at $161.8 million, and by $18.5 million, or 6.2%, at $318.2 million, respectively. The increases in operating costs are mainly attributable to servicing additional RGU, the launch of new HD channels and additional marketing initiatives.

As for the European operations, fiscal 2011 second-quarter operating costs decreased by $3 million, or 7.4%, at $37.9 million. 2011 first-half operating costs decreased by $6.9 million, or 8.2%, at $76.9 million. These decreases were mainly due to the decline of the value of the Euro over the Canadian dollar which surpassed increases in operating costs related to additional marketing initiatives and the launch of new HD channels by Cabovisão. Operating costs of the European operations for the second quarter and first six months in the local currency amounted to €28.4 million, an increase of €0.9 million, or 3.3%, and €56.5 million, an increase of €1.8 million, or 3.4%, respectively, when compared to the corresponding periods of the prior year.

Operating income before amortization and operating margin

Fiscal 2011 second-quarter operating income before amortization increased by $11.8 million, or 9.6%, to reach $134.4 million. Cogeco Cable's second-quarter operating margin increased to 39.9% from 38.4% in the comparable period of the prior year. For the first six months of fiscal 2011, operating income before amortization amounted to $263.8 million, an increase of $18.6 million, or 7.6%, when compared to the first half of fiscal 2010. The operating margin increased to 39.5% in the first half of fiscal 2011 from 38.4% in the first six months of the prior year.

Operating income before amortization in the Canadian operations rose by $15.6 million, or 13.6%, to reach $130.2 million in the second quarter, mainly due to the increased revenue exceeding the growth in operating costs. Cogeco Cable's Canadian operations' operating margin increased to 44.2% in the second quarter compared to 42.2% for the same period of the prior year. In the first half of fiscal 2011, operating income before amortization amounted to $255.4 million, $28.4 million, or 12.5%, higher than in the first half of the prior year. The operating margin increased to 43.8% from 42.4% when compared to the first six months of fiscal 2010. The growth in the operating margin for both periods stems from rate increases and RGU growth.

For the European operations, operating income before amortization decreased to $4.1 million in the second quarter from $8 million for the

same period of the prior year, representing a decrease of $3.9 million, or 48.3%. In the first six months, operating income before amortization decreased by $9.8 million, or 53.7%, at $8.4 million. The reductions are mainly due to decreases in revenue which outpaced the decreases in operating costs. European operations' operating margin decreased to 9.9% in the second quarter and first six months of fiscal 2011 from 16.4% in the second quarter and 17.8% in the first six months of fiscal 2010. Operating income before amortization in the local currency amounted to €3.1 million compared to €5.4 million in the second quarter of the prior year, representing a decrease of 42.3%, and €6.2 million compared to €11.8 million in the first six months, representing a decrease of 47.7%.

CONTROLS AND PROCEDURES

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 and internal controls over financial reporting, as defined in NI 52-109. COGECO's internal control framework is based on the criteria published in the report "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission and is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

The CEO and CFO, supported by Management, evaluated the design of the Company's disclosure controls and procedures and internal controls over financial reporting as at February 28, 2011, and have concluded that they were adequate. Furthermore, no significant changes to the internal controls over financial reporting occurred during the quarter ended February 28, 2011.

However, in the first quarter of fiscal 2011, the Company introduced a new financial suite under an integrated Oracle platform. This project was required in order to adequately support the implementation of the International Financial Reporting Standards ("IFRS") and to remain current with the operational platform used by the Company. Following the introduction of this new financial suite, internal controls over financial reporting have been updated in order to support adequate disclosure controls and procedures.

UNCERTAINTIES AND MAIN RISK FACTORS

There has been no significant change in the uncertainties and main risk factors faced by the Company since August 31, 2010. A detailed description of the uncertainties and main risk factors faced by COGECO can be found in the 2010 Annual Report.

ACCOUNTING POLICIES AND ESTIMATES

There has been no significant change in COGECO's accounting policies, estimates and future accounting pronouncements since August 31, 2010, except as described below. A description of the Company's policies and estimates can be found in the 2010 Annual Report.

Future accounting pronouncements

Adoption of International accounting standards

In March 2006, the Canadian Accounting Standards Board ("AcSB") of the Canadian Institute of Chartered Accountants ("CICA") released its new strategic plan, which proposed to abandon Canadian GAAP and effect a complete convergence to the IFRS for Canadian publicly accountable entities. This plan was confirmed in subsequent exposure drafts issued in April 2008, March 2009 and October 2009. The changeover will occur no later than fiscal years beginning on or after January 1, 2011. Accordingly, the Company's first interim consolidated financial statements presented in accordance with IFRS will be for the quarter ending November 30, 2011, and its first annual consolidated financial statements presented in accordance with IFRS will be for the year ending August 31, 2012.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosure requirements. The Company has established a project team including representatives from various areas of the organization to plan and complete the transition to IFRS. This team reports periodically to the Audit Committee, which oversees the IFRS implementation project on behalf of the Board of Directors. The Company is assisted by external advisors as required.

The implementation project consists of three primary phases, which may occur concurrently as IFRS are applied to specific areas of operations:

Phase	Area of impact	Key activities	Status
Scoping and diagnostic	Pervasive	Perform a high-level impact assessment to identify key areas that are expected to be impacted by the transition to IFRS.	Completed
		Rank IFRS impacts in order of priority to assess the timing and complexity of transition efforts that will be required in subsequent phases.	
Impact analysis, evaluation and design	For each area identified in the scoping and diagnostic phase	Identify the specific changes required to existing accounting policies.	Completed
		Analyse policy choices permitted under IFRS.	
		Present analysis and recommendations on accounting policy choices to the Audit Committee.	
	Pervasive	Identify impacts on information systems and business processes.	Completed
		Prepare draft IFRS consolidated financial statement template.	
		Identify impacts on internal controls over financial reporting and other business processes.	
Implementation and review	For each area identified in the scoping and diagnostic phase	Test and execute changes to information systems and business processes.	Completed
		Obtain formal approval of required accounting policy changes and selected accounting policy choices.	In progress - to be completed in fiscal 2011
		Communicate impact on accounting policies and business processes to external stakeholders.	To be completed during fiscal 2011
	Pervasive	Gather financial information necessary for opening balance sheet and comparative IFRS financial statements.	In progress - to be completed in fiscal 2011
		Update and test internal control processes over financial reporting and other business processes.	
		Collect financial information necessary to compile IFRS-compliant financial statements.	In progress - to be completed during fiscal 2012
		Provide training to employees and end-users across the organization.	
		Prepare IFRS compliant financial statements.	
		Obtain the approval from the Audit Committee of the IFRS consolidated financial statements.	
		Continually review IFRS and implement changes to the standards as they apply to the Company.	To be completed throughout transition and post-conversion periods

The Company's project for the transition from Canadian GAAP to IFRS is progressing according to the established plan and the Company expects to meet its target date for migration.

Multiple deliverable revenue arrangements

In December 2009, the Emerging Issues Committee ("EIC") of the Canadian AcSB issued a new abstract concerning multiple deliverable revenue arrangements, EIC-175, *Multiple deliverable revenue arrangements*, which amended EIC-142, Revenue arrangements with multiple deliverables. EIC-175 requires a vendor to allocate arrangement consideration at the inception of the arrangement to all deliverables using the relative selling price method, thereby eliminating the use of the residual value method. The amendment also changes the level of evidence of the standalone selling price required to separate deliverables when more objective evidence of the selling price is not available. EIC-175 should be adopted prospectively to revenue arrangements entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011, with early adoption permitted. The Company has elected not to early-adopt this EIC, and in light of the adoption of International accounting standards taking effect at that same date, this EIC will not be applicable to the Company.

NON-GAAP FINANCIAL MEASURES

This section describes non-GAAP financial measures used by COGECO throughout this MD&A. It also provides reconciliations between these non-GAAP measures and the most comparable GAAP financial measures. These financial measures do not have standard definitions prescribed by Canadian GAAP and may not be comparable with similar measures presented by other companies. These measures include "cash flow from operations", "free cash flow", "operating income before amortization", "operating margin", "adjusted net income", and "adjusted earnings per share".

Cash flow from operations and free cash flow

Cash flow from operations is used by COGECO's management and investors to evaluate cash flows generated by operating activities excluding the impact of changes in non-cash operating items. This allows the Company to isolate the cash flows from operating activities from the impact of cash management decisions. Cash flow from operations is subsequently used in calculating the non-GAAP measure "free cash flow". Free cash flow is used by COGECO's management and investors to measure COGECO's ability to repay debt, distribute capital to its shareholders and finance its growth.

The most comparable Canadian GAAP financial measure is cash flow from operating activities. Cash flow from operations is calculated as follows:

	Quarters ended February 28,		Six months ended February 28,	
($000)	**2011 $**	2010 $	**2011 $**	2010 $
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Cash flow from operating activities	**96,664**	117,498	**154,236**	116,088
Changes in non-cash operating items	**24,011**	2,833	**8,938**	139,761
Cash flow from operations	**120,675**	120,331	**163,174**	255,849

Free cash flow is calculated as follows:

	Quarters ended February 28,		Six months ended February 28,	
($000)	**2011 $**	2010 $	**2011 $**	2010 $
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Cash flow from operations	**120,675**	120,331	**163,174**	255,849
Acquisition of fixed assets	**(70,200)**	(72,094)	**(133,507)**	(137,276)
Increase in deferred charges	**(2,262)**	(2,455)	**(5,754)**	(5,519)
Assets acquired under capital leases – as per note 12 c)	**–**	–	**–**	(141)
Free cash flow	**48,213**	45,782	**23,913**	112,913

Operating income before amortization and operating margin

Operating income before amortization is used by COGECO's management and investors to assess the Company's ability to seize growth opportunities in a cost effective manner, to finance its ongoing operations and to service its debt. Operating income before amortization is a proxy for cash flows from operations excluding the impact of the capital structure chosen, and is one of the key metrics used by the financial community to value the business and its financial strength. Operating margin is a measure of the proportion of the Company's revenue which is available, before taxes, to pay for its fixed costs, such as interest on Indebtedness. Operating margin is calculated by dividing operating income before amortization by revenue.

The most comparable Canadian GAAP financial measure is operating income. Operating income before amortization and operating margin are calculated as follows:

	Quarters ended February 28,		Six months ended February 28,	
($000, except percentages)	**2011 $**	2010 $	**2011 $**	2010 $
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Operating income	**70,525**	58,370	**144,417**	121,932
Amortization	**65,427**	65,993	**128,566**	131,694
Operating income before amortization	**135,952**	124,363	**272,983**	253,626
Revenue	**350,644**	329,087	**693,410**	657,090
Operating margin	**38.8%**	37.8%	**39.4%**	38.6%

Adjusted net income and adjusted earnings per share

Adjusted net income and adjusted earnings per share are used by COGECO's management and investors to evaluate what would have been the net income and earnings per share excluding unusual adjustments. This allows the Company to isolate the unusual adjustments in order to evaluate the net income and earnings per share from ongoing activities.

The most comparable Canadian GAAP financial measures are net income and earnings per share. These above-mentioned non-GAAP financial measures are calculated as follows:

	Quarters ended February 28,		Six months ended February 28,	
($000, except number of shares and per share data)	**2011**	2010	**2011**	2010
	$	$	**$**	$
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Net income	**10,645**	10,511	**26,620**	33,259
Adjustments:				
Reduction of Ontario provincial corporate income tax rates, net of non-controlling interest	**–**	–	**–**	(9,620)
Adjusted net income	**10,645**	10,511	**26,620**	23,639
Weighted average number of multiple voting and subordinate voting shares outstanding	**16,713,884**	16,714,030	**16,721,074**	16,721,865
Effect of dilutive stock options	**10,283**	14,436	**11,060**	11,152
Effect of dilutive subordinate voting shares held in trust under the Incentive Share Unit Plan	**95,358**	71,862	**84,627**	63,745
Weighted average number of diluted multiple voting and subordinate voting shares outstanding	**16,819,525**	16,800,328	**16,816,761**	16,796,762
Adjusted earnings per share				
Basic	**0.64**	0.63	**1.59**	1.41
Diluted	**0.63**	0.63	**1.58**	1.41

Supplementary Quarterly Financial Information

Quarters ended[1]	February 28,		November 30,		August 31,		May 31,	
($000, except percentages and per share data)	**2011**	2010	**2010**	2009	2010	2009	2010	2009
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	**350,644**	329,087	**342,766**	328,003	333,671	316,284	330,933	316,310
Operating income before amortization	**135,952**	124,363	**137,031**	129,263	137,785	144,654	127,928	126,624
Operating margin	**38.8%**	37.8%	**40.0%**	39.4%	41.3%	45.7%	38.7%	40.0%
Operating income	**70,525**	58,370	**73,892**	63,562	73,942	76,244	64,008	62,623
Net income	**10,645**	10,511	**15,975**	22,748	12,265	14,631	10,740	10,704
Adjusted net income	**10,645**	10,511	**15,975**	13,128	12,265	7,647	10,740	9,157
Cash flow from operating activities	**96,664**	117,498	**57,572**	(1,410)	198,492	177,032	110,756	99,873
Cash flow from operations	**120,675**	120,331	**42,499**	135,518	127,230	108,744	119,140	92,718
Capital expenditures and increase in deferred charges	**72,462**	74,549	**66,799**	68,387	108,515	94,002	69,511	60,302
Free cash flow	**48,213**	45,782	**(24,300)**	67,131	18,715	14,742	49,629	32,416
Earnings per share[2]								
Basic	**0.64**	0.63	**0.95**	1.36	0.73	0.87	0.64	0.64
Diluted	**0.63**	0.63	**0.95**	1.35	0.73	0.87	0.64	0.64
Adjusted earnings per share[2]								
Basic	**0.64**	0.63	**0.95**	0.79	0.73	0.46	0.64	0.55
Diluted	**0.63**	0.63	**0.95**	0.78	0.73	0.46	0.64	0.55

(1) The addition of quarterly information may not correspond to the annual total due to rounding.
(2) Per multiple and subordinate voting share.

ADDITIONAL INFORMATION

This MD&A was prepared on April 7, 2011. Additional information relating to the Company, including its Annual Report and Annual Information Form, is available on the SEDAR website at www.sedar.com.

SEASONAL VARIATIONS

Cogeco Cable's operating results are not generally subject to material seasonal fluctuations. However, the customer growth in the Basic Cable and HSI 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 seasons, and students leaving their campuses at the end of the school year. Cogeco Cable offers its services in several university and college towns such as Kingston, Windsor, St. Catharines, Hamilton, Peterborough, Trois-Rivières and Rimouski in Canada, and Aveiro, Covilhã, Evora, Guarda and Coimbra in Portugal. Furthermore, the operating margin in the third and fourth quarters is generally higher as the maximum amount payable to COGECO under the management agreement is usually reached in the second quarter of the year. As part of the management agreement between Cogeco Cable and COGECO, Cogeco Cable pays management fees to COGECO equivalent to 2% of its revenue subject to an annual maximum amount, which is adjusted annually to reflect the increase in the Canadian Consumer Price index. As the fiscal 2011 maximum amount of $9.2 million has been reached in the second quarter, Cogeco Cable will not pay management fees in the second half of fiscal 2011. Similarly, as the maximum amount of $9 million was paid in the first six months of fiscal 2010, Cogeco Cable paid no management fees in the second half of the previous fiscal year.

/s/ Jan Peeters
Jan Peeters
Chairman of the Board

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

COGECO Inc.
Montréal, Québec
April 8, 2011



INTERIM FINANCIAL STATEMENTS

Second quarter ended February 28, 2011

COGECO INC.
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

(In thousands of dollars, except per share data)	Three months ended February 28, **2011** **$**	2010 $	Six months ended February 28, **2011** **$**	2010 $
Revenue	**350,644**	329,087	**693,410**	657,090
Operating costs	**214,692**	204,724	**420,427**	403,464
Operating income before amortization	**135,952**	124,363	**272,983**	253,626
Amortization (note 4)	**65,427**	65,993	**128,566**	131,694
Operating income	**70,525**	58,370	**144,417**	121,932
Financial expense (note 5)	**24,501**	15,187	**41,406**	31,464
Income before income taxes and the following items	**46,024**	43,183	**103,011**	90,468
Income taxes (note 6)	**14,277**	12,525	**32,521**	(1,293)
Gain on dilution resulting from the issuance of shares by a subsidiary	**(56)**	(18)	**(61)**	(18)
Non-controlling interest	**21,158**	20,165	**43,931**	58,520
Net income	**10,645**	10,511	**26,620**	33,259
Earnings per share (note 7)				
Basic	**0.64**	0.63	**1.59**	1.99
Diluted	**0.63**	0.63	**1.58**	1.98

COGECO INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

(In thousands of dollars)	Three months ended February 28, **2011** **$**	2010 $	Six months ended February 28, **2011** **$**	2010 $
Net income	**10,645**	10,511	**26,620**	33,259
Other comprehensive income (loss)				
Unrealized losses on derivative financial instruments designated as cash flow hedges, net of income tax recovery of $2,334,000 and $3,300,000 ($333,000 and $2,474,000 in 2010) and non-controlling interest of $8,050,000 and $11,346,000 ($782,000 and $3,333,000 in 2010)	**(3,816)**	(373)	**(5,387)**	(1,591)
Reclassification to net income of unrealized losses on derivative financial instruments designated as cash flow hedges, net of income tax recovery of $1,411,000 and $2,328,000 ($79,000 and $1,086,000 in 2010) and non-controlling interest of $6,155,000 and $10,667,000 ($345,000 and $4,731,000 in 2010)	**2,922**	165	**5,074**	2,258
Unrealized gains (losses) on translation of a net investment in self-sustaining foreign subsidiaries, net of non-controlling interest of $943,000 and $1,185,000 ($17,813,000 and $15,969,000 in 2010)	**447**	(8,503)	**(568)**	(7,621)
Unrealized gains (losses) on translation of long-term debt designated as hedges of a net investment in self-sustaining foreign subsidiaries, net of non-controlling interest of $560,000 and $271,000 ($13,988,000 and $12,573,000 in 2010)	**(266)**	6,676	**130**	6,000
	(713)	(2,035)	**(751)**	(954)
Comprehensive income	**9,932**	8,476	**25,869**	32,305

COGECO INC.
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
(unaudited)

(In thousands of dollars)	Six months ended February 28, **2011** **$**	2010 $
Balance at beginning, as previously reported	**253,169**	211,922
Changes in accounting policies	**–**	(7,894)
Balance at beginning, as restated	**253,169**	204,028
Net income	**26,620**	33,259
Excess of the value attributed to the incentive share units at issuance (price paid for the acquisition of the subordinate voting shares) over the price paid for the acquisition of the subordinate voting shares (value attributed to the incentive share units at issuance)	**45**	(430)
Dividends on multiple voting shares	**(442)**	(366)
Dividends on subordinate voting shares	**(3,572)**	(2,988)
Balance at end	**275,820**	233,503

COGECO INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)

(In thousands of dollars)	**February 28, 2011**	August 31, 2010
	$	$
Assets		
Current		
Cash and cash equivalents (note 12 b))	**26,435**	35,842
Accounts receivable (note 14)	**105,344**	74,560
Income taxes receivable	**43,935**	45,400
Prepaid expenses and other	**15,258**	14,189
Future income tax assets	**5,308**	6,133
Assets held for sale (note 15)	**436**	–
	196,716	176,124
Investments	**539**	739
Fixed assets	**1,349,932**	1,328,866
Deferred charges	**27,483**	27,960
Intangible assets (note 8)	**1,088,804**	1,042,998
Goodwill (note 8)	**171,692**	144,695
Derivative financial instruments	**–**	5,085
Future income tax assets	**11,883**	18,189
Assets held for sale (note 15)	**9,878**	–
	2,856,927	2,744,656
Liabilities and Shareholders' equity		
Liabilities		
Current		
Bank indebtedness	**–**	2,328
Accounts payable and accrued liabilities	**192,911**	248,775
Income tax liabilities	**75,450**	558
Deferred and prepaid revenue	**45,414**	45,602
Derivative financial instrument	**356**	1,189
Promissory note payable, non-interest bearing and due on February 1, 2012 (note 2)	**5,000**	–
Current portion of long-term debt (note 9)	**2,454**	2,329
Future income tax liabilities	**38,017**	78,267
Liabilities related to assets held for sale (note 15)	**1,280**	–
	360,882	379,048
Long-term debt (note 9)	**1,003,575**	952,741
Derivative financial instruments	**15,781**	–
Deferred and prepaid revenue and other liabilities	**20,377**	12,234
Pension plan liabilities and accrued employees benefits	**12,496**	10,568
Future income tax liabilities	**235,740**	238,699
Liabilities related to assets held for sale (note 15)	**976**	–
	1,649,827	1,593,290
Non-controlling interest	**803,954**	769,731
Shareholders' equity		
Capital stock (note 10)	**119,332**	119,527
Contributed surplus	**2,811**	3,005
Retained earnings	**275,820**	253,169
Accumulated other comprehensive income (note 11)	**5,183**	5,934
	403,146	381,635
	2,856,927	2,744,656

COGECO INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(In thousands of dollars)	Three months ended February 28, **2011**	2010	Six months ended February 28, **2011**	2010
	$	$	**$**	$
Cash flow from operating activities				
Net income	**10,645**	10,511	**26,620**	33,259
Adjustments for:				
Amortization (note 4)	**65,427**	65,993	**128,566**	131,694
Amortization of deferred transaction costs and discounts on long-term debt	**983**	780	**1,761**	1,542
Future income taxes	**19,431**	22,232	**(42,468)**	28,636
Non-controlling interest	**21,158**	20,165	**43,931**	58,520
Gain on dilution resulting from the issuance of shares by a subsidiary	**(56)**	(18)	**(61)**	(18)
Stock-based compensation (note 10)	**1,315**	856	**1,993**	1,564
Loss (gain) on disposals and write-offs of fixed assets	**1,084**	(36)	**1,404**	62
Other	**688**	(152)	**1,428**	590
	120,675	120,331	**163,174**	255,849
Changes in non-cash operating items (note 12 a))	**(24,011)**	(2,833)	**(8,938)**	(139,761)
	96,664	117,498	**154,236**	116,088
Cash flow from investing activities				
Acquisition of fixed assets (note 12 c))	**(70,200)**	(72,094)	**(133,507)**	(137,276)
Increase in deferred charges	**(2,262)**	(2,455)	**(5,754)**	(5,519)
Business acquisition, net of cash and cash equivalents acquired (note 2)	**(75,883)**	–	**(75,883)**	–
Other	**–**	102	**–**	122
	(148,345)	(74,447)	**(215,144)**	(142,673)
Cash flow from financing activities				
Increase (decrease) in bank indebtedness	**(740)**	3,305	**(2,328)**	49,629
Net increases (repayments) under the Term Facilities and Term Revolving Facilities	**59,903**	(39,495)	**46,103**	(28,070)
Issuance of long-term debt, net of discounts and transaction costs	**(25)**	–	**198,295**	–
Repayments of long-term debt	**(175,703)**	(862)	**(176,529)**	(2,086)
Issuance of subordinate voting shares (note 10)	**629**	353	**629**	353
Acquisition of subordinate voting shares held in trust under the Incentive Share Unit Plan (note 10)	–	–	**(1,282)**	(1,049)
Dividends on multiple voting shares	**(221)**	(182)	**(442)**	(366)
Dividends on subordinate voting shares	**(1,786)**	(1,494)	**(3,572)**	(2,988)
Issuance of shares by a subsidiary to non-controlling interest	**3,889**	283	**4,179**	283
Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive Share Unit Plan (note 10)	**–**	–	**(2,258)**	(1,744)
Dividends paid by a subsidiary to non-controlling interest	**(5,577)**	(4,602)	**(11,159)**	(9,203)
	(119,631)	(42,694)	**51,636**	4,759
Effect of exchange rate changes on cash and cash equivalents denominated in a foreign currency	**94**	(1,102)	**(135)**	(900)
Net change in cash and cash equivalents	**(171,218)**	(745)	**(9,407)**	(22,726)
Cash and cash equivalents at beginning	**197,653**	17,477	**35,842**	39,458
Cash and cash equivalents at end	**26,435**	16,732	**26,435**	16,732

See supplemental cash flow information in note 12.

1. Basis of Presentation

In the opinion of management, the accompanying unaudited interim consolidated financial statements, prepared in accordance with Canadian generally accepted accounting principles, present fairly the financial position of COGECO Inc. ("the Company") as at February 28, 2011 and August 31, 2010 as well as its results of operations and its cash flows for the three and six month periods ended February 28, 2011 and 2010.

While management believes that the disclosures presented are adequate, these unaudited interim consolidated financial statements and notes should be read in conjunction with COGECO Inc.'s annual consolidated financial statements for the year ended August 31, 2010. These unaudited interim consolidated financial statements have been prepared using the same accounting policies and methods as the most recent annual consolidated financial statements.

Future accounting pronouncements

Multiple deliverable revenue arrangements

In December 2009, the Emerging Issues Committee ("EIC") of the Canadian Accounting Standards Board issued a new abstract concerning multiple deliverable revenue arrangements, EIC-175, *Multiple deliverable revenue arrangements*, which amended EIC-142, *Revenue arrangements with multiple deliverables*. EIC-175 requires a vendor to allocate arrangement consideration at the inception of the arrangement to all deliverables using the relative selling price method, thereby eliminating the use of the residual value method. The amendment also changes the level of evidence of the standalone selling price required to separate deliverables when more objective evidence of the selling price is not available. EIC-175 should be adopted prospectively to revenue arrangements entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011, with early adoption permitted. The Company has elected not to early-adopt this EIC, and in light of the adoption of International accounting standards taking effect at that same date, this EIC will not be applicable to the Company.

2. Business acquisition

On April 30, 2010, the Company concluded an agreement with Corus Entertainment Inc. ("Corus") to acquire its Québec radio stations for $80 million, subject to customary closing adjustments and conditions, including approval by the Canadian Radio-television and Telecommunications Commission ("CRTC"). On June 30, 2010, the Company submitted its application for approval of the acquisition to the CRTC. On December 17, 2010, the CRTC approved the transaction essentially as proposed. On January 11, 2011, the Company was served with an application by Astral Media Radio Inc. ("Astral") to the Federal Court of Appeal ("Court") for leave to appeal the CRTC decision approving the transaction, and a related application by Astral for a stay of execution of that decision until final judgement of the Court. On February 21, 2011 the Court rejected applications filed by Astral in the matter of COGECO's acquisition of the Corus radio stations in Québec. The transaction with Corus was concluded on February 1, 2011.

Pursuant to this acquisition, and as part of CRTC's decision on the Company's transfer application, the Company has put up for sale two radio stations acquired, CFEL-FM in the Québec City market and CJTS-FM in the Sherbrooke market. Accordingly, the assets and liabilities of the two acquired radio stations put up for sale have been classified as held for sale in the preliminary purchase price allocation presented below. In addition to the two acquired radio stations above, and also as part of the CRTC's decision, the Company has put up for sale radio station CJEC-FM, which it owned prior to the acquisition, in the Québec City market. Radio stations for which divestiture has been required by the CRTC, and the sale process, are managed by a trustee approved by the CRTC pursuant to a voting trust agreement.

2. Business acquisition (continued)

This acquisition was accounted for using the purchase method. The results have been consolidated as of the acquisition date. The preliminary allocation of the purchase price of the acquisition, pending the completion of the valuation of the net assets acquired, is as follows:

	$
Consideration	
Paid	
Purchase of shares	**75,000**
Acquisition costs	**1,530**
	76,530
Promissory note payable, non-interest bearing and due on February 1, 2012	**5,000**
Investment previously accounted for	**200**
Acquisition costs previously recorded as deferred charges	**435**
Preliminary working capital adjustment payable	**4,000**
	86,165
Net assets acquired	
Cash and cash equivalents	**647**
Accounts receivable	**14,132**
Income tax receivable	**92**
Prepaid expenses and other	**527**
Current future income tax assets	**1,018**
Fixed assets	**11,497**
Deferred charges and other	**99**
Broadcasting licenses	**48,193**
Goodwill	**27,227**
Non-current future income taxes assets	**2,272**
Non-current assets held for sale	**9,531**
Accounts payable and accrued liabilities assumed	**(9,058)**
Income tax liabilities assumed	**(194)**
Current liabilities related to assets held for sale	**(797)**
Deferred and prepaid income and other liabilities	**(7,390)**
Non-current future income taxes liabilities	**(10,656)**
Non-current liabilities related to assets held for sale	**(975)**
	86,165

3. Segmented Information

The Company's activities are divided into two business segments: Cable and other. The Cable segment is comprised of Cable Television, High Speed Internet, Telephony and other telecommunications services, and the other segment is comprised of radio and head office activities, as well as eliminations. The Cable segment's activities are carried out in Canada and in Europe.

The principal financial information per business segment is presented in the tables below:

	Cable		Other and eliminations		Consolidated	
Three months ended February 28,	**2011**	2010	**2011**	2010	**2011**	2010
	$	$	**$**	$	**$**	$
Revenue	**336,569**	320,397	**14,075**	8,690	**350,644**	329,087
Operating costs	**202,197**	197,784	**12,495**	6,940	**214,692**	204,724
Operating income before amortization	**134,372**	122,613	**1,580**	1,750	**135,952**	124,363
Amortization	**65,079**	65,839	**348**	154	**65,427**	65,993
Operating income	**69,293**	56,774	**1,232**	1,596	**70,525**	58,370
Financial expense	**24,125**	15,033	**376**	154	**24,501**	15,187
Income taxes	**14,017**	11,952	**260**	573	**14,277**	12,525
Gain on dilution resulting from the issuance of shares by a subsidiary	**(56)**	(18)	**–**	–	**(56)**	(18)
Non-controlling interest	**21,158**	20,165	**–**	–	**21,158**	20,165
Net income	**10,049**	9,642	**596**	869	**10,645**	10,511
Total assets [1]	**2,694,331**	2,702,819	**162,596**	41,837	**2,856,927**	2,744,656
Fixed assets [1]	**1,333,314**	1,325,077	**16,618**	3,789	**1,349,932**	1,328,866
Intangible assets [1]	**1,015,271**	1,017,658	**73,533**	25,340	**1,088,804**	1,042,998
Goodwill [1]	**144,465**	144,695	**27,227**	–	**171,692**	144,695
Acquisition of fixed assets [2]	**68,152**	71,924	**2,048**	170	**70,200**	72,094

[1] At February 28, 2011 and August 31, 2010.
[2] Includes fixed assets acquired through capital leases that are excluded from the consolidated statements of cash flows.

3. Segmented Information (continued)

	Cable		Other and eliminations		Consolidated	
Six months ended February 28,	**2011**	2010	**2011**	2010	**2011**	2010
	$	$	**$**	$	**$**	$
Revenue	**668,088**	637,762	**25,322**	19,328	**693,410**	657,090
Operating costs	**404,288**	392,543	**16,139**	10,921	**420,427**	403,464
Operating income before amortization	**263,800**	245,219	**9,183**	8,407	**272,983**	253,626
Amortization	**128,069**	131,404	**497**	290	**128,566**	131,694
Operating income	**135,731**	113,815	**8,686**	8,117	**144,417**	121,932
Financial expense	**40,825**	31,174	**581**	290	**41,406**	31,464
Income taxes	**30,118**	(3,814)	**2,403**	2,521	**32,521**	(1,293)
Gain on dilution resulting from the issuance of shares by a subsidiary	**(61)**	(18)	**–**	–	**(61)**	(18)
Non-controlling interest	**43,931**	58,520	**–**	–	**43,931**	58,520
Net income	**20,918**	27,953	**5,702**	5,306	**26,620**	33,259
Total assets [1]	**2,694,331**	2,702,819	**162,596**	41,837	**2,856,927**	2,744,656
Fixed assets [1]	**1,333,314**	1,325,077	**16,618**	3,789	**1,349,932**	1,328,866
Intangible assets [1]	**1,015,271**	1,017,658	**73,533**	25,340	**1,088,804**	1,042,998
Goodwill [1]	**144,465**	144,695	**27,227**	–	**171,692**	144,695
Acquisition of fixed assets [2]	**131,361**	137,081	**2,146**	336	**133,507**	137,417

[1] At February 28, 2011 and August 31, 2010.
[2] Includes fixed assets acquired through capital leases that are excluded from the consolidated statements of cash flows.

The following tables set out certain geographic market information based on client location:

	Three months ended February 28,		Six months ended February 28,	
	2011	2010	**2011**	2010
	$	$	**$**	$
Revenue				
Canada	**308,583**	280,120	**608,086**	555,118
Europe	**42,061**	48,967	**85,324**	101,972
	350,644	329,087	**693,410**	657,090

3. Segmented Information (continued)

	February 28, 2011	August 31, 2010
	$	$
Fixed assets		
Canada	**1,130,111**	1,098,760
Europe	**219,821**	230,106
	1,349,932	1,328,866
Intangible assets		
Canada	**1,088,804**	1,042,998
Europe	**–**	–
	1,088,804	1,042,998
Goodwill		
Canada	**143,470**	116,243
Europe	**28,222**	28,452
	171,692	144,695

4. Amortization

	Three months ended February 28,		Six months ended February 28,	
	2011	2010	**2011**	2010
	$	$	**$**	$
Fixed assets	**61,525**	62,117	**120,785**	123,818
Deferred charges	**2,708**	2,681	**5,394**	5,488
Intangible assets	**1,194**	1,195	**2,387**	2,388
	65,427	65,993	**128,566**	131,694

5. Financial expense

	Three months ended February 28,		Six months ended February 28,	
	2011	2010	**2011**	2010
	$	$	**$**	$
Interest on long-term debt	**24,563**	15,788	**40,455**	31,689
Foreign exchange gains	**(1,133)**	(391)	**(1,465)**	(879)
Amortization of deferred transaction costs	**456**	407	**945**	814
Other	**615**	(617)	**1,471**	(160)
	24,501	15,187	**41,406**	31,464

6. Income Taxes

	Three months ended February 28,		Six months ended February 28,	
	2011	2010	**2011**	2010
	$	$	**$**	$
Current	**(5,154)**	(9,707)	**74,989**	(29,929)
Future	**19,431**	22,232	**(42,468)**	28,636
	14,277	12,525	**32,521**	(1,293)

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

	Three months ended February 28,		Six months ended February 28,	
	2011	2010	**2011**	2010
	$	$	**$**	$
Income before income taxes	**46,024**	43,183	**103,011**	90,468
Combined income tax rate	**28.91%**	31.46%	**28.91%**	31.44%
Income taxes at combined income tax rate	**13,306**	13,585	**29,781**	28,447
Adjustments for losses or income subject to lower or higher tax rates	**(1,489)**	(3,247)	**(2,442)**	(5,669)
Decrease in future income taxes as a result of decrease in substantively enacted tax rates	**–**	–	**–**	(29,782)
Utilization of pre-acquisition tax losses	**–**	–	**–**	4,432
Income taxes arising from non-deductible expenses	**160**	97	**330**	306
Effect of foreign income tax rate differences	**2,172**	1,877	**4,633**	2,124
Other	**128**	213	**219**	(1,151)
Income taxes at effective income tax rate	**14,277**	12,525	**32,521**	(1,293)

7. Earnings per Share

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

	Three months ended February 28,		Six months ended February 28,	
	2011	2010	**2011**	2010
	$	$	**$**	$
Net income	**10,645**	10,511	**26,620**	33,259
Weighted average number of multiple voting and subordinate voting shares outstanding	**16,713,884**	16,714,030	**16,721,074**	16,721,865
Effect of dilutive stock options [(1)]	**10,283**	14,436	**11,060**	11,152
Effect of dilutive subordinate voting shares held in trust under the Incentive Share Unit Plan	**95,358**	71,862	**84,627**	63,745
Weighted average number of diluted multiple voting and subordinate voting shares outstanding	**16,819,525**	16,800,328	**16,816,761**	16,796,762
Earnings per share				
Basic	**0.64**	0.63	**1.59**	1.99
Diluted	**0.63**	0.63	**1.58**	1.98

(1) For the three and six month periods ended February 28, 2011, no stock options (32,782 in 2010) were excluded from the calculation of diluted earnings per share because the exercise price of the options was greater than the average share price of the subordinate voting shares.

8. Goodwill and Other Intangible Assets

	February 28, 2011	August 31, 2010
	$	$
Customer relationships	**25,719**	28,106
Broadcasting licenses	**73,313**	25,120
Customer base	**989,772**	989,772
	1,088,804	1,042,998
Goodwill	**171,692**	144,695
	1,260,496	1,187,693

a) Intangible assets

During the first six months, intangible assets variations were as follows:

	Customer relationships	Broadcasting licenses	Customer Base	Total
	$	**$**	**$**	**$**
Balance at August 31, 2010	**28,106**	**25,120**	**989,772**	**1,042,998**
Business acquisition (note 2)	**–**	**48,193**	**–**	**48,193**
Amortization (note 4)	**(2,387)**	–	–	**(2,387)**
Balance at February 28, 2011	**25,719**	**73,313**	**989,772**	**1,088,804**

b) Goodwill

During the first six months, goodwill variation was as follows:

	$
Balance at August 31, 2010	**144,695**
Business acquisition (note 2)	**27,227**
Foreign currency translation adjustment	**(230)**
Balance at February 28, 2011	**171,692**

9. Long-Term Debt

	Maturity	Interest rate	February 28, 2011	August 31, 2010
		%	$	$
Parent company				
Term Revolving Facility	2014 (1)	3.32 (2)	**74,000**	–
Obligations under capital lease	2013	9.29	**62**	72
Subsidiaries				
Term Revolving Facility				
Revolving loan – €70,000,000 (€90,000,000 at August 31, 2010)	2014	3.00 (2)(3)	**93,842**	121,635
Senior Secured Notes				
Series A – US$190,000,000	2015	7.00 (4)	**183,424**	201,387
Series B	2018	7.60	**54,628**	54,609
Senior Secured Debentures Series 1	2014	5.95	**297,697**	297,379
Senior Secured Debentures Series 2 (5)	2020	5.15	**198,334**	–
Senior Secured Notes Series B	2011 (6)	7.73	**–**	174,738
Senior Unsecured Debenture	2018	5.94	**99,817**	99,806
Obligations under capital leases	2013	6.71 – 9.93	**4,216**	5,429
Other	2011	–	**9**	15
			1,006,029	955,070
Less current portion			**2,454**	2,329
			1,003,575	952,741

(1) The Company benefits from a Term Revolving Facility of up to $100 million with a group of financial institutions led by a large Canadian bank, which acts as agent for the banking syndicate. The Term Revolving Facility of up to $100 million includes a swingline limit of $7.5 million, is extendable by additional one-year periods on an annual basis, subject to lenders' approval, and if not extended, matures three years after its issuance or the last extension, as the case may be. The Term Revolving Facility is composed of two tranches of $50 million each, one of which was subject to the completion of the acquisition of Corus Québec radios stations and which became available on February 1, 2011 with the conclusion of the transaction. The Term Revolving Facility was extended at that same date and currently matures on February 1, 2014. The Term Revolving Facility can be repaid at any time without penalty. The Term Revolving Facility is indirectly secured by a first priority fixed and floating charge and a security interest on substantially all present and future real and personal property and undertaking of every nature and kind of the Company and certain of its subsidiaries, excluding the capital stock and assets of the Company's subsidiary, Cogeco Cable Inc., and guaranteed by its subsidiaries excluding Cogeco Cable Inc. Under the terms and conditions of the credit agreement, the Company must comply with certain restrictive covenants. Generally, the most significant restrictions are related to permitted investments, dividends on multiple and subordinate voting shares and reimbursement of long-term debt as well as incurrence and maintenance of certain financial ratios primarily linked to the operating income before amortization, financial expense and total indebtedness. The Term Revolving Facility bears interest, at the Company's option, on bankers' acceptance, LIBOR in Euros or in US dollars, bank prime rate or US base rate plus the applicable margin, and commitment fees are payable on the unused portion.

(2) Interest rate on debt as at February 28, 2011, including applicable margin.

(3) On January 21, 2009, the Company's subsidiary, Cogeco Cable Inc., entered into a swap agreement with a financial institution to fix the floating benchmark interest rate with respect to a portion of Euro-denominated loans outstanding under the Term Revolving Facility, and previously the Term Facility for a notional amount of €111.5 million which have been reduced to €95.8 million on July 28, 2009 and to €69.6 million on July 28, 2010. The interest swap rate to hedge the Euro-denominated loans has been fixed at 2.08% until the swap agreement maturity of July 28, 2011. In addition to the interest swap rate of 2.08%, the Company's subsidiary will continue to pay the applicable margin on these Euro-denominated loans in accordance with the Term Revolving Facility.

(4) Cross-currency swap agreements have resulted in an effective interest rate of 7.24% on the Canadian dollar equivalent of the US denominated debt of the Company's subsidiary, Cogeco Cable Inc.

(5) On November 16, 2010 the Company's subsidiary, Cogeco Cable Inc., completed pursuant to a public debt offering, the issue of $200 million Senior Secured Debentures Series 2 (the "Debentures") for net proceeds of $198.3 million net of discounts and transaction costs. These Debentures mature on November 16, 2020 and bear interest at 5.15% per annum payable semi-annually. These debentures are indirectly secured by a first priority fixed and floating charge and a security interest on substantially all present and future real and personal property and undertaking of every nature and kind of the Company's subsidiary and certain of its subsidiaries.

(6) On December 22, 2010, the Company's subsidiary, Cogeco Cable Inc., redeemed the 7.73% Senior Secured Notes Series B in the aggregate principal amount of $175 million. As a result, the aggregate redemption cash consideration that the Company's subsidiary paid totalled $183.8 million excluding accrued interest. The excess of the redemption price over the aggregate principal amount was recorded as financial expense during the second quarter of fiscal 2011.

10. Capital Stock

Authorized

Unlimited number of:

Preferred shares of first and second rank, could be issued in series and non-voting, except when specified in the Articles of Incorporation of the Company or in the Law.

Multiple voting shares, 20 votes per share.

Subordinate voting share, 1 vote per share.

Issued

	February 28, 2011	August 31, 2010
	$	$
1,842,860 multiple voting shares	**12**	12
14,989,338 subordinate voting shares (14,959,338 at August 31, 2010)	**121,976**	121,347
	121,988	121,359
95,358 subordinate voting shares held in trust under the Incentive Share Unit Plan (71,862 at August 31, 2010)	**(2,656)**	(1,832)
	119,332	119,527

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

	Number of shares	**Amount**
		$
Balance at August 31, 2010	**14,959,338**	**121,347**
Shares issued for cash under the Employee Stock Option Plan	**30,000**	**629**
Balance at February 28, 2011	**14,989,338**	**121,976**

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

	Number of shares	**Amount**
		$
Balance, beginning of year	**71,862**	**1,832**
Subordinate voting shares acquired	**36,085**	**1,282**
Subordinate voting shares distributed to employees	**(12,589)**	**(458)**
Balance at February 28, 2011	**95,358**	**2,656**

10. Capital Stock (continued)

Stock-based plans

The Company and its subsidiary, Cogeco Cable Inc., offer, for certain executives Stock Option Plans, which are described in the Company's annual consolidated financial statements. During the first six months of 2011 and 2010, no stock options were granted to employees by COGECO Inc. However, the Company's subsidiary, Cogeco Cable Inc., granted 66,700 stock options (66,174 in 2010) with an exercise price of $39.00 ($31.82 to $38.86 in 2010), of which 35,800 stock options (33,266 in 2010) were granted to COGECO Inc.'s employees. These options vest over a period of five years beginning one year after the day such options are granted and are exercisable over ten years. As a result, a compensation expense of $141,000 and $307,000 ($219,000 and $556,000 in 2010) was recorded for the three and six month periods ended February 28, 2011.

The fair value of stock options granted by the Company's subsidiary, Cogeco Cable Inc., for the six months period ended February 28, 2011 was $9.55 ($8.11 in 2010) per option. The weighted average fair value was estimated at the grant date for purposes of determining stock-based compensation expense using the binomial option pricing model based on the following assumptions:

	2011	2010
	%	%
Expected dividend yield	**1.44**	1.49
Expected volatility	**29**	29
Risk-free interest rate	**2.05**	2.67
Expected life in years	**4.9**	4.8

Under the Company's Stock Option Plan, the following options were granted and are outstanding at February 28, 2011:

Outstanding at August 31, 2010	**62,382**
Exercised	**(30,000)**
Expired	**(32,382)**
Outstanding at February 28, 2011	**–**

Under Cogeco Cable Inc.'s Stock Option Plan, the following options were granted and are outstanding at February 28, 2011:

Outstanding at August 31, 2010	**716,760**
Granted	**66,700**
Exercised	**(165,487)**
Forfeited / Cancelled	**(28,169)**
Expired	**(448)**
Outstanding at February 28, 2011	**589,356**
Exercisable at February 28, 2011	**415,945**

10. Capital Stock (continued)

The Company and its subsidiary, Cogeco Cable Inc., also offers senior executive and designated employee Incentive Share Unit Plans ("ISU Plans") which are described in the Company's annual consolidated financial statements. During the first six months of 2011, the Company granted 36,460 (41,571 in 2010) Incentive Share Units ("ISUs") and Cogeco Cable Inc. granted 58,088 ISUs (63,666 in 2010) of which, 10,000 ISUs (9,981 in 2010) were granted to Cogeco Inc.'s employees. The Company and its subsidiary established the value of the compensation related to the ISUs granted based on the fair value of the subordinate voting shares at the date of grant and a compensation expense is recognized over the vesting period, which is three years less one day. Two trusts were created for the purpose of purchasing these shares on the stock market in order to guard against stock price fluctuations. The Company and its subsidiary instructed the trustees to purchase 36,085 and 57,203 subordinate voting shares (41,571 and 55,094 in 2010) on the stock market. These shares were purchased for cash consideration of $1,282,000 ($1,049,000 in 2010) and $2,258,000 ($1,744,000 in 2010), respectively, and are held in trust for participants until they are completely vested. These trusts, considered as variable interest entities, are consolidated in the Company's financial statements with the value of the acquired shares presented as subordinate voting shares held in trusts under the ISU Plans in reduction of capital stock or non-controlling interest. A compensation expense of $783,000 and $1,186,000 ($315,000 and $502,000 in 2010) was recorded for the three and six month periods ended February 28, 2011 related to these plans.

Under the Company's ISU Plan, the following ISUs were granted and are outstanding at February 28, 2011:

Outstanding at August 31, 2010	**71,862**
Granted	**36,460**
Distributed	**(12,589)**
Outstanding at February 28, 2011	**95,733**

Under Cogeco Cable Inc.'s ISU Plan, the following ISUs were granted and are outstanding at February 28, 2011:

Outstanding at August 31, 2010	**57,409**
Granted	**58,088**
Distributed	**(9,153)**
Forfeited / Cancelled	**(885)**
Outstanding at February 28, 2011	**105,459**

The Company and its subsidiary, Cogeco Cable Inc., offer Deferred Share Unit Plans ("DSU Plans") which are described in the Company's annual consolidated financial statements. During the first six months of 2011 and 2010, the Company and its subsidiary issued respectively 6,302 and 4,521 (6,987 and 4,422 in 2010) Deferred Share Units ("DSUs") to the participants in connection with the DSU Plans. A compensation expense of $391,000 and $500,000 ($322,000 and $506,000 in 2010) was recorded for the three and six month periods ended February 28, 2011 for the liabilities related to these plans.

Under the Company's DSU Plan, the following DSUs were issued and are outstanding at February 28, 2011:

Outstanding at August 31, 2010	**21,630**
Issued	**6,302**
Dividend equivalents	**161**
Outstanding at February 28, 2011	**28,093**

Under Cogeco Cable Inc.'s DSU Plan, the following DSUs were issued and are outstanding at February 28, 2011:

Outstanding at August 31, 2010	**10,855**
Issued	**4,521**
Dividend equivalents	**109**
Outstanding at February 28, 2011	**15,485**

11. Accumulated Other Comprehensive Income

	Translation of a net investment in self-sustaining foreign subsidiaries	Cash flow hedges	Total
	$	$	$
Balance as at August 31, 2010	**4,993**	**941**	**5,934**
Other comprehensive income (loss)	**(438)**	**(313)**	**(751)**
Balance as at February 28, 2011	**4,555**	**628**	**5,183**

12. Statements of Cash Flows

a) Changes in non-cash operating items

	Three months ended February 28,		Six months ended February 28,	
	2011	2010	**2011**	2010
	$	$	**$**	$
Accounts receivable	**(12,046)**	(6,186)	**(17,158)**	(11,680)
Income taxes receivable	**(469)**	(10,485)	**1,540**	(30,999)
Prepaid expenses and other	**(3,837)**	(190)	**(544)**	(1,295)
Accounts payable and accrued liabilities	**(2,670)**	8,869	**(68,063)**	(63,920)
Income tax liabilities	**(5,493)**	(51)	**74,721**	(39,275)
Deferred and prepaid revenue and other liabilities	**504**	5,210	**566**	7,408
	(24,011)	(2,833)	**(8,938)**	(139,761)

b) Cash and cash equivalents

	February 28, 2011	August 31, 2010
	$	$
Cash	**13,029**	35,842
Cash equivalents [(1)]	**13,406**	–
	26,435	35,842

[(1)] At February 28, 2011, term deposit of €10,000,000, bearing interest at 1.40%, maturing on March 14, 2011.

c) Other information

	Three months ended February 28,		Six months ended February 28,	
	2011	2010	**2011**	2010
	$	$	**$**	$
Fixed asset acquisitions through capital leases	**–**	–	**–**	141
Financial expense paid	**21,516**	10,792	**42,625**	31,839
Income taxes paid (received)	**828**	1,679	**(1,249)**	41,196

13. Employee Future Benefits

The Company and its Canadian subsidiaries offer to their employees contributory defined benefit pension plans, defined contribution pension plans or collective registered retirement savings plans, which are described in the Company's annual consolidated financial statements. The total expense related to these plans is as follows:

	Three months ended February 28,		Six months ended February 28,	
	2011	2010	**2011**	2010
	$	$	**$**	$
Contributory defined benefit pension plans	**1,007**	870	**1,922**	1,740
Defined contribution pension plans and collective registered retirement savings plans	**1,344**	1,112	**2,621**	2,238
	2,351	1,982	**4,543**	3,978

14. Financial and Capital Management

a) Financial management

Management's objectives are to protect COGECO Inc. and its subsidiaries against material economic exposures and variability of results and against certain financial risks including credit risk, liquidity risk, interest rate risk and foreign exchange risk.

Credit risk

Credit risk represents the risk of financial loss for the Company if a customer or counterparty to a financial asset fails to meet its contractual obligations. The Company is exposed to credit risk arising from the derivative financial instruments, cash and cash equivalents and trade accounts receivable, the maximum exposure of which is represented by the carrying amounts reported on the balance sheet.

Credit risk from the derivative financial instruments arises from the possibility that counterparties to the cross-currency swap and interest rate swap agreements may default on their obligations in instances where these agreements have positive fair values for the Company. The Company reduces this risk by completing transactions with financial institutions that carry a credit rating equal to or superior to its own credit rating. The Company assesses the creditworthiness of the counterparties in order to minimize the risk of counterparties default under the agreements. At February 28, 2011, management believes that the credit risk relating to its derivative financial instruments is minimal, since the lowest credit rating of the counterparties to the agreements is "A".

Cash and cash equivalents consist mainly of highly liquid investments, such as money market deposits. The Company has deposited the cash and cash equivalents with reputable financial institutions, from which management believes the risk of loss to be remote.

14. Financial and Capital Management (continued)

The Company is also exposed to credit risk in relation to its trade accounts receivable. In the current global economic environment, the Company's credit exposure is higher than usual but it is difficult to predict the impact this could have on the Company's accounts receivable balances. To mitigate such risk, the Company continuously monitors the financial condition of its customers and reviews the credit history or worthiness of each new large customer. At February 28, 2011, no customer balance represents a significant portion of the Company's consolidated trade accounts receivable. The Company establishes an allowance for doubtful accounts based on specific credit risk of its customers by examining such factors as the number of overdue days of the customer's balance outstanding as well as the customer's collection history. The Company believes that its allowance for doubtful accounts is sufficient to cover the related credit risk. The Company has credit policies in place and has established various credit controls, including credit checks, deposits on accounts and advance billing, and has also established procedures to suspend the availability of services when customers have fully utilized approved credit limits or have violated existing payment terms. Since the Company has a large and diversified clientele dispersed throughout its market areas in Canada and Europe, there is no significant concentration of credit risk. The following table provides further details on the Company's accounts receivable balances:

	February 28, 2011	August 31, 2010
	$	$
Trade accounts receivable	**99,191**	76,243
Allowance for doubtful accounts	**(8,462)**	(8,531)
	90,729	67,712
Other accounts receivable	**14,615**	6,848
	105,344	74,560

The following table provides further details on trade accounts receivable, net of allowance for doubtful accounts. Trade accounts receivable past due is defined as amount outstanding beyond normal credit terms and conditions for the respective customers. A large portion of Cogeco Cable Inc.'s customers are billed in advance and are required to pay before their services are rendered. The Company considers amount outstanding at the due date as trade accounts receivable past due.

	February 28, 2011	August 31, 2010
	$	$
Net trade accounts receivable not past due	**59,711**	46,291
Net trade accounts receivable past due	**31,018**	21,421
	90,729	67,712

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages liquidity risk through the management of its capital structure and access to different capital markets. It also manages liquidity risk by continuously monitoring actual and projected cash flows to ensure sufficient liquidity to meet its obligations when due. At February 28, 2011, the available amount of the Company's Term Revolving Facilities was $674.2 million. Management believes that the committed Term Revolving Facilities will, until their maturities in February 2014 and July 2014, provide sufficient liquidity to manage its long-term debt maturities and support working capital requirements.

14. Financial and Capital Management (continued)

The following table summarizes the contractual maturities of the financial liabilities and related capital amounts:

	2011	2012	2013	2014	2015	Thereafter	Total
	$	$	$	$	$	$	$
Accounts payable and accrued liabilities[1]	175,007	–	–	–	–	–	175,007
Promissory note payable	–	5,000	–	–	–	–	5,000
Long-term debt [2]	9	–	–	467,842	–	539,566	1,007,417
Other liabilities	–	1,272	1,231	1,183	1,145	2,180	7,011
Derivative financial instruments							
Cash outflows (Canadian dollar)	–	–	–	–	–	201,875	201,875
Cash inflows (Canadian dollar equivalent of US dollar)	–	–	–	–	–	(184,566)	(184,566)
Obligations under capital leases [3]	1,409	2,322	915	13	–	–	4,659
	176,425	8,594	2,146	469,038	1,145	559,055	1,216,403

[1] Excluding accrued interest
[2] Principal excluding obligations under capital leases.
[3] Including interest.

The following table is a summary of interest payable on long-term debt (excluding interest on capital leases) that is due for each of the next five years and thereafter, based on the principal amount and interest rate prevailing on the outstanding debt at February 28, 2011 and their respective maturities:

	2011	2012	2013	2014	2015	Thereafter	Total
	$	$	$	$	$	$	$
Interest payments on long-term debt	28,229	56,458	56,458	54,673	33,336	95,548	324,702
Interest payments on derivative financial instruments	8,892	14,614	14,614	14,614	14,614	7,306	74,654
Interest receipts on derivative financial instruments	(7,626)	(12,920)	(12,920)	(12,920)	(12,920)	(6,459)	(65,765)
	29,495	58,152	58,152	56,367	35,030	96,395	333,591

Interest rate risk

The Company is exposed to interest rate risks for both fixed interest rate and floating interest rate instruments. Fluctuations in interest rates will have an effect on the valuation and collection or repayment of these instruments. At February 28, 2011, all of the Company's long-term debt was at fixed rate, except for the Company's Term Revolving Facilities. However, on January 21, 2009, the Company's subsidiary, Cogeco Cable Inc., entered into a swap agreement with a financial institution to fix the floating benchmark interest rate with respect to a portion of the Euro-denominated loans outstanding under the Term Revolving Facility and previously the Term Facility, for a notional amount of €111.5 million which have been reduced to €95.8 million on July 28, 2009 and to €69.6 million on July 28, 2010. The interest swap rate to hedge the Euro-denominated loans has been fixed at 2.08% until the swap agreement maturity on July 28, 2011. In addition to the interest swap rate of 2.08%, the Company's subsidiary will continue to pay the applicable margin on these in accordance with the Term Revolving Facility. The Company's subsidiary elected to apply cash flow hedge accounting on this derivative financial instrument. The sensitivity of the Company's annual financial expense to a variation of 1% in the interest rate applicable to the Term Revolving Facilities is approximately $0.7 million based on the outstanding debt at February 28, 2011 and taking into consideration the effect of the interest rate swap agreement.

Foreign exchange risk

The Company is exposed to foreign exchange risk related to its long-term debt denominated in US dollars. In order to mitigate this risk, the Company has established guidelines whereby currency swap agreements can be used to fix the exchange rates applicable to its US dollar denominated long-term debt. All such agreements are exclusively used for hedging purposes. Accordingly, on October 2, 2008, the Company's subsidiary, Cogeco Cable Inc., entered into cross-currency swap agreements to set the liability for interest and principal payments on its US$190 million Senior Secured Notes Series A issued on October 1, 2008. These agreements have the effect of converting the US interest coupon rate of 7.00% per annum to an average Canadian dollar interest rate of 7.24% per annum. The exchange rate applicable to the principal portion of the debt has been fixed at $1.0625. The Company's subsidiary elected to apply cash flow hedge accounting on these derivative financial instruments.

14. Financial and Capital Management (continued)

The Company is also exposed to foreign exchange risk on cash and cash equivalents, bank indebtedness and accounts payable denominated in US dollars or Euros. At February 28, 2011, cash and cash equivalents denominated in US dollars amounted to US$18,144,000 (US$13,613,000 at August 31, 2010) while accounts payable denominated in US dollars amounted to US$3,656,000 (US$15,850,000 at August 31, 2010). At February 28, 2011, Euro-denominated bank indebtedness amounted to €205,000 (cash and cash equivalents of €187,000 at August 31, 2010) while there were no accounts payable denominated in Euros at February 28, 2011 and August 31, 2010. Due to their short-term nature, the risk arising from fluctuations in foreign exchange rates is usually not significant. The impact of a 10% change in the foreign exchange rates (US dollar and Euro) would change financial expense by approximately $1.4 million.

Furthermore, Cogeco Cable Inc.'s net investment in self-sustaining foreign subsidiaries is exposed to market risk attributable to fluctuations in foreign currency exchange rates, primarily changes in the value of the Canadian dollar versus the Euro. This risk is mitigated since the major part of the purchase price for Cabovisão was borrowed directly in Euros. At February 28, 2011, the net investment amounted to €169,312,000 (€182,104,000 at August 31, 2010) while long-term debt denominated in Euros amounted to €70,000,000 (€90,000,000 at August 31, 2010). The exchange rate used to convert the Euro currency into Canadian dollars for the balance sheet accounts at February 28, 2011 was $1.3406 per Euro compared to $1.3515 per Euro at August 31, 2010. The impact of a 10% change in the exchange rate of the Euro into Canadian dollars would change financial expense by approximately $0.4 million and other comprehensive income by approximately $13.3 million net of non-controlling interest of $9 million.

Fair value

Fair value is the amount at which willing parties would accept to exchange a financial instrument based on the current market for instruments with the same risk, principal and remaining maturity. Fair values are estimated at a specific point in time, by discounting expected cash flows at rates for debts of the same remaining maturities and conditions. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore, cannot be determined with precision. In addition, income taxes and other expenses that would be incurred on disposition of these financial instruments are not reflected in the fair values. As a result, the fair values are not necessarily the net amounts that would be realized if these instruments were settled. The Company has determined the fair value of its financial instruments as follows:

a) The carrying amount of cash and cash equivalents, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximates fair value because of the short-term nature of these instruments.

b) Interest rates under the terms of the Company's Term Revolving Facilities are based on bankers' acceptance, LIBOR, EURIBOR, bank prime rate loan or US base rate loan plus applicable margin. Therefore, the carrying value approximates fair value for the Term Revolving Facilities since the Term Revolving Facilities have financing conditions similar to those currently available to the Company.

c) The fair value of the Senior Secured Debentures Series 1 and 2, Senior Secured Notes Series A and B and Senior Unsecured Debenture are based upon current trading values for similar financial instruments.

d) The fair values of obligations under capital leases are not significantly different from their carrying amounts.

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

	February 28, 2011		August 31, 2010	
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Long-term debt	**1,006,029**	**1,067,301**	955,070	1,050,783

In accordance with CICA Handbook Section 3862, *Financial instruments – disclosures*, all financial instruments recognized at fair value on the consolidated balance sheet must be classified based on the three fair value hierarchy levels, which are as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company considers that its derivative financial instruments are classified as Level 2 under the fair value hierarchy. The fair value of derivative financial instruments are estimated using valuation models that reflect projected future cash flows over contractual terms of the derivative financial instruments and observable market data, such as interest and currency exchange rate curves.

14. Financial and Capital Management (continued)

b) Capital management

The Company's objectives in managing capital are to ensure sufficient liquidity to support the capital requirements of its various businesses, including growth opportunities. The Company manages its capital structure and makes adjustments in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. Management of the capital structure involves the issuance of new debt, the repayment of existing debts using cash generated by operations and the level of distribution to shareholders.

The capital structure of the Company is composed of shareholders' equity, bank indebtedness, long-term debt and assets or liabilities related to derivative financial instruments.

The provisions under the Term Revolving Facilities provide for restrictions on the operations and activities of the Company. Generally, the most significant restrictions relate to permitted investments and dividends on multiple and subordinate voting shares, as well as incurrence and maintenance of certain financial ratios primarily linked to the operating income before amortization, financial expense and total indebtedness. At February 28, 2011, and August 31, 2010, the Company was in compliance with all 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 Company's capital structure:

	February 28, 2011	August 31, 2010
Net indebtedness [(1)] / shareholders' equity	**2.5**	2.4
Net indebtedness [(1)] / operating income before amortization [(2)]	**1.9**	1.8
Operating income before amortization [(2)] / financial expense [(2)]	**7.1**	7.9

(1) 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.

(2) Calculation based on operating income before amortization and financial expense for the twelve-month periods ended February 28, 2011 and August 31, 2010.

15. Assets held for sale

Pursuant to the acquisition of Corus Québec radio stations (see note 2), and as part of the CRTC's decision on the Company's transfer application, the Company has put up for sale two radio stations acquired in the transaction, CFEL-FM in the Québec City market and CJTS-FM in the Sherbrooke market. In addition to the two acquired radio stations above, and also as part of the CRTC's decision, the Company has put up for sale radio station CJEC-FM, which it owned prior to the acquisition, in the Québec City market. Radio stations for which divestiture has been required by the CRTC, and the sale process, is being managed by a trustee approved by the CRTC pursuant to a voting trust agreement. Accordingly, the assets and liabilities of the three radio stations put up for sale have been classified as held for sale as of February 1, 2011 in the Company's consolidated balance sheet.

The assets and liabilities related to the three radio stations held for sale as at February 28, 2011, were as follows:

	$
Accounts receivable	**436**
Current assets held for sale	**436**
Fixed assets	**2,138**
Goodwill and other intangible assets	**7,740**
Non-current assets held for sale	**9,878**
Accounts payable and accrued liabilities	**1,241**
Income tax liabilities	**21**
Deferred and prepaid revenue	**18**
Current liabilities related to assets held for sale	**1,280**
Other liabilities	**43**
Future income tax liabilities	**933**
Non-current liabilities related to assets held for sale	**976**

Cable Sector Customer Statistics
(unaudited)

	February 28, 2011	August 31, 2010
Homes passed		
Canada	**1,604,702**	1,593,743
Portugal[1]	**905,624**	905,359
Total	**2,510,326**	2,499,102
Homes connected[2]		
Canada	**993,649**	979,590
Portugal	**268,721**	269,194
Total	**1,262,370**	1,248,784
Revenue-generating units[3]		
Canada	**2,474,207**	2,350,577
Portugal	**853,090**	828,772
Total	**3,327,297**	3,179,349
Basic Cable service customers		
Canada	**880,755**	874,505
Portugal	**260,100**	260,267
Total	**1,140,855**	1,134,772
High Speed Internet service customers		
Canada	**586,479**	559,057
Portugal	**167,221**	163,187
Total	**753,700**	722,244
Digital Television service customers		
Canada	**614,782**	559,418
Portugal	**175,803**	159,852
Total	**790,585**	719,270
Telephony service customers		
Canada	**392,191**	357,597
Portugal	**249,966**	245,466
Total	**642,157**	603,063

(1) Cogeco Cable is currently assessing the number of homes passed.
(2) Represents the sum of Basic Cable service customers and High Speed Internet ("HSI") and Telephony service customers who do not subscribe to the Basic Cable service.
(3) Represents the sum of Basic Cable, HSI, Digital Television and Telephony service customers.