Press release
For immediate release

Strong first quarter financial results and upward revision of its fiscal 2011 financial guidelines for COGECO Inc.

Montréal, January 13, 2011 – Today, COGECO Inc. (TSX: CGO) ("COGECO" or the "Company") announced its financial results for the first quarter of fiscal 2011, ended November 30, 2010.

For the first quarter of fiscal 2011:

- Revenue increased by 4.5% to reach $342.8 million;
- Operating income before amortization[(1)] grew by 6% to reach $137 million when compared to the first quarter of fiscal 2010;
- Operating margin[(1)] increased to 40% when compared to 39.4% in the first quarter of fiscal 2010. The growth in the operating margin stems primarily from the cable subsidiary, and reflects rate increases implemented in the second half of fiscal 2010, partly offset by the continued impact of the retention strategies and additional marketing activities in the European operations;
- Net income amounted to $16 million compared to $22.7 million in the first quarter of the prior year. In the first quarter of the prior year, 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 quarter of fiscal 2011 represents a growth of $2.8 million, or 21.7%, when compared to adjusted net income[(1)] of $13.1 million in the corresponding period of fiscal 2010;
- In the first quarter of the year, a negative free cash flow[(1)] of $24.3 million was posted which included the recognition of current income tax expense of $78.1 million primarily attributable to the 2010 fiscal year, as a result of previous modifications made to the corporate structure in the cable sector. For the same period of last year, a positive free cash flow of $67.1 million was generated which included a one-time tax recovery of $22.2 million also stemming from the modified corporate structure;
- A dividend of $0.12 per share was paid to the holders of subordinate and multiple voting shares, an increase of $0.02 per share, or 20%, when compared to a dividend of $0.10 per share the year before;
- In the cable sector, revenue-generating units ("RGU")[(2)] grew by 90,869 net additions in the first quarter, for a total of 3,270,218 RGU at November 30, 2010.

"COGECO's first quarter financial results are very positive. Cogeco Cable demonstrates strong internal growth and is in an excellent position to achieve superior performance in 2011. In Canada, this quarter generated an increase of 70,690 RGU. Our European operations continued to improve, adding 20,179 RGU in Portugal", said Louis Audet, President and CEO of COGECO.

"As for the radio activities, we are well positioned to increase our leadership now that the transaction to acquire Corus Quebec's radio stations is about to be concluded in the following weeks. In light of these positive results, management has revised most of its guidelines for the 2011 fiscal year. Projected RGU growth, operating income before amortization, operating margin and free cash flow have been increased to reflect the expected trend generated by the strong financial results we delivered in this quarter", declared Louis Audet, President and CEO of COGECO Inc.

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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.

FINANCIAL HIGHLIGHTS

($000, except percentages and per share data)	Quarters ended November 30, **2010 $**	2009 $	Change %
	(unaudited)	(unaudited)	
Operations			
Revenue	**342,766**	328,003	4.5
Operating income before amortization[1]	**137,031**	129,263	6.0
Operating margin[1]	**40.0%**	39.4%	–
Operating income	**73,892**	63,562	16.3
Net income	**15,975**	22,748	(29.8)
Adjusted net income[1]	**15,975**	13,128	21.7
Cash Flow			
Cash flow from operating activities	**57,572**	(1,410)	–
Cash flow from operations[1]	**42,499**	135,518	(68.6)
Capital expenditures and increase in deferred charges	**66,799**	68,387	(2.3)
Free cash flow[1]	**(24,300)**	67,131	–
Financial condition[2]			
Fixed assets	**1,329,837**	1,328,866	0.1
Total assets	**2,890,734**	2,744,656	5.3
Indebtedness[3]	**1,144,213**	961,354	19.0
Shareholders' Equity	**394,565**	381,635	3.4
RGU growth	**90,869**	89,785	1.2
Per Share Data[4]			
Earnings per share			
Basic	**0.95**	1.36	(30.1)
Diluted	**0.95**	1.35	(29.6)
Adjusted earnings per share[1]			
Basic	**0.95**	0.79	20.3
Diluted	**0.95**	0.78	21.8

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(2) At November 30, 2010 and August 31, 2010.

(3) Indebtedness is defined as the total of bank indebtedness, principal on long-term debt and obligations under derivative financial instruments. On November 16, 2010, Cogeco Cable completed the issuance of $200 million Senior Secured Debentures Series 2. Proceeds from the issuance were mainly used to redeem Cogeco Cable's $175 million Senior Secured Notes Series B on December 22, 2010.

(4) Per multiple and subordinate voting share.

FORWARD-LOOKING STATEMENTS

Certain statements in this press release 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 analysis 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)

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 three months of fiscal 2011, the Company's subsidiary, Cogeco Cable Inc. ("Cogeco Cable" or the "Cable subsidiary"), invested approximately $30 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 three months ended November 30, 2010, the number of RGU in the Cable subsidiary increased by 90,869, or 2.9%, to reach 3,270,218 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 strong RGU growth in the first quarter of the year, Cogeco Cable expects to surpass its fiscal 2011 guidelines of 250,000 net additions, and accordingly is revising the RGU growth guideline to 275,000 net additions for the 2011 fiscal year, 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. Please consult the fiscal 2011 revised projections in the "Fiscal 2011 financial guidelines" section for further details.

Operating income before amortization and operating margin

For the first quarter of fiscal 2011, operating income before amortization grew by $7.8 million, or 6%, to reach $137 million, and operating margin increased to 40%, from 39.4%. Primarily as a result of the increase in the RGU growth guideline, and to include the projections related to the forthcoming acquisition of 11 Québec radio stations from Corus Entertainment Inc. (the "Québec Radio Stations Acquisition") in light of the Canadian Radio-television and Telecommunications Commission's ("CRTC") decision rendered on December 17, 2010, Management has increased the projection for fiscal 2011 operating income before amortization to $560 million, an increase of $22 million, or 4.1% over the projection of $538 million in operating income before amortization issued on October 27, 2010. Please consult the fiscal 2011 revised projections in the "Fiscal 2011 financial guidelines" section for further details.

Free cash flow

For the three-month period ended November 30, 2010, COGECO reports negative free cash flow of $24.3 million, compared to positive free cash flow of $67.1 million in the first quarter of the prior fiscal year, representing a decrease of $91.4 million. The negative free cash flow in the first quarter of fiscal 2011 reflects the timing of the recognition of income tax liabilities as a result of modifications made to the corporate structure of Cogeco Cable in fiscal 2009, and will return to positive free cash flow in the second and following quarters of the 2011 fiscal year. Mainly as a result of the improvement of the operating income before amortization and the Québec Radio Stations Acquisition, Management

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

expects an increase in cash flow from operations[1] in fiscal 2011 while the increase in capital expenditures and increase in deferred charges should remain unchanged from the October 27, 2010 guidance. Management has revised its free cash flow guidelines for fiscal 2011 to $80 million, an increase of $20 million, or 33.3%, when compared to the free cash flow guideline of $60 million issued on October 27, 2010. Please consult the fiscal 2011 revised projections in the "Fiscal 2011 financial guidelines" section for further details.

Other

BBM Canada's fall 2010 survey in the Montréal region, conducted with the Portable People Meter ("PPM"), shows that Rythme FM has maintained its leadership position in this competitive market.

On April 30, 2010, the Company concluded an agreement with Corus Entertainment Inc. ("Corus") to acquire its Québec radio stations for $80 million in cash, subject to customary closing adjustments and conditions, including approval by the CRTC. On June 30, 2010, the Company submitted its transfer application for approval 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. Management believes the applications filed by Astral are without merit and the Company will vigorously challenge them with a view to having them dismissed by the Court. Management still plans to close the transaction with Corus on February 1, 2011.

OPERATING RESULTS – CONSOLIDATED OVERVIEW

	Quarters ended November 30,		
($000, except percentages)	**2010 $**	2009 $	Change %
	(unaudited)	(unaudited)	
Revenue	**342,766**	328,003	4.5
Operating costs	**205,735**	198,740	3.5
Operating income before amortization	**137,031**	129,263	6.0
Operating margin	**40.0%**	39.4%	

Revenue

Fiscal 2011 first-quarter revenue improved, mainly from the cable sector, by $14.8 million, or 4.5%, to reach $342.8 million. Cable revenue increased by $14.2 million, or 4.5%, for the first quarter when compared to the prior year. For further details on the Company's operating results, please refer to the "Cable sector" section.

Operating costs

For the first quarter of fiscal 2011, operating costs amounted to $205.7 million, an increase, mainly in the cable sector, of $7 million, or 3.5%, when compared to the prior year. For further details on the Company's operating results, please refer to the "Cable sector" section.

Operating income before amortization and operating margin

Operating income before amortization grew by $7.8 million, or 6%, to reach $137 million in the first quarter of fiscal 2011 when compared to the same period the previous year. The cable sector contributed to the growth by $6.8 million during the first quarter of fiscal 2010. COGECO's first-quarter operating margin increased to 40%, from 39.4% in the first quarter of the previous year. For further details on the Company's operating results, please refer to the "Cable sector" section.

FIXED CHARGES

	Quarters ended November 30,		
($000, except percentages)	**2010 $**	2009 $	Change %
	(unaudited)	(unaudited)	
Amortization	**63,139**	65,701	(3.9)
Financial expense	**16,905**	16,277	3.9

First-quarter 2011 amortization amounted to $63.1 million, compared to $65.7 million for the same period of the prior year. The decrease is 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.

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First-quarter financial expense amounted to $16.9 million, compared to $16.3 million in the prior year. The financial expense for the first quarter of the current year includes a foreign exchange gain of $0.3 million, compared to $0.5 million in the first quarter of the prior year. The variance in foreign exchange gains is mainly due to fluctuations in the relative value of the US dollar to the Canadian dollar, with the US dollar affecting mainly the Canadian operations as the majority of customer premise equipment is purchased and subsequently paid in US dollars. The remaining increase of $0.5 million in the first quarter is due to the timing of fluctuations in bank indebtedness when compared with the same period of the previous fiscal year.

INCOME TAXES

Fiscal 2011 first-quarter income tax expense amounted to $18.2 million, compared to an income tax recovery of $13.8 million in the comparable period of the prior year. The income tax recovery in the first quarter 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 $16 million for the first quarter of fiscal 2010. Fiscal 2011 first quarter income tax expense increase is mainly due to the operating income before amortization growth combined with the decrease in amortization, partly offset by 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 67.7% in Cogeco Cable's results. During the first quarter of fiscal 2011, the income attributable to non-controlling interest amounted to $22.8 million due to the cable sector's positive results, compared to $38.4 million in the first quarter 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 first quarter net income amounted to $16 million, or $0.95 per share, compared to $22.7 million, or $1.36 per share for the same period in 2010 which was favourably affected by the reduction of Ontario provincial corporate income tax rates described in the "Income taxes" section. Excluding this prior year impact, adjusted net income[(1)] would have amounted to $13.1 million, or $0.79 per share[(1)] in the first quarter of fiscal 2010. The growth in net income of $2.8 million, or 21.7%, and of $0.16 per share, or 20.3%, when compared to the adjusted net income in the prior year, has resulted mainly from the growth in operating income before amortization and the decrease in amortization expense in the first three months of the fiscal year.

CASH FLOW AND LIQUIDITY

	Quarters ended November 30,	
($000)	**2010** **$**	2009 $
	(unaudited)	(unaudited)
Operating activities		
Cash flow from operations	**42,499**	135,518
Changes in non-cash operating items	**15,073**	(136,928)
	57,572	(1,410)
Investing activities[(1)]	**(66,799)**	(68,226)
Financing activities[(1)]	**171,267**	47,453
Effect of exchange rate changes on cash and cash equivalents denominated in a foreign currency	**(229)**	202
Net change in cash and cash equivalents	**161,811**	(21,981)
Cash and cash equivalents, beginning of period	**35,842**	39,458
Cash and cash equivalents, end of period	**197,653**	17,477

(1) Excludes assets acquired under capital leases.

Fiscal 2011 first quarter cash flow from operations reached $42.5 million, 68.6% lower than the comparable period last year, primarily due to the recognition of current income tax expense relating to the modifications to the corporate structure of the cable subsidiary which took effect in the prior year. Changes in non-cash operating items generated cash inflows of $15.1 million, mainly as a result of an increase in income tax liabilities, partly offset by a decrease in accounts payable and accrued liabilities. In the prior year, changes in non-cash operating items required cash outflows of $136.9 million, mainly as a result of decreases in accounts payable and accrued liabilities and income tax liabilities and an increase in income taxes receivable.

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In the first quarter of fiscal 2011, investing activities, including mainly capital expenditures and the increase in deferred charges, amounted to $66.8 million, a decrease of $1.4 million, or 2.1% when compared to $68.2 million for the corresponding period of last year. The most significant variations are in the cable sector and are due to the following factors:

- A decrease in customer premise equipment spending in the Cable subsidiary, mainly due to the timing of equipment purchases in the Canadian operations and the depreciation of the value of the Euro relative to the Canadian dollar, which offset the increase in customer premise equipment spending required to support RGU growth in the European operations;
- An increase in scalable infrastructure in the Canadian operations to improve network capacity in existing areas served;
- An increase in support capital reflecting mainly the improvement of business information systems.

In the first quarter, negative free cash flow amounted to $24.3 million, compared to positive free cash flow of $67.1 million in the comparable period of fiscal 2010, representing a decrease of $91.4 million. The decline in free cash flow over the prior year is due to an increase of $100.4 million in current income tax expense, mainly from modifications made to the corporate structure, which offset the increase in operating income before amortization in the first quarter of fiscal 2011.

In the first quarter of fiscal 2011, indebtedness affecting cash increased by $182.1 million mainly due to the increase in cash and cash equivalents of $161.8 million from the net proceeds of $198.3 million as a result of the issuance by Cogeco Cable, on November 16, 2010, of Senior Secured Debentures Series 2 ("Fiscal 2011 debentures") to repay on December 22, 2010, the cable subsidiary's $175 million Senior Secured Notes Series B due on October 31, 2011 and the related make-whole premium on early repayment. Indebtedness affecting cash also increased due to negative free cash flow of $24.3 million and the dividend payment of $7.6 million described below, partly offset by the cash inflows of $15.1 million from the changes in non-cash operating items. Indebtedness mainly increased through the issuance of the Fiscal 2011 debentures described above, partly offset by a net repayment of $13.8 million on the Term Revolving Facility in the cable sector. Indebtedness affecting cash increased by $56.5 million in the prior year, mainly due to the decrease in non-cash operating items of $136.9 million and the aggregate dividend payments of $6.3 million described below, partly offset by the free cash flow of $67.1 million and the decrease in cash and cash equivalents of $22 million. Indebtedness mainly increased through an increase of $46.3 million in bank indebtedness and a net amount of $14.9 million drawn on the Cogeco Cable's Term Facility.

During the first 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 first 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 first quarter of the prior year.

As at November 30, 2010, the Company had a working capital deficiency of $166.6 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 an increase in cash and cash equivalents and a decrease in accounts payable and accrued liabilities. This decrease was partly offset by an increase in the current portion of the long-term debt, combined with an increase in income tax liabilities which exceeded the decrease in future income tax liabilities, reflecting the modifications made to the corporate structure of the cable subsidiary. 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 November 30, 2010, Cogeco Cable had used $114.5 million of its $750 million Term Revolving Facility for a remaining availability of $635.5 million and the Company had access to the full amount of $50 million available under its Term Revolving Facility.

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 "accounts payable and accrued liabilities", "income tax liabilities", "future income tax assets", "future income tax liabilities", "long-term debt", "derivative financial instruments" "cash and cash equivalents" and "non-controlling interest".

The $66.1 million decrease in accounts payable and accrued liabilities is related to the timing of payments made to suppliers. The increase of $80.2 million in income taxes liabilities and the decreases of $10 million in future income tax assets and of $71.9 million in future income tax liabilities primarily reflect the timing of the recognition of income tax liabilities as a result of modifications made to the corporate structure in the cable subsidiary. The increase of $175 million in the current portion of the long-term debt reflects the maturity in 2011 of Cogeco Cable's Senior Secured Notes Series B which were redeemed on December 22, 2010 pursuant to the issuance of the Fiscal 2011 debentures. The $161.8 million increase in cash and cash equivalents is due to the factors previously discussed in the "Cash flow and liquidity" section combined with the fluctuations in foreign exchange rates. The decrease of $5.8 million in derivative financial instruments is due to factors discussed in the "Financial management" section. The $15.4 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 December 31, 2010 is presented in the table below:

	Number of shares/options	Amount ($000)
Common shares		
Multiple voting shares	1,842,860	12
Subordinate voting shares	14,959,338	121,347
Options to purchase subordinate voting shares		
Outstanding options	30,000	
Exercisable options	30,000	

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. 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.

DIVIDEND DECLARATION

At its January 12, 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 February 9, 2011, to shareholders of record on January 26, 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 quarter of fiscal 2011, the fair value of interest rate swap increased by $0.5 million, which is recorded as an increase of other comprehensive income, net of income taxes and non-controlling interest, compared to a decrease of $0.1 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. During the first three months of fiscal 2011, amounts due under the US$190 million Senior Secured Notes Series A decreased by $7.6 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 $6.3 million, of which a decrease of $7.6 million offsets the foreign exchange gain on the debt denominated in US dollars. The difference of $1.2 million was recorded as an increase of other comprehensive income, net of income taxes and non-controlling interest. In the first quarter of fiscal 2010, amounts due under the US$190 million Senior Secured Notes Series A decreased by $7.5 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 $5.8 million, of which $7.5 million offsets the foreign exchange gain on the debt denominated in US dollars. The difference of $1.7 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, the cable subsidiary recorded a foreign exchange loss of $1.9 million in the first quarter, compared to a foreign exchange gain of $0.6 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 November 30, 2010 was $1.3326 per Euro compared to $1.3515 per Euro as at August 31, 2010. The average exchange rate prevailing during the first quarter of fiscal 2011 used to convert the operating results of the European operations was $1.3833 per Euro compared to $1.5732 per Euro in the first quarter 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 in the cable sector for the first three months ended November 30, 2010:

Three months ended November 30, 2010	As reported	Exchange rate impact
($000)	$	$
	(unaudited)	(unaudited)
Revenue	43,263	4,326
Operating income before amortization	4,271	427

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 13 of the consolidated financial statements for further details.

CABLE SECTOR

CUSTOMER STATISTICS

	November 30, 2010	Net additions Quarters ended November 30, 2010	2009	% of Penetration[1] November 30, 2010	2009
RGU	**3,270,218**	**90,869**	89,785		
Basic Cable service customers	**1,142,398**	**7,626**	8,357		
HSI service customers	**742,708**	**20,464**	22,715	**66.6**	62.8
Digital Television service customers	**760,919**	**41,649**	32,220	**67.2**	56.6
Telephony service customers	**624,193**	**21,130**	26,493	**58.0**	50.8

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

In the cable sector, first quarter RGU net additions amounted to 90,869, compared to 89,785 RGU in the comparable period of the previous fiscal year.

Fiscal 2011 first-quarter RGU net additions were higher than in the comparable period of the prior year, and the Canadian operations continue to generate RGU growth despite higher penetration rates, category maturity and aggressive competition. During the last half of fiscal 2010, Cogeco Cable's European operations generated net basic subscriber growth as a result of its general policy re-assessment during the last half of the 2009 calendar year. 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. The rate of growth for our services has diminished in this environment.

The net customer additions for Basic Cable service customers stood at 7,626 for the first quarter, compared to 8,357 in the first quarter of the prior year. Basic Cable service net additions in fiscal 2011 were mainly due to expansions in the network and the combined effect of continued growth in HSI and Telephony services in the Canadian operations. In the quarter, Telephony service customers grew by 21,130 compared to 26,493 for the same period last year, and the number of net additions to the HSI service stood at 20,464 customers compared to 22,715 customers in the first quarter 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 and customer retention activities throughout the cable subsidiary's operations. For the three-month period ended November 30, 2010, additions to the Digital Television service stood at 41,649 customers, compared to 32,220 for the comparable period 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

($000, except percentages)	Quarters ended November 30, 2010 $	2009 $	Change %
	(unaudited)	(unaudited)	
Revenue	**331,519**	317,365	4.5
Operating costs	**195,447**	188,418	3.7
Management fees – COGECO Inc.	**6,644**	6,341	4.8
Operating income from before amortization	**129,428**	122,606	5.6
Operating margin	**39.0%**	38.6%	

Revenue

Fiscal 2011 first-quarter revenue improved by $14.2 million, or 4.5%, to reach $331.5 million, when compared to the prior year.

Driven by RGU growth and 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' first-quarter revenue rose by $23.9 million, or 9%, to reach $288.3 million.

In the first quarter of fiscal 2011 European operations' revenue decreased by $9.7 million, or 18.4%, at $43.3 million, mainly due to the decline of the Euro in relation to the Canadian dollar and reflecting the impact of retention strategies implemented in the second half of fiscal 2009 in order to curtail customer attrition. Revenue from the European operations in the local currency for the 2011 first quarter amounted to €31.3 million, a decrease of €2.4 million, or 7.2%, when compared to the same period of the prior year.

Operating costs

For the first quarter of fiscal 2011, operating costs, excluding management fees payable to COGECO Inc., increased by $7 million, to reach $195.4 million, an increase of 3.7% compared to the prior year.

In the Canadian operations, for the three months ended November 30, 2010, operating costs excluding management fees payable to COGECO Inc. increased by $10.9 million, or 7.5%, at $156.5 million. The increase in operating costs is mainly attributable to servicing additional RGU, the launch of new HD channels and additional marketing initiatives.

As for the European operations, fiscal 2011 first-quarter operating costs decreased by $3.8 million, or 9%, at $39 million, 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 first quarter in the local currency amounted to €28.2 million, an increase of €1 million, or 3.5% when compared to the corresponding period of the prior year.

Operating income before amortization and operating margin

Fiscal 2011 first-quarter operating income before amortization increased by $6.8 million, or 5.6%, to reach $129.4 million. Cogeco Cable's first-quarter operating margin increased to 39% from 38.6% in the comparable period of the prior year.

Operating income before amortization in the Canadian operations rose by $12.7 million, or 11.3%, to reach $125.2 million in the first quarter, mainly due to the increased revenue exceeding the growth in operating costs. Cogeco Cable's Canadian operations' operating margin increased to 43.4% in the first quarter compared to 42.5% for the same period of the prior year. The growth in the operating margin for the first quarter stems from rate increases, RGU growth and the introduction in the second quarter of fiscal 2010 of customer billing for the new LPIF which offset the associated operating costs.

For the European operations, operating income before amortization decreased to $4.3 million in the first quarter from $10.2 million for the same period of the prior year, representing a decrease of $5.9 million, or 58%, mainly due to decreases in revenue which outpaced the decreases in operating costs. European operations' operating margin decreased to 9.9% from 19.2% in the first quarter of fiscal 2011. Operating income before amortization in the local currency amounted to €3.1 million compared to €6.5 million in the first quarter of the prior year, representing a decrease of 52.2%.

FISCAL 2011 FINANCIAL GUIDELINES

Consolidated

Management has revised upwards its guidelines to include the projections related to the forthcoming Québec Radio Stations Acquisition in light of the expected closing date of February 1, 2011 and to reflect the improved performance of the cable sector in the first quarter of fiscal 2011.

As a result of these factors, projected revenue, operating income before amortization, net income and free cash flow were revised upwards. The projected revenue should increase to $1,442 million from $1,380 million. The operating income before amortization should increase to $560 million from $538 million and net income should increase to about $50 million. Free cash flow should increase to $80 million from $60 million.

(in millions of dollars, except net customer additions and operating margin)	Revised projections January 12, 2011 Fiscal 2011 $	Projections October 27, 2010 Fiscal 2011 $
Financial guidelines		
Revenue	1,442	1,380
Operating income before amortization	560	538
Financial expense	75	70
Current income taxes	64	65
Net income	50	45
Capital expenditures and increase in deferred charges	341	341
Free cash flow	80	60

Cable sector

Given the improved financial results during the first quarter and the expected trend, guidelines for the 2011 fiscal year were revised upwards to reflect higher than expected RGU growth and average revenue per unit in its Canadian operations mainly attributable to effective marketing strategies and the continued demand for cable telecommunications services. For its European operations, Management has taken into consideration the impact of the rate increases implemented in January 2011 combined with the impact on consumer spending of the increase of the value added tax from 21% to 23%, which may impact customers' capacity to pay for their products and services, among others, and from the austerity measures recently introduced by the Portuguese government.

Subsequent to these adjustments, projected revenue, operating income before amortization, operating margin, net income and free cash flow were revised upwards. The increase in projected revenue to $1,360 million from $1,340 million should come from the Canadian operations. The operating income before amortization should increase to $545 million from $530 million, operating margin should increase to 40.1% from 39.6% and net income should increase to about $140 million. Amortization expense has been reduced to $265 million from $275 million to reflect the impact of lower than expected capital expenditures in fiscal 2010 as well as the revised timing of 2011 capital expenditures.

As a result of the revised projections, free cash flow is now expected to reach $70 million from the $55 million initially anticipated last October.

(in millions of dollars, except net customer additions and operating margin)	Revised projections January 12, 2011 Fiscal 2011 $	Projections October 27, 2010 Fiscal 2011 $
Financial guidelines		
Revenue	1,360	1,340
Operating income before amortization	545	530
Operating margin	40.1%	39.6%
Amortization	265	275
Financial expense	72	70
Current income taxes	63	65
Net income	140	120
Capital expenditures and increase in deferred charges	340	340
Free cash flow	70	55
Net customer additions guidelines		
RGU	275,000	250,000

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 November 30, 2010, and have concluded that they were adequate. Furthermore, no significant changes to the internal controls over financial reporting occurred during the quarter ended November 30, 2010.

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

Except as mentioned below, 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.

On April 30, 2010, the Company concluded an agreement with Corus Entertainment Inc. ("Corus") to acquire its Québec radio stations for $80 million in cash, subject to customary closing adjustments and conditions, including approval by the CRTC. On June 30, 2010, the Company submitted its transfer application for approval 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. Management believes the applications filed by Astral are without merit and the Company will vigorously challenge them with a view to having them dismissed by the Court. Management still plans to close the transaction with Corus on February 1, 2011.

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

Harmonization of Canadian and 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 harmonization of Canadian and 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 November 30,	
($000)	**2010 $**	2009 $
	(unaudited)	(unaudited)
Cash flow from operating activities	**57,572**	(1,410)
Changes in non-cash operating items	**(15,073)**	136,928
Cash flow from operations	**42,499**	135,518

Free cash flow is calculated as follows:

	Quarters ended November 30,	
($000)	**2010 $**	2009 $
	(unaudited)	(unaudited)
Cash flow from operations	**42,499**	135,518
Acquisition of fixed assets	**(63,307)**	(65,182)
Increase in deferred charges	**(3,492)**	(3,064)
Assets acquired under capital leases – as per note 11 c)	**–**	(141)
Free cash flow	**(24,300)**	67,131

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 November 30,	
($000, except percentages)	**2010 $**	2009 $
	(unaudited)	(unaudited)
Operating income	**73,892**	63,562
Amortization	**63,139**	65,701
Operating income before amortization	**137,031**	129,263
Revenue	**342,766**	328,003
Operating margin	**40.0%**	39.4%

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 November 30,	
	2010	2009
($000, except number of shares and per share data)	**$**	$
	(unaudited)	(unaudited)
Net income	**15,975**	22,748
Adjustments:		
Reduction of Ontario provincial corporate income tax rates, net of non-controlling interest	**–**	(9,620)
Adjusted net income	**15,975**	13,128
Weighted average number of multiple voting and subordinate voting shares outstanding	**16,728,184**	16,721,277
Effect of dilutive stock options	**10,970**	6,594
Effect of dilutive subordinate voting shares held in trust under the Incentive Share Unit Plan	**74,014**	64,053
Weighted average number of diluted multiple voting and subordinate voting shares outstanding	**16,813,168**	16,791,924
Adjusted earnings per share		
Basic	**0.95**	0.79
Diluted	**0.95**	0.78

ADDITIONAL INFORMATION

This MD&A was prepared on January 12, 2011. Additional information relating to the Company, including its Annual Information Form, is available on the SEDAR website at www.sedar.com.

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, data networking, e-business applications, video conferencing, hosting services, Ethernet, private line, VoIP, HSI access, dark fibre, data storage, data security and co-location services and other advanced communication solutions. Through its subsidiary, Cogeco Diffusion Inc., COGECO owns and operates the Rythme FM radio stations in Montréal, Québec City, Trois-Rivières and Sherbrooke, as well as the FM 93 radio station in Québec City. 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.**
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Analyst Conference Call: **Thursday, January 13, 2011 at 11:00 a.m.** (EST)
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: 1 888 300-0053
International Access Number: + 1 647 427-3420
Confirmation Code: 27875882
By Internet at www.cogeco.ca/investors

A rebroadcast of the conference call will be available until January 20, 2011, by dialling:
Canada and USA access number: 1 800 642-1687
International access number: + 1 706 645-9291
Confirmation code: 27875882

Supplementary Quarterly Financial Information
(unaudited)

Quarters ended	November 30,		August 31,		May 31,		February 28,	
($000, except percentages and per share data)	**2010**	2009	2010	2009	2010	2009	2010	2009
Revenue	**342,766**	328,003	333,671	316,284	330,933	316,310	329,087	311,825
Operating income before amortization[1]	**137,031**	129,263	137,785	144,654	127,928	126,624	124,363	123,505
Operating margin[1]	**40.0%**	39.4%	41.3%	45.7%	38.7%	40.0%	37.8%	39.6%
Operating income	**73,892**	63,562	73,942	76,244	64,008	62,623	58,370	60,171
Impairment of goodwill and intangible assets	**–**	–	**–**	–	–	–	–	(399,648)
Net income (loss)	**15,975**	22,748	12,265	14,631	10,740	10,704	10,511	(115,210)
Adjusted net income[1]	**15,975**	13,128	12,265	7,647	10,740	9,157	10,511	8,741
Cash flow from operating activities	**57,572**	(1,410)	198,492	177,032	110,756	99,873	117,498	117,322
Cash flow from operations[1]	**42,499**	135,518	127,230	108,744	119,140	92,718	120,331	97,193
Capital expenditures and increase in deferred charges	**66,799**	68,387	108,515	94,002	69,511	60,302	74,549	65,104
Free cash flow[1]	**(24,300)**	67,131	18,715	14,742	49,629	32,416	45,782	32,089
Earnings (loss) per share[2]								
Basic	**0.95**	1.36	0.73	0.87	0.64	0.64	0.63	(6.90)
Diluted	**0.95**	1.35	0.73	0.87	0.64	0.64	0.63	(6.90)
Adjusted earnings per share[1][2]								
Basic	**0.95**	0.79	0.73	0.46	0.64	0.55	0.63	0.52
Diluted	**0.95**	0.78	0.73	0.46	0.64	0.55	0.63	0.52

(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) Per multiple and subordinate voting share.

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. For the current fiscal year, the maximum amount has been set at $9.2 million, which is expected to be paid in the first six months of fiscal 2011. For fiscal 2010, the maximum amount of $9 million was attained in the second quarter and therefore, no management fees were paid in the third or fourth quarters of the 2010 fiscal year.

Cable Sector Customer Statistics
(unaudited)

	November 30, 2010	August 31, 2010
Homes passed		
Canada	**1,600,938**	1,593,743
Portugal[1]	**905,445**	905,359
Total	**2,506,383**	2,499,102
Homes connected[2]		
Canada	**990,533**	979,590
Portugal	**269,553**	269,194
Total	**1,260,086**	1,248,784
Revenue-generating units[3]		
Canada	**2,421,267**	2,350,577
Portugal	**848,951**	828,772
Total	**3,270,218**	3,179,349
Basic Cable service customers		
Canada	**881,543**	874,505
Portugal	**260,855**	260,267
Total	**1,142,398**	1,134,772
High Speed Internet service customers		
Canada	**575,929**	559,057
Portugal	**166,779**	163,187
Total	**742,708**	722,244
Digital Television service customers		
Canada	**588,332**	559,418
Portugal	**172,587**	159,852
Total	**760,919**	719,270
Telephony service customers		
Canada	**375,463**	357,597
Portugal	**248,730**	245,466
Total	**624,193**	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.

COGECO INC.
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

(In thousands of dollars, except per share data)	Three months ended November 30, **2010**	2009
	$	$
Revenue	**342,766**	328,003
Operating costs	**205,735**	198,740
Operating income before amortization	**137,031**	129,263
Amortization (note 3)	**63,139**	65,701
Operating income	**73,892**	63,562
Financial expense (note 4)	**16,905**	16,277
Income before income taxes and the following items	**56,987**	47,285
Income taxes (note 5)	**18,244**	(13,818)
Gain on dilution resulting from the issuance of shares by a subsidiary	**(5)**	—
Non-controlling interest	**22,773**	38,355
Net income	**15,975**	22,748
Earnings per share (note 6)		
Basic	**0.95**	1.36
Diluted	**0.95**	1.35

COGECO INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(In thousands of dollars)	Three months ended November 30, **2010**	2009
	$	$
Net income	**15,975**	22,748
Other comprehensive income (loss)		
Unrealized losses on derivative financial instruments designated as cash flow hedges, net of income tax recovery of $966,000 ($2,141,000 in 2009) and non-controlling interest of $3,296,000 ($2,551,000 in 2009)	**(1,571)**	(1,218)
Reclassification to net income of unrealized losses on derivative financial instruments designated as cash flow hedges, net of income tax recovery of $917,000 ($1,007,000 in 2009) and non-controlling interest of $4,512,000 ($4,386,000 in 2009)	**2,152**	2,093
Unrealized gains (losses) on translation of a net investment in self-sustaining foreign subsidiaries, net of non-controlling interest of $2,128,000 ($1,844,000 in 2009)	**(1,015)**	882
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 $831,000 ($1,415,000 in 2009)	**396**	(676)
	(38)	1,081
Comprehensive income	**15,937**	23,829

COGECO INC.
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
(unaudited)

(In thousands of dollars)	Three months ended November 30, **2010**	2009
	$	$
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	**15,975**	22,748
Excess of the value attributed to the incentive share units at issuance over the price paid for the acquisition of the subordinate voting shares	**45**	–
Dividends on multiple voting shares	**(221)**	(184)
Dividends on subordinate voting shares	**(1,786)**	(1,494)
Balance at end	**267,182**	225,098

COGECO INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)

(In thousands of dollars)	**November 30, 2010**	August 31, 2010
	$	$
Assets		
Current		
Cash and cash equivalents (note 11 b))	**197,653**	35,842
Accounts receivable (note 13)	**79,534**	74,560
Income taxes receivable	**43,362**	45,400
Prepaid expenses and other	**10,869**	14,189
Future income tax assets	**4,799**	6,133
	336,217	176,124
Investments	**739**	739
Fixed assets	**1,329,837**	1,328,866
Deferred charges	**28,277**	27,960
Intangible assets (note 7)	**1,041,805**	1,042,998
Goodwill (note 7)	**144,297**	144,695
Derivative financial instruments	**–**	5,085
Future income tax assets	**9,562**	18,189
	2,890,734	2,744,656
Liabilities and Shareholders' equity		
Liabilities		
Current		
Bank indebtedness	**740**	2,328
Accounts payable and accrued liabilities	**182,671**	248,775
Income tax liabilities	**80,767**	558
Deferred and prepaid revenue	**45,361**	45,602
Derivative financial instrument	**674**	1,189
Current portion of long-term debt (note 8)	**177,339**	2,329
Future income tax liabilities	**15,257**	78,267
	502,809	379,048
Long-term debt (note 8)	**953,206**	952,741
Derivative financial instruments	**1,263**	–
Deferred and prepaid revenue and other liabilities	**12,532**	12,234
Pension plan liabilities and accrued employees benefits	**11,417**	10,568
Future income tax liabilities	**229,787**	238,699
	1,711,014	1,593,290
Non-controlling interest	**785,155**	769,731
Shareholders' equity		
Capital stock (note 9)	**118,703**	119,527
Contributed surplus	**2,784**	3,005
Retained earnings	**267,182**	253,169
Accumulated other comprehensive income (note 10)	**5,896**	5,934
	394,565	381,635
	2,890,734	2,744,656

COGECO INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(In thousands of dollars)	Three months ended November 30, 2010	2009
	$	$
Cash flow from operating activities		
Net income	**15,975**	22,748
Adjustments for:		
Amortization (note 3)	**63,139**	65,701
Amortization of deferred transaction costs and discounts on long-term debt	**778**	762
Future income taxes	**(61,899)**	6,404
Non-controlling interest	**22,773**	38,355
Gain on dilution resulting from the issuance of shares by a subsidiary	**(5)**	—
Stock-based compensation	**678**	708
Loss on disposals and write-offs of fixed assets	**320**	98
Other	**740**	742
	42,499	135,518
Changes in non-cash operating items (note 11 a))	**15,073**	(136,928)
	57,572	(1,410)
Cash flow from investing activities		
Acquisition of fixed assets (note 11 c))	**(63,307)**	(65,182)
Increase in deferred charges	**(3,492)**	(3,064)
Other	**—**	20
	(66,799)	(68,226)
Cash flow from financing activities		
Increase (decrease) in bank indebtedness	**(1,588)**	46,324
Net increases (repayments) under the Term Facilities and Term Revolving Facilities	**(13,800)**	11,425
Issuance of long-term debt, net of discounts and transaction costs	**198,320**	—
Repayments of long-term debt	**(826)**	(1,224)
Acquisition of subordinate voting shares held in trust under the Incentive Share Unit Plan (note 9)	**(1,282)**	(1,049)
Dividends on multiple voting shares	**(221)**	(184)
Dividends on subordinate voting shares	**(1,786)**	(1,494)
Issuance of shares by a subsidiary to non-controlling interest	**290**	—
Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive Share Unit Plan (note 9)	**(2,258)**	(1,744)
Dividends paid by a subsidiary to non-controlling interest	**(5,582)**	(4,601)
	171,267	47,453
Effect of exchange rate changes on cash and cash equivalents denominated in a foreign currency	**(229)**	202
Net change in cash and cash equivalents	**161,811**	(21,981)
Cash and cash equivalents at beginning	**35,842**	39,458
Cash and cash equivalents at end	**197,653**	17,477

See supplemental cash flow information in note 11.

COGECO INC.

Notes to Consolidated Financial Statements
November 30, 2010
(unaudited)
(amounts in tables are in thousands of dollars, except number of shares and per share data)

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 November 30, 2010 and August 31, 2010 as well as its results of operations and its cash flows for the three-month periods ended November 30, 2010 and 2009.

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 harmonization of Canadian and International accounting standards taking effect at that same date, this EIC will not be applicable to the Company.

2. 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 November 30,	**2010**	2009	**2010**	2009	**2010**	2009
	$	$	**$**	$	**$**	$
Revenue	**331,519**	317,365	**11,247**	10,638	**342,766**	328,003
Operating costs	**202,091**	194,759	**3,644**	3,981	**205,735**	198,740
Operating income before amortization	**129,428**	122,606	**7,603**	6,657	**137,031**	129,263
Amortization	**62,990**	65,565	**149**	136	**63,139**	65,701
Operating income	**66,438**	57,041	**7,454**	6,521	**73,892**	63,562
Financial expense	**16,700**	16,141	**205**	136	**16,905**	16,277
Income taxes	**16,101**	(15,766)	**2,143**	1,948	**18,244**	(13,818)
Gain on dilution resulting from the issuance of shares by a subsidiary	**(5)**	–	**–**	–	**(5)**	–
Non-controlling interest	**22,773**	38,355	**–**	–	**22,773**	38,355
Net income	**10,869**	18,311	**5,106**	4,437	**15,975**	22,748
Total assets [1]	**2,847,210**	2,702,819	**43,524**	41,837	**2,890,734**	2,744,656
Fixed assets [1]	**1,326,099**	1,325,077	**3,738**	3,789	**1,329,837**	1,328,866
Intangible assets [1]	**1,016,465**	1,017,658	**25,340**	25,340	**1,041,805**	1,042,998
Goodwill [1]	**144,297**	144,695	**–**	–	**144,297**	144,695
Acquisition of fixed assets [2]	**63,209**	65,157	**98**	166	**63,307**	65,323

[1] At November 30, 2010 and August 31, 2010.
[2] Includes fixed assets acquired through capital leases that are excluded from the consolidated statements of cash flows.

COGECO INC.

Notes to Consolidated Financial Statements
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2. Segmented Information (continued)

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

	Three months ended November 30,	
	2010	2009
	$	$
Revenue		
Canada	**299,503**	274,998
Europe	**43,263**	53,005
	342,766	328,003

	November 30, 2010	August 31, 2010
	$	$
Fixed assets		
Canada	**1,106,812**	1,098,760
Europe	**223,025**	230,106
	1,329,837	1,328,866
Intangible assets		
Canada	**1,041,805**	1,042,998
Europe	**–**	–
	1,041,805	1,042,998
Goodwill		
Canada	**116,243**	116,243
Europe	**28,054**	28,452
	144,297	144,695

3. Amortization

	Three months ended November 30,	
	2010	2009
	$	$
Fixed assets	**59,260**	61,701
Deferred charges	**2,686**	2,807
Intangible assets	**1,193**	1,193
	63,139	65,701

4. Financial expense

	Three months ended November 30,	
	2010	2009
	$	$
Interest on long-term debt	**15,892**	15,901
Foreign exchange gains	**(332)**	(488)
Amortization of deferred transaction costs	**489**	407
Other	**856**	457
	16,905	16,277

COGECO INC.

Notes to Consolidated Financial Statements
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5. Income Taxes

	Three months ended November 30,	
	2010	2009
	$	$
Current	**80,143**	(20,222)
Future	**(61,899)**	6,404
	18,244	(13,818)

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 November 30,	
	2010	2009
	$	$
Income before income taxes	**56,987**	47,285
Combined income tax rate	**28.91%**	31.43%
Income taxes at combined income tax rate	**16,475**	14,862
Adjustments for losses or income subject to lower or higher tax rates	**(953)**	(2,422)
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	**170**	209
Effect of foreign income tax rate differences	**2,461**	247
Other	**91**	(1,364)
Income taxes at effective income tax rate	**18,244**	(13,818)

6. Earnings per Share

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

	Three months ended November 30,	
	2010	2009
	$	$
Net income	**15,975**	22,748
Weighted average number of multiple voting and subordinate voting shares outstanding	**16,728,184**	16,721,277
Effect of dilutive stock options [(1)]	**10,970**	6,594
Effect of dilutive subordinate voting shares held in trust under the Incentive Share Unit Plan	**74,014**	64,053
Weighted average number of diluted multiple voting and subordinate voting shares outstanding	**16,813,168**	16,791,924
Earnings per share		
Basic	**0.95**	1.36
Diluted	**0.95**	1.35

(1) For the three-month period ended November 30, 2009, 32,782 stock options were excluded from the calculation of diluted earnings per share as the exercise price of the options was greater than the average share price of the subordinate voting shares.

7. Goodwill and Other Intangible Assets

	November 30, 2010	August 31, 2010
	$	$
Customer relationships	**26,913**	28,106
Broadcasting licenses	**25,120**	25,120
Customer base	**989,772**	989,772
	1,041,805	1,042,998
Goodwill	**144,297**	144,695
	1,186,102	1,187,693

a) Intangible assets

During the first three 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**
Amortization	**(1,193)**	–	–	**(1,193)**
Balance at November 30, 2010	**26,913**	**25,120**	**989,772**	**1,041,805**

b) Goodwill

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

	$
Balance at August 31, 2010	**144,695**
Foreign currency translation adjustment	**(398)**
Balance at November 30, 2010	**144,297**

8. Long-Term Debt

	Maturity	Interest rate	November 30, 2010	August 31, 2010
		%	**$**	$
Parent company				
Term Revolving Facility	2013	—	**—**	—
Obligations under capital lease	2013	9.29	**68**	72
Subsidiaries				
Term Revolving Facility				
Revolving loan — €80,000,000 (€90,000,000 at August 31, 2010)	2014	2.81 (1)(2)	**106,608**	121,635
Senior Secured Notes Series B	2011(3)	7.73	**174,793**	174,738
Senior Secured Notes				
Series A – US$190,000,000	2015	7.00(4)	**193,859**	201,387
Series B	2018	7.60	**54,619**	54,609
Senior Secured Debentures Series 1	2014	5.95	**297,538**	297,379
Senior Secured Debentures Series 2 (5)	2020	5.15	**198,326**	—
Senior Unsecured Debenture	2018	5.94	**99,812**	99,806
Obligations under capital leases	2013	6.71 – 9.93	**4,910**	5,429
Other	2011	—	**12**	15
			1,130,545	955,070
Less current portion			**177,339**	2,329
			953,206	952,741

(1) Interest rate on debt as at November 30, 2010, including applicable margin.

(2) 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.

(3) 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 $183,771,000, excluding accrued interest. The excess of the redemption price over the aggregate principal amount will be recorded as financial expense during the second quarter of fiscal 2011.

(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"). 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.

COGECO INC.

Notes to Consolidated Financial Statements
November 30, 2010
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9. 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

	November 30, 2010	August 31, 2010
	$	$
1,842,860 multiple voting shares	**12**	12
14,959,338 subordinate voting shares	**121,347**	121,347
	121,359	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)
	118,703	119,527

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

	Number of shares	**Amount**
		$
Balance at August 31, 2010	**71,862**	**1,832**
Subordinate voting shares acquired	**36,085**	**1,282**
Subordinate voting shares distributed to employees	**(12,589)**	**(458)**
Balance at November 30, 2010	**95,358**	**2,656**

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 three-month periods ended November 30, 2010 and 2009, no stock options were granted to employees by COGECO Inc. However, the Company's subsidiary, Cogeco Cable Inc., granted 66,700 stock options (63,695 in 2009) with an exercise price of $39.00 ($31.82 in 2009), of which 35,800 stock options (33,266 in 2009) 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 $166,000 ($337,000 in 2009) was recorded for the three-month period ended November 30, 2010.

COGECO INC.

Notes to Consolidated Financial Statements
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9. Capital Stock (continued)

The fair value of stock options granted by the Company's subsidiary, Cogeco Cable Inc., for the three months period ended November 30, 2010 was $9.55 ($8.11 in 2009) 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:

	2010	2009
	%	%
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

At November 30, 2010, the Company had outstanding stock options providing for the subscription of 30,000 subordinate voting shares. These stock options can be exercised at $20.95 and up to October 19, 2011.

Under the Company's Stock Option Plan, the following options were granted and are outstanding at November 30, 2010:

Outstanding at August 31, 2010	**62,382**
Expired	**(32,382)**
Outstanding at November 30, 2010	**30,000**
Exercisable at November 30, 2010	**30,000**

Under Cogeco Cable Inc.'s Stock Option Plan, the following options were granted and are outstanding at November 30, 2010:

Outstanding at August 31, 2010	**716,760**
Granted	**66,700**
Exercised	**(11,660)**
Forfeited / Cancelled	**(3,170)**
Expired	**(448)**
Outstanding at November 30, 2010	**768,182**
Exercisable at November 30, 2010	**576,369**

9. 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 three–month period ended November 30, 2010, the Company granted 36,085 (41,571 in 2009) Incentive Share Units ("ISUs") and Cogeco Cable Inc. granted 58,088 ISUs (55,094 in 2010) of which, 10,000 ISUs (9,981 in 2009) were granted to Cogeco Inc.'s employees. The Company and its subsidiary establish the value of the compensation related to the ISUs granted based on the fair value of the Company and its subsidiary's subordinate voting shares at the date of grant and a compensation expense is recognized over the vesting period, which is three years. A Trust was created for the purpose of purchasing subordinate voting shares of the Company and Cogeco Cable Inc. on the stock market in order to guard against stock price fluctuation. The Company and its subsidiary instructed the trustee to purchase 36,085 and 57,203 subordinate voting shares (41,571 and 55,094 in 2009) on the stock market. These shares were purchased for cash consideration of $1,282,000 ($1,049,000 in 2009) and $2,258,000 ($1,744,000 in 2009), respectively, and are held in trust for participants until they are completely vested. The 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 trust under the ISU Plans in reduction of capital stock or non-controlling interest. A compensation expense of $403,000 ($187,000 in 2009) was recorded for the three-month period ended November 30, 2010 related to these plans.

Under the Company's ISU Plan, the following ISUs were granted and are outstanding at November 30, 2010:

Outstanding at August 31, 2010	**71,862**
Granted	**36,085**
Distributed	**(12,589)**
Outstanding at November 30, 2010	**95,358**

Under Cogeco Cable Inc.'s ISU Plan, the following ISUs were granted and are outstanding at November 30, 2010:

Outstanding at August 31, 2009	**57,409**
Granted	**58,088**
Forfeited / Cancelled	**(885)**
Outstanding at November 30, 2010	**114,612**

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 three-month periods ended November 30, 2010 and 2009, the Company and its subsidiary did not issue any Deferred Share Units ("DSUs") to the participants in connection with the DSU Plans. A compensation expense of $109,000 ($184,000 in 2009) was recorded for the three-month period ended November 30, 2010 for the liabilities related to these plans.

Under the Company's DSU Plan, the following DSUs were issued and are outstanding at November 30, 2010:

Outstanding at August 31, 2010	**21,630**
Dividend equivalents	**74**
Outstanding at November 30, 2010	**21,704**

COGECO INC.

Notes to Consolidated Financial Statements
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9. Capital Stock (continued)

Under Cogeco Cable Inc.'s DSU Plan, the following DSUs were awarded and are outstanding at November 30, 2010:

Outstanding at August 31, 2010	**10,855**
Dividend equivalents	**47**
Outstanding at November 30, 2010	**10,902**

10. 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)	**(619)**	**581**	**(38)**
Balance as at November 30, 2010	**4,374**	**1,522**	**5,896**

11. Statements of Cash Flows

a) Changes in non-cash operating items

	Three months ended November 30,	
	2010	2009
	$	$
Accounts receivable	**(5,112)**	(5,494)
Income taxes receivable	**2,009**	(20,514)
Prepaid expenses and other	**3,293**	(1,105)
Accounts payable and accrued liabilities	**(65,393)**	(72,789)
Income tax liabilities	**80,214**	(39,224)
Deferred and prepaid revenue and other liabilities	**62**	2,198
	15,073	(136,928)

b) Cash and cash equivalents

	November 30, 2010	August 31, 2010
	$	$
Cash	**184,327**	35,842
Cash equivalents [(1)]	**13,326**	–
	197,653	35,842

[(1)] At November 30, 2010, term deposit of €10,000,000, bearing interest at 0.90%, maturing on December 6, 2010.

11. Statements of Cash Flows (continued)

c) Other information

	Three months ended November 30,	
	2010	2009
	$	$
Fixed asset acquisitions through capital leases	**—**	141
Financial expense paid	**21,109**	21,047
Income taxes paid (received)	**(2,077)**	39,517

12. Employee Future Benefits

The Company and its Canadian subsidiaries offer to their employees contributory defined benefit pension plans, a defined contribution pension plan 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 November 30,	
	2010	2009
	$	$
Contributory defined benefit pension plans	**915**	870
Defined contribution pension plan and collective registered retirement savings plans	**1,277**	1,126
	2,192	1,996

13. 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 November 30, 2010, 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.

13. 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 November 30, 2010, 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:

	November 30, 2010	August 31, 2010
	$	$
Trade accounts receivable	**79,894**	76,243
Allowance for doubtful accounts	**(9,011)**	(8,531)
	70,883	67,712
Other accounts receivable	**8,651**	6,848
	79,534	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.

	November 30, 2010	August 31, 2010
	$	$
Net trade accounts receivable not past due	**50,087**	46,291
Net trade accounts receivable past due	**20,796**	21,421
	70,883	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 November 30, 2010, the available amount of the Company's Term Revolving Facilities was $685.5 million. Management believes that the committed Term Revolving Facilities will, until their maturities in July 2013 and July 2014, provide sufficient liquidity to manage its long-term debt maturities and support working capital requirements.

13. 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
	$	$	$	$	$	$	$
Bank indebtedness	740	–	–	–	–	–	740
Accounts payable and accrued liabilities[1]	168,102	–	–	–	–	–	168,102
Long-term debt [2]	175,012	–	–	406,608	–	550,054	1,131,674
Derivative financial instruments							
Cash outflows (Canadian dollar)	–	–	–	–	–	201,875	201,875
Cash inflows (Canadian dollar equivalent of US dollar)	–	–	–	–	–	(195,054)	(195,054)
Obligations under capital leases [3]	2,203	2,322	915	13	–	–	5,453
	346,057	2,322	915	406,621	–	556,875	1,312,790

[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 current debt at November 30, 2010 and their respective maturities:

	2011	2012	2013	2014	2015	Thereafter	Total
	$	$	$	$	$	$	$
Interest payments on long-term debt	47,859	54,918	54,918	54,543	34,070	95,915	342,223
Interest payments on derivative financial instruments	9,828	14,614	14,614	14,614	14,614	7,306	75,590
Interest receipts on derivative financial instruments	(8,567)	(13,654)	(13,654)	(13,654)	(13,654)	(6,826)	(70,009)
	49,120	55,878	55,878	55,503	35,030	96,395	347,804

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 November 30, 2010, 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 $0.1 million based on the current debt at November 30, 2010 and taking into consideration the effect of the interest rate swap agreement.

13. Financial and Capital Management (continued)

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.

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 November 30, 2010, cash and cash equivalents denominated in US dollars amounted to US$6,748,000 (US$13,613,000 at August 31, 2010) while accounts payable denominated in US dollars amounted to US$13,268,000 (US$15,850,000 at August 31, 2010). At November 30, 2010, Euro-denominated bank indebtedness amounted to €384,000 (cash and cash equivalents of €187,000 at August 31, 2010) while accounts payable denominated in Euros amounted to €6,000 (€nil at 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 $0.7 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 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. At November 30, 2010, the net investment amounted to €176,206,000 (€182,104,000 at August 31, 2010) while long-term debt denominated in Euros amounted to €80,000,000 (€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 November 30, 2010 was $1.3326 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 $4.1 million net of non-controlling interest of 8.7 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 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 is considered to represent fair value for the Term Revolving Facilities.

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:

	November 30, 2010		August 31, 2010	
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Long-term debt	**1,130,545**	**1,213,214**	955,070	1,050,783

13. Financial and Capital Management (continued)

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.

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 November 30, 2010, 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:

	November 30, 2010	August 31, 2010
Net indebtedness[(1)] / shareholders' equity	**2.4**	2.4
Net indebtedness[(1)] / operating income before amortization[(2)]	**1.8**	1.8
Operating income before amortization[(2)] / financial expense[(2)]	**8.0**	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 November 30, 2010 and August 31, 2010.

14. Subsequent event

Acquisition of Corus Entertainment Inc.'s Québec radio stations

On April 30, 2010, The Company concluded an agreement with Corus Entertainment Inc. ("Corus") to acquire its Québec radio stations for $80 million in cash, subject to customary closing adjustments and conditions, including approval by the Canadian Radio-television and Telecommunications Commission (the "CRTC"). On June 30, 2010, the Company submitted its transfer application for approval 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. Management believes the applications filed by Astral are without merit and the Company will vigorously challenge them with a view to having them dismissed by the Court. Management still plans to close the transaction with Corus on February 1st, 2011.