



(formerly Cogeco Cable)

SHAREHOLDERS' REPORT

Three and nine-month periods ended May 31, 2016

FINANCIAL HIGHLIGHTS

	Quarters ended			Nine months ended		
	May 31, 2016	May 31, 2015	Change	May 31, 2016	May 31, 2015	Change
<i>(in thousands of dollars, except percentages and per share data)</i>						
	\$	\$	%	\$	\$	%
Operations						
Revenue	540,257	516,426	4.6	1,632,093	1,522,897	7.2
Adjusted EBITDA ⁽¹⁾	243,115	239,763	1.4	735,639	689,887	6.6
Operating margin ⁽¹⁾	45.0%	46.4%	—	45.1%	45.3%	—
Integration, restructuring and acquisition costs	1,126	5,669	(80.1)	7,476	7,008	6.7
Claims and litigations	10,499	—	—	10,499	—	—
Impairment of goodwill and intangible assets	450,000	—	—	450,000	—	—
Profit (loss) for the period	(387,357)	64,149	—	(264,209)	179,764	—
Cash flow						
Cash flow from operating activities	181,498	197,279	(8.0)	483,545	417,596	15.8
Acquisitions of property, plant and equipment, intangible and other assets	94,442	103,718	(8.9)	357,493	309,274	15.6
Free cash flow ⁽¹⁾	84,664	75,845	11.6	199,404	213,920	(6.8)
Financial condition⁽²⁾						
Property, plant and equipment	—	—	—	1,995,209	1,985,421	0.5
Total assets	—	—	—	5,343,858	6,014,038	(11.1)
Indebtedness ⁽³⁾	—	—	—	3,064,387	3,261,908	(6.1)
Shareholders' equity	—	—	—	1,440,883	1,758,972	(18.1)
Capital intensity⁽¹⁾	17.5%	20.1%	—	21.9%	20.3%	—
Per Share Data⁽⁴⁾						
Earnings (loss) per share						
Basic	(7.89)	1.31	—	(5.39)	3.68	—
Diluted	(7.89)	1.30	—	(5.39)	3.64	—

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



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

Three and nine-month periods ended May 31, 2016

1. FORWARD-LOOKING STATEMENTS

Certain statements contained in this Management's Discussion and Analysis ("MD&A") may constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to Cogeco Communications Inc.'s ("Cogeco Communications" or the "Corporation") future outlook and anticipated events, business, operations, financial performance, financial condition or results and, in some cases, can be identified by terminology such as "may"; "will"; "should"; "expect"; "plan"; "anticipate"; "believe"; "intend"; "estimate"; "predict"; "potential"; "continue"; "foresee", "ensure" or other similar expressions concerning matters that are not historical facts. Particularly, statements regarding the Corporation's financial guidelines, future operating results and economic performance, objectives and strategies are forward-looking statements. These statements are based on certain factors and assumptions including expected growth, results of operations, performance and business prospects and opportunities, which Cogeco Communications believes are reasonable as of the current date. Refer in particular to the "Corporate Objectives and Strategies" and "Fiscal 2016 Financial Guidelines" sections of the Corporation's 2015 annual MD&A for a discussion of certain key economic, market and operational assumptions we have made in preparing forward-looking statements. While Management considers these assumptions to be reasonable based on information currently available to the Corporation, they may prove to be incorrect. Forward-looking information is also subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what Cogeco Communications currently expects. These factors include risks such as technological changes, changes in markets and competition, increased cord-shaving or cord-cutting of our services, increased programming costs or support structure costs, the successful implementation of our business strategies, regulatory or policy developments, non-renewal of licences or franchises, a failure to renew a critical lease, a failure of supply of equipment or services, a failure in our network head-ends, the inability to enhance our information systems, security breaches, malicious or abusive Internet practices, disasters or other contingencies, general and economic conditions, fluctuations in foreign exchange rates, interest rates, capital markets and changes in tax policy, strikes or labor protests, loss of key executives and the Corporation's controlling shareholder having conflicting interests with shareholders and other stakeholders, many of which are beyond the Corporation's control. For more exhaustive information on these risks and uncertainties, the reader should refer to the "Uncertainties and Main Risk Factors" section of the Corporation's 2015 annual MD&A. These factors are not intended to represent a complete list of the factors that could affect Cogeco Communications and future events and results may vary significantly from what Management currently foresees. The reader should not place undue importance on forward-looking information contained in this MD&A which represent Cogeco Communications' expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made) and are subject to change after such date. While Management may elect to do so, the Corporation is under no obligation (and expressly disclaims any such obligation) and does not undertake to update or alter this information at any particular time, whether as a result of new information, future events or otherwise, except as required by law.

All amounts are stated in Canadian dollars unless otherwise indicated. This report should be read in conjunction with the Corporation's condensed interim consolidated financial statements and the notes thereto for the three and nine-month periods ended May 31, 2016, prepared in accordance with the International Financial Reporting Standards ("IFRS") and the MD&A included in the Corporation's 2015 Annual Report.

2. CORPORATE OBJECTIVES AND STRATEGIES

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

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

The Corporation measures its performance, with regard to these objectives by monitoring adjusted EBITDA⁽¹⁾, operating margin⁽¹⁾, free cash flow⁽¹⁾ and capital intensity⁽¹⁾.

2.1 KEY PERFORMANCE INDICATORS

ADJUSTED EBITDA AND OPERATING MARGIN

For the nine-month period ended May 31, 2016, adjusted EBITDA increased by \$45.8 million, or 6.6%, to reach \$735.6 million compared to \$689.9 million for the same period of fiscal 2015 essentially attributable to the acquisition in the fourth quarter of fiscal 2015 of MetroCast Communications of Connecticut, LLC (the "Connecticut system") and the organic growth in the American broadband services segment, the improvement in the Canadian broadband services segment as well as favorable foreign exchange rates benefiting our foreign operations compared to the same period of the prior year, partly offset by a decrease in the Business ICT services segment and higher management fees paid to Cogeco Inc. ("Cogeco") under the Amended and Restated Management Services Agreement which became effective on September 1, 2015.

Cogeco Communications' operating margin decreased to 45.1% from 45.3% essentially due to higher management fees paid to Cogeco combined with lower margins in the American broadband services and Business ICT services segments, partly offset by a higher margin in the Canadian broadband services segment.

FREE CASH FLOW

For the nine-month period ended May 31, 2016, Cogeco Communications reported free cash flow of \$199.4 million, a decrease of \$14.5 million, or 6.8%, compared to \$213.9 million for the same period of the prior year. The decrease is mostly attributable to the increases in acquisitions of property, plant and equipment, intangible and other assets and in current income taxes combined with the claims and litigations in the Business ICT services segment, partly offset by the improvement of adjusted EBITDA combined with the decrease in financial expense.

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

During the nine-month period ended May 31, 2016, the acquisitions of property, plant and equipment, intangible and other assets amounted to \$357.5 million and revenue to \$1.63 billion for a capital intensity ratio of 21.9% compared to 20.3% in the same period of the prior year resulting from the acquisitions of property, plant and equipment, intangible and other assets explained as follows:

In the Canadian broadband services segment, the acquisitions of property, plant and equipment, intangible and other assets amounted to \$187.5 million compared to \$160.2 million for the same period of fiscal 2015. The increase resulted mainly from the acquisitions of customer premise equipment ("CPE") related to TiVo digital advanced services, additional support capital expenditures for the implementation of a new Customer Relations Management system, the extension and the improvement of network in some of the areas we serve as well as the appreciation of the US dollar over the Canadian dollar compared to the same period of the prior year.

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

In the American broadband services segment, the acquisitions of property, plant and equipment, intangible and other assets amounted to \$86.2 million compared to \$61.0 million for the same period of fiscal 2015 mainly due to additional acquisitions of CPE as a result of the launch of TiVo digital advanced services in eastern Connecticut in January 2016 as well as the customers' ongoing interest for this service. The increase is also attributable to the PSU growth related to the recent acquisition in Connecticut as well as higher foreign exchange rates compared to the same period of the prior year.

In the Business ICT services segment, the acquisitions of property, plant and equipment, intangible and other assets amounted to \$83.8 million compared to \$88.0 million for the same period of fiscal 2015 and is mainly due to the completion in fiscal 2015 of the remaining pods at the Barrie, Ontario data centre and pod 1 at the Kirkland, Québec data centre, partly offset by the expansion of its data centre footprint with the initial construction of pod 2 at the Kirkland data centre facility related to a large colocation contract and the appreciation of the US dollar and British Pound against the Canadian dollar and the timing of certain initiatives.

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

3. BUSINESS DEVELOPMENTS AND OTHER

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

4. OPERATING AND FINANCIAL RESULTS

4.1 OPERATING RESULTS

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

REVENUE

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

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

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

OPERATING EXPENSES AND MANAGEMENT FEES

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

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

ADJUSTED EBITDA AND OPERATING MARGIN

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

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

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

4.2 FIXED CHARGES

	Quarters ended			Nine months ended		
	May 31, 2016	May 31, 2015	Change	May 31, 2016	May 31, 2015	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Depreciation and amortization	123,928	116,351	6.5	378,664	347,799	8.9
Financial expense	32,792	35,743	(8.3)	101,984	106,995	(4.7)

For the three and nine-month periods ended May 31, 2016, depreciation and amortization expense increased by \$7.6 million, or 6.5%, to reach \$123.9 million and by \$30.9 million, or 8.9%, to reach \$378.7 million, respectively, compared to \$116.4 million and \$347.8 million for the same periods of the prior year. The increase for the quarter resulted mainly from the appreciation of the US dollar compared to the Canadian dollar and the impact of the acquisition of the Connecticut system. The increase for the first nine months resulted mainly from additional acquisitions of property, plant and equipment combined with the appreciation of the US dollar and British Pound compared to the Canadian dollar and the impact of the acquisition of the Connecticut system.

For the three and nine-month periods ended May 31, 2016, financial expense decreased by \$3.0 million, or 8.3%, to reach \$32.8 million compared to \$35.7 million and by \$5.0 million, or 4.7%, to reach \$102.0 million compared to \$107.0 million, respectively, compared to the same periods of the prior year. The decrease for both periods is mainly due to the repayment in October 2015 of the US\$190 million Senior Secured Notes Series A, partly offset by the appreciation of the US dollar and British Pound, except for the British Pound in the quarter, compared to the Canadian dollar and the cost of financing related to the acquisition of the Connecticut system.

4.3 IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

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

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

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

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

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

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

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

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

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

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

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

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

4.4 CLAIMS AND LITIGATIONS

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

4.5 INCOME TAXES

For the three-month period ended May 31, 2016, income taxes decreased by \$5.7 million, or 32.1%, to reach \$12.1 million compared to \$17.9 million for the same period of the prior year. The decrease is mostly attributable to the impact of the impairment of goodwill and intangible assets combined with the favorable impact of the effective tax rates related to the Connecticut system acquisition, partly offset by the revaluation of deferred tax assets and the impact of a higher proportion on the consolidated operating results represented by Atlantic Broadband's profit which is taxed at a higher rate.

For the nine-month period ended May 31, 2016, income taxes increased by \$2.9 million, or 6.0%, to reach \$51.2 million compared to \$48.3 million for the same period of the prior year. The increase is mostly attributable to the revaluation of deferred tax assets, the impact of a higher proportion on the consolidated operating results represented by Atlantic Broadband's profit which is taxed at a higher rate and the improvement of adjusted EBITDA, partly offset by the impact of the impairment of goodwill and intangible assets combined with the favorable impact of the effective tax rates related to the Connecticut system acquisition.

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

4.6 PROFIT (LOSS) FOR THE PERIOD

Fiscal 2016 third-quarter loss for the period amounted to \$387.4 million, or \$7.89 per share compared to a profit for the period of \$64.1 million, or \$1.31 per share in the comparable period of fiscal 2015 mainly as a result of the non-cash pre-tax impairment of goodwill and intangible asset of \$450.0 million and from \$10.5 million related to the claims and litigations which both occurred in the Business ICT services segment. The remaining variation is explained by the improvement of the adjusted EBITDA combined with the decreases of financial expense, income taxes and integration, restructuring and acquisition costs, partly offset by the increase in depreciation and amortization.

For the nine-month period ended May 31, 2016, the loss amounted to \$264.2 million, or \$5.39 per share compared to a profit of \$179.8 million, or \$3.68 per share in the same period of the prior year resulting mainly from the non-cash pre-tax impairment of goodwill and intangible assets of \$450.0 million and from \$10.5 million related to the claims and litigations which both occurred in the Business ICT services segment. The remaining variation is explained by the improvement of adjusted EBITDA and the decrease in financial expense, partly offset by the increase in depreciation and amortization.

4.7 CUSTOMER STATISTICS

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

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

VIDEO

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

INTERNET

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

TELEPHONY

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

For further details on the Corporation's customer statistics, please refer to the "Segmented operating results" section.

5. RELATED PARTY TRANSACTIONS

Cogeco Communications is a subsidiary of Cogeco, which holds 31.8% of the Corporation's equity shares, representing 82.3% of the Corporation's voting shares.

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

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

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

During the first nine months of fiscal 2016, the Corporation granted 11,150 (11,050 in 2015) Performance Share Units ("PSUs") to executive officers of Cogeco as executive officers of Cogeco Communications and charged Cogeco \$135,000 and \$364,000 (\$58,000 and \$131,000 in 2015) with regard to the Corporation's PSUs granted to these executive officers. There were no other material related party transactions during the periods covered.

6. CASH FLOW ANALYSIS

	Quarters ended		Nine months ended	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
<i>(in thousands of dollars)</i>	\$	\$	\$	\$
Cash flow from operating activities	181,498	197,279	483,545	417,596
Cash flow from investing activities	(94,934)	(102,941)	(356,752)	(308,233)
Cash flow from financing activities	(62,268)	(38,615)	(235,141)	(103,104)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	(256)	(331)	(60)	3,217
Net change in cash and cash equivalents	24,040	55,392	(108,408)	9,476
Cash and cash equivalents, beginning of the period	30,718	17,915	163,166	63,831
Cash and cash equivalents, end of the period	54,758	73,307	54,758	73,307

6.1 OPERATING ACTIVITIES

Fiscal 2016 third-quarter cash flow from operating activities reached \$181.5 million, representing a decrease of \$15.8 million, or 8.0%, compared to \$197.3 million for the third-quarter of the prior year mainly as a result of the following:

- the increase of \$21.9 million in income taxes paid; and
- the claims and litigations of \$10.5 million; partly offset by
- the improvement of adjusted EBITDA of \$3.4 million;
- the increase of \$7.3 million in changes in non-cash operating activities primarily due to changes in working capital; and
- the decrease of \$4.5 million in integration, restructuring and acquisition costs.

For the first nine months of fiscal 2016, cash flow from operating activities reached \$483.5 million, representing an increase of \$65.9 million, or 15.8%, compared to \$417.6 million for the same period of the prior year mainly as a result of the following:

- the improvement of adjusted EBITDA of \$45.8 million; and
- the decrease of \$83.7 million in changes in non-cash operating activities primarily due to changes in working capital; partly offset by
- the increase of \$51.9 million in income taxes paid; and
- the claims and litigations of \$10.5 million.

6.2 INVESTING ACTIVITIES

For the three and nine-month periods ended May 31, 2016, investing activities decreased by \$8.0 million, or 7.8%, to reach \$94.9 million and increased by \$48.5 million, or 15.7%, to reach \$356.8 million, respectively, compared to \$102.9 million and \$308.2 million, for the same periods of fiscal 2015 mainly due to the additional acquisitions of property, plant and equipment, intangible and other assets as explained below.

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

Investing activities, including acquisition of property, plant and equipment segmented according to the *National Cable Television Association* (“NCTA”) standard reporting categories, are as follows:

	Quarters ended		Nine months ended	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
<i>(in thousands of dollars)</i>	\$	\$	\$	\$
Customer premise equipment ⁽¹⁾	22,421	29,589	122,194	97,461
Scalable infrastructure ⁽²⁾	8,914	18,287	43,557	48,268
Line extensions	9,557	10,305	41,871	31,620
Upgrade / Rebuild	4,112	3,970	13,142	12,485
Support capital	13,781	9,205	41,022	21,253
Acquisition of property, plant and equipment - Canadian and American broadband services	58,785	71,356	261,786	211,087
Acquisition of property, plant and equipment - Business ICT services	30,844	28,221	79,820	86,714
Acquisition of property, plant and equipment - Head office	—	—	26	2
Acquisitions of property, plant and equipment	89,629	99,577	341,632	297,803
Acquisition of intangible and other assets - Canadian and American broadband services	4,235	3,360	11,889	10,157
Acquisition of intangible and other assets - Business ICT services	578	781	3,972	1,314
Acquisitions of intangible and other assets	4,813	4,141	15,861	11,471
	94,442	103,718	357,493	309,274

(1) Includes mainly home terminal devices as well as new and replacement drops.

(2) Includes mainly head-end equipment, digital video and telephony transport as well as Internet equipment.

For the three and nine-month periods ended May 31, 2016, acquisitions of property, plant and equipment amounted to \$89.6 million and \$341.6 million, respectively, compared to \$99.6 million and \$297.8 million for the same periods of the prior year.

For the three and nine-month periods ended May 31, 2016, acquisitions of intangible and other assets amounted to \$4.8 million and \$15.9 million, respectively, compared to \$4.1 million and \$11.5 million for the comparable periods of fiscal 2015.

The most significant variances are as follows:

CANADIAN BROADBAND SERVICES SEGMENT

- Fiscal 2016 third-quarter acquisitions of property, plant and equipment amounted to \$33.8 million, representing a decrease of \$20.2 million, or 37.4%, compared to \$54.0 million for the same period of fiscal 2015. The decrease resulted mainly from a greater level of CPE acquisitions in fiscal 2015 due to the launch of TiVo digital advanced services in Québec and in the acquisitions of scalable infrastructure and line extensions for the extension and the improvement of network in some of the areas we serve, partly offset by the appreciation of the US dollar over the Canadian dollar compared to the same period of the prior year;
For the first nine-month period ended May 31, 2016, acquisitions of property, plant and equipment amounted to \$178.6 million, representing an increase of \$26.5 million, or 17.4%, compared to \$152.1 million for the same period of the prior year. The increase resulted mainly from the acquisitions of CPE related to TiVo digital advanced services, additional support capital expenditures for the implementation of a new Customer Relations Management system, additional scalable infrastructure to improve our network in some of the areas we serve as well as the appreciation of the US dollar over the Canadian dollar compared to the same period of the prior year;
- For the three and nine-month periods ended May 31, 2016, acquisitions of intangible and other assets amounted to \$3.2 million and \$8.9 million, respectively, compared to \$2.7 million and \$8.1 million for the comparable periods of fiscal 2015; and
- For the first nine months of fiscal 2016, capital intensity reached 19.8% compared to 16.9% for the same period of fiscal 2015 as a result of acquisitions of capital expenditures growth exceeding revenue growth.

AMERICAN BROADBAND SERVICES SEGMENT

- Fiscal 2016 third-quarter and first nine months acquisitions of property, plant and equipment amounted to \$25.0 million and \$83.2 million, respectively, representing increases of \$7.6 million and \$24.2 million, or 43.7% and 41.1%, compared to \$17.4 million and \$59.0 million for the same periods of fiscal 2015. The increases for both periods are mainly due to additional support capital and CPE expenditures both as a result of the launch of TiVo digital advanced services in eastern Connecticut in January 2016 as well as the customers' ongoing interest for this service. The increase is also attributable to the PSU growth, the recent acquisition of the Connecticut system, as well as higher foreign exchange rates compared to the same periods of the prior year;
- For the three and nine-month periods ended May 31, 2016, acquisitions of intangible and other assets amounted to \$1.0 million and \$2.9 million, respectively, compared to \$0.7 million and \$2.0 million for the comparable periods of fiscal 2015; and
- For the first nine months of fiscal 2016, capital intensity reached 18.8% compared to 17.7% for the same period of the prior year as a result of capital expenditures growth exceeding revenue growth as well as the timing of certain initiatives.

BUSINESS ICT SERVICES SEGMENT

- Fiscal 2016 third-quarter acquisitions of property, plant and equipment amounted to \$30.8 million compared to \$28.2 million for the same period of fiscal 2015. For the first nine-month period ended May 31, 2016, acquisitions of property, plant and equipment amounted to \$79.8 million, representing a decrease of \$6.9 million, or 8.0%, compared to \$86.7 million for the comparable period of the prior year. The variation for both periods is due the completion in fiscal 2015 of the remaining pods at the Barrie, Ontario data centre, except for the quarter, and pod 1 at the Kirkland, Québec data centre, partly offset by the expansion of its data centre footprint with the initial construction of pod 2 at the Kirkland data centre facility related to a large colocation contract and the appreciation of the US dollar and British Pound against the Canadian dollar, except for the British Pound for the quarter, and the timing of certain initiatives;
- For the three and nine-month periods ended May 31, 2016, acquisitions of intangible and other assets amounted to \$0.6 million and \$4.0 million, respectively, compared to \$0.8 million and \$1.3 million for the same periods of fiscal 2015; and
- For the first nine months of fiscal 2016, capital intensity reached 36.8% compared to 37.5% for the comparable period of the prior year mainly as a result of lower acquisitions of property, plant and equipment.

BUSINESS COMBINATION IN FISCAL 2015

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

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

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

6.3 FREE CASH FLOW AND FINANCING ACTIVITIES

FREE CASH FLOW

Fiscal 2016 third-quarter free cash flow amounted to \$84.7 million, an increase of \$8.8 million, or 11.6%, compared to \$75.8 million for the same period of the prior year mainly due to the following:

- the improvement of \$3.4 million in adjusted EBITDA;
- the decrease of \$9.3 million in acquisitions of property, plant and equipment, intangible and other assets;
- the decrease in integration, restructuring and acquisition costs of \$4.5 million; and
- the decrease of \$3.0 million in financial expense; partly offset by
- the claims and litigations of \$10.5 million.

For the first nine months, free cash flow amounted to \$199.4 million, a decrease of \$14.5 million, or 6.8%, compared to \$213.9 million for the same period of the prior year mainly due to the following:

- the increase of \$48.2 million in acquisitions of property, plant and equipment, intangible and other assets;
- the claims and litigations of \$10.5 million; and
- the increase of \$7.8 million in current income taxes; partly offset by
- the improvement of \$45.8 million in adjusted EBITDA; and
- the decrease of \$5.0 million in financial expense.

FINANCING ACTIVITIES

During the third quarter of fiscal 2016, lower Indebtedness level provided for a cash decrease of \$43.0 million, mainly due to the following:

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

During the third quarter of fiscal 2015, lower Indebtedness provided for a cash decrease of \$21.5 million mainly due to the following:

- the repayments of the revolving facilities of \$9.5 million;
- the repayments of long-term debt of \$7.9 million; and
- the decrease of \$4.1 million in bank indebtedness.

During the first nine months of fiscal 2016, lower Indebtedness level provided for a cash decrease of \$177.3 million, mainly due to the following:

- the repayments of long-term debt and the settlement of derivative financial instruments of \$240.6 million mainly related to the US \$190 million Senior Secured Notes Series A maturing in October 2015; partly offset by
- the increase of the revolving facilities of \$36.5 million; and
- the increase of \$26.9 million in bank indebtedness.

During the first nine months of fiscal 2015, lower Indebtedness provided for a cash decrease of \$50.5 million mainly due to the following:

- the repayments of the revolving facilities of \$34.0 million; and
- the repayments of long-term debt of \$28.2 million; partly offset by
- the increase of \$11.7 million in bank indebtedness.

DIVIDENDS

During the third quarter of fiscal 2016, a quarterly eligible dividend of \$0.39 per share was paid to the holders of subordinate and multiple voting shares, for a total paid of \$19.1 million compared to a quarterly eligible dividend paid of \$0.35, or \$17.1 million in the third quarter of fiscal 2015. Dividend payments in the first nine months totaled \$1.17, or \$57.3 million, compared to \$1.05 per share, or \$51.3 million in the prior year.

6.4 DIVIDEND DECLARATION

At its July 6, 2016 meeting, the Board of Directors of Cogeco Communications declared a quarterly eligible dividend of \$0.39 per share for multiple voting and subordinate voting shares, payable on August 3, 2016 to shareholders of record on July 20, 2016. The declaration, amount and date of any future dividend will continue to be considered and approved by the Board of Directors of the Corporation based upon the Corporation's financial condition, results of operations, capital requirements and such other factors as the Board of Directors, at its sole discretion, deems relevant. There is therefore no assurance that dividends will be declared, and if declared, the amount and frequency may vary.

7. FINANCIAL POSITION

7.1 WORKING CAPITAL

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

The variations are as follows:

	May 31, 2016	August 31, 2015	Change	Explanations
<i>(in thousands of dollars)</i>	\$	\$	\$	
Current assets				
Cash and cash equivalents	54,758	163,166	(108,408)	Repayment of the US\$190 million Senior Secured Notes Series A in October 2015 combined with the depreciation of the US dollar against the Canadian dollar, partly offset by excess cash flow generated from operations.
Trade and other receivables	105,231	123,880	(18,649)	Receipt of the amount receivable from the settlement of a claim with a supplier combined with the depreciation of the US dollar and British Pound against the Canadian dollar and decreased trade and other receivables in our foreign operations, partly offset by the revenue growth.
Income taxes receivable	17,914	10,747	7,167	Excess of income taxes paid, partly offset by the depreciation of the US dollar and British Pound against the Canadian dollar.
Prepaid expenses and other	23,000	16,416	6,584	Increase in prepayment of maintenance agreements.
Derivative financial instruments	—	49,834	(49,834)	Settlement of the cross-currency swaps related to the US\$190 million Senior Notes Series A.
	200,903	364,043	(163,140)	
Current liabilities				
Bank indebtedness	26,863	—	26,863	Timing of payments made to suppliers.
Trade and other payables	223,711	287,632	(63,921)	Timing of payments made to suppliers.
Provisions	29,329	23,780	5,549	Mostly related to the claims and litigations.
Income tax liabilities	27,070	53,790	(26,720)	Payments of income taxes.
Deferred and prepaid revenue	63,751	62,094	1,657	Non significant.
Derivative financial instruments	72	—	72	Non significant.
Current portion of long-term debt	12,095	297,629	(285,534)	Mostly related to the repayment of the US\$190 million Senior Secured Notes Series A in October 2015 combined with the deferral of the amortization of the Term Loan A Facility which was extended from November 2017 to September 2019.
	382,891	724,925	(342,034)	
Working capital deficiency	(181,988)	(360,882)	178,894	

7.2 OTHER SIGNIFICANT CHANGES

	May 31, 2016	August 31, 2015	Change	Explanations
<i>(in thousands of dollars)</i>	\$	\$	\$	
Non-current assets				
Property, plant and equipment	1,995,209	1,985,421	9,788	Capital expenditures exceeding depreciation expense, partly offset by the depreciation of the US dollar and British Pound against the Canadian dollar.
Intangible assets	2,068,684	2,131,483	(62,799)	Impairment in the Business ICT segment combined with the amortization expense exceeding the acquisition of intangible assets and the depreciation of the US dollar and British Pound against the Canadian dollar.
Goodwill	1,061,925	1,497,800	(435,875)	Mostly related to the impairment in the Business ICT segment and the depreciation of the US dollar and British Pound against the Canadian dollar.
Non-current liabilities				
Long-term debt	2,999,827	2,982,395	17,432	Increased drawings under the Canadian Revolving Facility, partly offset by repayments on the First Lien Credit Facilities and the depreciation of the US dollar and British Pound against the Canadian dollar.

7.3 OUTSTANDING SHARE DATA

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

<i>(in thousands of dollars, except number of shares/options)</i>	Number of shares/options	Amount \$
Common shares		
Multiple voting shares	15,691,100	98,346
Subordinate voting shares	33,672,681	924,558
Options to purchase subordinate voting shares		
Outstanding options	682,886	
Exercisable options	226,849	

7.4 FINANCING

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

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

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

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

On May 31, 2016, the Corporation had used \$277.7 million of its \$800 million amended and restated Term Revolving Facility for a remaining availability of \$522.3 million. In addition, two subsidiaries related to Atlantic Broadband also benefit from a Revolving Facility of \$196.7 million (US\$150 million), of which \$124.7 million (US\$95.1 million) was used at May 31, 2016 for a remaining availability of \$71.9 million (US\$54.9 million).

7.5 FINANCIAL MANAGEMENT

Interest rate risk

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

To mitigate such risk, the Corporation entered into interest rate swap agreements. The following table shows the interest rate swaps outstanding at May 31, 2016:

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

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

Foreign exchange risk

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

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

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

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

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

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

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

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

For the three and nine-month periods ended May 31, 2016, the average rates prevailing used to convert the operating results of the American broadband services and a portion of the Business ICT services segments were as follows:

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

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

	Canadian broadband services		American broadband services		Business ICT services		Consolidated	
	As reported	Exchange rate impact	As reported	Exchange rate impact	As reported	Exchange rate impact	As reported ⁽¹⁾	Exchange rate impact
	\$	\$	\$	\$	\$	\$	\$	\$
Quarters ended May 31, 2016 (in thousands of dollars)								
Revenue	318,361	—	150,369	15,037	72,344	3,929	540,257	18,966
Operating expenses	153,051	634	87,452	8,746	49,408	2,789	292,555	12,169
Management fees	—	—	—	—	—	—	4,587	—
Adjusted EBITDA	165,310	(634)	62,917	6,291	22,936	1,140	243,115	6,797
Acquisitions of property, plant and equipment, intangible and other assets	37,047	643	25,973	2,594	31,422	643	94,442	3,880
Free cash flow	—	—	—	—	—	—	84,664	975

(1) The consolidated results do not correspond to the addition of the operating segment's results as inter-segment eliminations and other are not presented.

	Canadian broadband services		American broadband services		Business ICT services		Consolidated	
	As reported	Exchange rate impact	As reported	Exchange rate impact	As reported	Exchange rate impact	As reported ⁽¹⁾	Exchange rate impact
Nine months ended May 31, 2016 <i>(in thousands of dollars)</i>	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	948,020	—	458,773	45,881	227,984	12,897	1,632,093	58,778
Operating expenses	457,184	2,155	262,514	26,257	151,510	8,821	882,566	37,233
Management fees	—	—	—	—	—	—	13,888	—
Adjusted EBITDA	490,836	(2,155)	196,259	19,624	76,474	4,076	735,639	21,545
Acquisitions of property, plant and equipment, intangible and other assets	187,508	5,956	86,167	8,627	83,792	1,863	357,493	16,446
Free cash flow	—	—	—	—	—	—	199,404	(880)

(1) The consolidated results do not correspond to the addition of the operating segment's results as inter-segment eliminations and other are not presented.

8. SEGMENTED OPERATING RESULTS

The Corporation reports its operating results in three operating segments: Canadian broadband services, American broadband services and Business ICT services. The reporting structure reflects how the Corporation manages its business activities to make decisions about resources to be allocated to the segment and to assess its performance.

8.1 CANADIAN BROADBAND SERVICES

CUSTOMER STATISTICS

	May 31, 2016	Net additions (losses)				% of penetration ⁽¹⁾	
		Quarters ended		Nine months ended		May 31, 2016	May 31, 2015
		May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015		
PSU	1,921,799	(10,544)	(6,735)	(4,743)	(9,099)		
Video service customers	747,257	(8,109)	(5,500)	(18,101)	(22,188)	43.9	46.7
Internet service customers	728,086	3,707	1,843	23,531	20,506	42.8	42.2
Telephony service customers	446,456	(6,142)	(3,078)	(10,173)	(7,417)	26.3	27.8

(1) As a percentage of homes passed.

VIDEO

For the three and nine-month periods ended May 31, 2016, video service customers net losses stood at 8,109 and 18,101, respectively, compared to 5,500 and 22,188 for the comparable periods of the prior year. The higher decrease in the quarter is mainly due to competitive offers in the industry, the IPTV footprint growth from competitors and service category maturity, partly offset by the launch of TiVo's digital advanced video services in fiscal 2015. The lower decrease for the first nine months in video service customers is mainly due to the launch of TiVo's digital advanced video services in fiscal 2015, partly offset by competitive offers in the industry, the IPTV footprint growth from competitors and service category maturity.

INTERNET

For the three and nine-month periods ended May 31, 2016, Internet service customers net additions stood at 3,707 and 23,531, respectively, compared to 1,843 and 20,506 for the comparable periods of the prior year as a result of the enhancement of the product offering, the positive impact of the bundle offers, the full impact of the launch of TiVo's digital advanced video services which requires an Internet subscription, promotional activities and growth in the business sector.

TELEPHONY

For the three and nine-month periods ended May 31, 2016, telephony service customers net losses amounted to 6,142 and 10,173, respectively, compared to 3,078 and 7,417 for the same periods of fiscal 2015 as a result of the increasing mobile penetration rate in North America and various unlimited offers launched by mobile operators causing fewer customers to subscribe to landline telephony services.

At May 31, 2016, 71% (70% in 2015) of the Canadian broadband services customers subscribed to two or more services. The distribution of customers by number of services for the Canadian broadband services were: 29% who subscribe to the single play (30% in 2015), 37% to the double-play (35% in 2015) and 34% to the triple-play (35% in 2015).

OPERATING RESULTS

	Quarters ended			Nine months ended		
	May 31, 2016	May 31, 2015	Change	May 31, 2016	May 31, 2015	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Revenue	318,361	317,486	0.3	948,020	946,674	0.1
Operating expenses	153,051	153,797	(0.5)	457,184	464,119	(1.5)
Adjusted EBITDA	165,310	163,689	1.0	490,836	482,555	1.7
Operating margin	51.9%	51.6%		51.8%	51.0%	

REVENUE

Fiscal 2016 third-quarter and first nine months revenue remained stable at \$318.4 million and \$948.0 million, respectively, compared to \$317.5 million and \$946.7 million for the same periods of fiscal 2015 mainly due to rate increases implemented in February 2016 and continued growth in the business sector, partly offset by a decrease in PSU at May 31, 2016 compared to May 31, 2015 and the impact of the implementation of a small basic service and flexible packaging requirements launched on March 1, 2016.

OPERATING EXPENSES

For the third quarter ended May 31, 2016, operating expenses amounted to \$153.1 million, a decrease of \$0.7 million, or 0.5%, compared to the same period of the prior year. For the first nine months, operating expense amounted to \$457.2 million, a decrease of \$6.9 million, or 1.5%, compared to the same period of the prior year. The decrease for both periods is due to lower video customers at May 31, 2016 compared to May 31, 2015 and continuous operational efficiency improvement, partly offset by programming cost increases.

ADJUSTED EBITDA AND OPERATING MARGIN

Fiscal 2016 third-quarter adjusted EBITDA amounted to \$165.3 million, an increase of \$1.6 million, or 1.0%, compared to the same period of the prior year. For the first nine months of fiscal 2016, adjusted EBITDA amounted to \$490.8 million, an increase of \$8.3 million, or 1.7%, compared to the same period of the prior year. The increase for both periods is mainly due to a decrease in operating expenses and consequently, operating margin increased from 51.6% to 51.9% for the third-quarter of fiscal 2016 and from 51.0% to 51.8% for the first nine months compared to the same periods of the prior year.

8.2 AMERICAN BROADBAND SERVICES

CUSTOMER STATISTICS

	May 31, 2016	Net additions (losses)				% of penetration ⁽¹⁾	
		Quarters ended		Nine months ended		May 31, 2016	May 31, 2015
		May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015		
PSU	590,000	7,206	4,334	18,840	15,670		
Video service customers	245,152	(819)	(938)	(4,151)	(2,863)	41.4	42.9
Internet service customers	249,452	6,675	4,407	19,537	15,098	42.1	39.4
Telephony service customers	95,396	1,350	865	3,454	3,435	16.1	16.1

(1) As a percentage of homes passed.

VIDEO

For the three and nine-month periods ended May 31, 2016, video service customers net losses stood at 819 and 4,151, respectively, compared to 938 and 2,863 for the comparable periods of fiscal 2015 as a result of competitive offers in the industry, partly offset by the customers' ongoing interest in TiVo's digital advanced video services and the launch on January 12, 2016 in Connecticut.

INTERNET

For the three and nine-month periods ended May 31, 2016, Internet service customers net additions stood at 6,675 and 19,537, respectively, compared to 4,407 and 15,098 for the same periods of the prior year as a result of the continued growth of TiVo's digital video services which requires an Internet subscription, demand for Internet services in the recently acquired Connecticut system, additional marketing initiatives which focused on bundle package offerings and growth in the business sector.

TELEPHONY

For the three and nine-month periods ended May 31, 2016, telephony service customers net additions stood at 1,350 and 3,454, respectively, compared to 865 and 3,435 for the same periods of the prior year as a result of the continued growth in the residential and business sectors.

At May 31, 2016, 57% (59% in 2015) of the American broadband services customers subscribed to two or more services. The distribution of customers by number of services for the American broadband services were: 43% (41% in 2015) who subscribe to the single play, 36% (38% in 2015) to the double-play and 21% (21% in 2015) to the triple-play.

OPERATING RESULTS

	Quarters ended			Nine months ended		
	May 31, 2016	May 31, 2015	Change	May 31, 2016	May 31, 2015	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Revenue	150,369	121,135	24.1	458,773	343,741	33.5
Operating expenses	87,452	68,763	27.2	262,514	194,613	34.9
Adjusted EBITDA	62,917	52,372	20.1	196,259	149,128	31.6
Operating margin	41.8%	43.2%		42.8%	43.4%	

REVENUE

For the third quarter and first nine months of fiscal 2016, revenue increased by \$29.2 million, or 24.1%, to reach \$150.4 million and by \$115.0 million, or 33.5%, to reach \$458.8 million, respectively, compared to the same periods of the prior year. Revenue increased for both periods primarily as a result of the acquisition in the fourth quarter of fiscal 2015 of the Connecticut system, the organic growth through PSU progression and rate increases as well as favorable foreign exchange rates compared to the same periods of fiscal 2015.

For the third quarter and first nine months of fiscal 2016, revenue in local currency amounted to US\$115.7 million and US\$343.2 million, respectively, compared to US\$97.9 million and US\$289.4 million for the same periods of fiscal 2015, representing increases of US\$17.8 million, or 18.2%, and US\$53.7 million, or 18.6%, including the Connecticut system's revenue.

OPERATING EXPENSES

For the third quarter and first nine months of fiscal 2016, operating expenses increased by \$18.7 million, or 27.2%, to reach \$87.5 million, and by \$67.9 million, or 34.9%, to reach \$262.5 million, respectively compared to the same periods of the prior year. The increases for both periods are mainly due to the acquisition in the fourth quarter of fiscal 2015 of the Connecticut system, costs to serve additional PSU, additional marketing initiatives to improve PSU growth, higher programming costs, higher foreign exchange rates compared to the same periods of fiscal 2015 and non-recurring costs.

For the third quarter and first nine months of fiscal 2016, operating expenses in local currency amounted to US\$67.3 million and US\$196.4 million, respectively, compared to US\$55.6 million and US\$163.8 million for the same periods of fiscal 2015, representing increases of US\$11.7 million, or 21.1%, and US\$32.6 million, or 19.9%, including the Connecticut system's operating expenses.

ADJUSTED EBITDA AND OPERATING MARGIN

For the third quarter and first nine months of fiscal 2016, adjusted EBITDA increased by \$10.5 million, or 20.1%, to reach \$62.9 million and by \$47.1 million, or 31.6%, to reach \$196.3 million, respectively, compared to \$52.4 million and \$149.1 million in the same periods of fiscal 2015 mainly due to the appreciation of the US dollar over the Canadian dollar combined with higher revenue, partly offset by higher operating expenses including non-recurring costs. As a result of operating expenses growth exceeding revenue growth, operating margin decreased to 41.8% and 42.8%, respectively, compared to 43.2% and 43.4% for the comparable periods of the prior year.

For the third quarter and first nine months of fiscal 2016, adjusted EBITDA in local currency amounted to US\$48.4 million and US\$146.8 million, respectively, compared to US\$42.3 million and US\$125.6 million for the same periods of the prior year, representing increases of US\$6.1 million, or 14.4%, and US\$21.2 million, or 16.9%, including the Connecticut system's adjusted EBITDA.

8.3 BUSINESS ICT SERVICES

OPERATING RESULTS

	Quarters ended			Nine months ended		
	May 31, 2016	May 31, 2015	Change	May 31, 2016	May 31, 2015	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Revenue	72,344	78,475	(7.8)	227,984	234,587	(2.8)
Operating expenses	49,408	51,546	(4.1)	151,510	153,280	(1.2)
Adjusted EBITDA	22,936	26,929	(14.8)	76,474	81,307	(5.9)
Operating margin	31.7%	34.3%		33.5%	34.7%	

REVENUE

For the third quarter of fiscal 2016, revenue decreased by \$6.1 million, or 7.8%, to reach \$72.3 million compared to the third quarter of fiscal 2015. For the first nine months, revenue decreased by \$6.6 million to reach \$228.0 million compared to the same period of fiscal 2015. The decline for both periods is primarily due to competitive pricing pressure on the managed hosting and network connectivity services as well as an accelerated transition out of unprofitable services, partly offset by favorable foreign exchange rates, except for the British Pound currency over the Canadian in the quarter.

OPERATING EXPENSES

For the third quarter and first nine months of fiscal 2016, operating expenses decreased by \$2.1 million, or 4.1%, to reach \$49.4 million and decreased by \$1.8 million, or 1.2%, to reach \$151.5 million, respectively, compared to the same periods of the prior year mainly due to cost reduction initiatives, partly offset by the appreciation of the US dollar and the British Pound, except for the British Pound for the quarter, against the Canadian dollar as well as additional costs related to the commissioning of pod 1 at the Kirkland data centre.

ADJUSTED EBITDA AND OPERATING MARGIN

For the third quarter and first nine months of fiscal 2016, adjusted EBITDA decreased by \$4.0 million, or 14.8%, to reach \$22.9 million and by \$4.8 million, or 5.9%, to reach \$76.5 million compared to the same periods of the prior year as a result of revenue decline. Consequently, operating margin decreased to 31.7% from 34.3% and to 33.5% from 34.7% compared to the same periods of fiscal 2015.

9. FISCAL 2016 REVISED FINANCIAL GUIDELINES

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

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

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

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

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

Fiscal 2016 revised financial guidelines are as follows:

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

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

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

10. FISCAL 2017 PRELIMINARY FINANCIAL GUIDELINES

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

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

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

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

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

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

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

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

11. CONTROLS AND PROCEDURES

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

The CEO and CFO, supported by Management, evaluated the design of the Corporation's DC&P and ICFR at May 31, 2016, and concluded that they are adequate. Furthermore, no significant changes to the internal controls over financial reporting occurred during the three and nine-month periods ended May 31, 2016.

12. UNCERTAINTIES AND MAIN RISK FACTORS

A detailed description of the uncertainties and main risk factors faced by Cogeco Communications can be found in the 2015 Annual Report, available at www.sedar.com and corpo.cogeco.com. The following update should be read together with the uncertainties and main risk factors described in the 2015 Annual Report, which are hereby incorporated by reference.

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

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

13. ACCOUNTING POLICIES

13.1 NEW ACCOUNTING STANDARDS

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

13.2 CHANGES IN CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

14. NON-IFRS FINANCIAL MEASURES

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

Non-IFRS measure	Application	Calculation	Most comparable IFRS measures
Free cash flow	Management and investors use free cash flow to measure Cogeco Communications' ability to repay debt, distribute capital to its shareholders and finance its growth.	Free cash flow: - Cash flow from operating activities add: - amortization of deferred transaction costs and discounts on long-term debt; - changes in non-cash operating activities; - income taxes paid; and - financial expense paid deduct: - current income taxes; - financial expense; - acquisition of property, plant and equipment; and - acquisition of intangible and other assets.	Cash flow from operating activities
Adjusted EBITDA and Operating margin	Adjusted EBITDA and operating margin are key measures commonly reported and used in the telecommunications industry, as they allow comparisons between companies that have different capital structures and are more current measures since they exclude the impact of historical investments in assets. Adjusted EBITDA is one of the key metrics employed by the financial community to value a business and its financial strength. Adjusted EBITDA for Cogeco Communications' business units is equal to the segment profit (loss) reported in note 2 of the Condensed Interim Consolidated Financial Statements.	Consolidated adjusted EBITDA: - Profit (loss) for the period add: - income taxes; - financial expense; - depreciation and amortization; - integration, restructuring and acquisition costs; - impairment of property, plant and equipment; - impairment of goodwill and intangible assets; and - claims and litigations. Operating margin: - Adjusted EBITDA divided by: - Revenue	Profit (loss) for the period No comparable IFRS measure
Capital intensity	Capital intensity is used by Cogeco Communications' management and investors to assess the Corporation's investment in capital expenditures in order to support a certain level of revenue.	Capital intensity: - Acquisition of property, plant and equipment; and - acquisition of intangible and other assets divided by: - Revenue	No comparable IFRS measure

14.1 FREE CASH FLOW RECONCILIATION

	Quarters ended		Nine months ended	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
	\$	\$	\$	\$
<i>(in thousands of dollars)</i>				
Cash flow from operating activities	181,498	197,279	483,545	417,596
Amortization of deferred transaction costs and discounts on long-term debt	2,244	2,114	6,892	6,226
Changes in non-cash operating activities	(36,050)	(28,754)	21,623	105,273
Income taxes paid	39,825	17,903	104,550	52,624
Current income taxes	(24,528)	(22,887)	(70,635)	(62,797)
Financial expense paid	48,909	49,651	112,906	111,267
Financial expense	(32,792)	(35,743)	(101,984)	(106,995)
Acquisition of property, plant and equipment	(89,629)	(99,577)	(341,632)	(297,803)
Acquisition of intangible and other assets	(4,813)	(4,141)	(15,861)	(11,471)
Free cash flow	84,664	75,845	199,404	213,920

14.2 ADJUSTED EBITDA AND OPERATING MARGIN RECONCILIATION

	Quarters ended		Nine months ended	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
	\$	\$	\$	\$
<i>(in thousands of dollars, except percentages)</i>				
Profit (loss) for the period	(387,357)	64,149	(264,209)	179,764
Income taxes	12,127	17,851	51,225	48,321
Financial expense	32,792	35,743	101,984	106,995
Impairment of goodwill and intangible assets	450,000	—	450,000	—
Depreciation and amortization	123,928	116,351	378,664	347,799
Claims and litigations	10,499	—	10,499	—
Integration, restructuring and acquisition costs	1,126	5,669	7,476	7,008
Adjusted EBITDA	243,115	239,763	735,639	689,887
Revenue	540,257	516,426	1,632,093	1,522,897
Operating margin	45.0%	46.4%	45.1%	45.3%

14.3 CAPITAL INTENSITY RECONCILIATION

	Quarters ended		Nine months ended	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
	\$	\$	\$	\$
<i>(in thousands of dollars, except percentages)</i>				
Acquisition of property, plant and equipment	89,629	99,577	341,632	297,803
Acquisition of intangible and other assets	4,813	4,141	15,861	11,471
Total acquisitions of property, plant and equipment, intangible and other assets	94,442	103,718	357,493	309,274
Revenue	540,257	516,426	1,632,093	1,522,897
Capital intensity	17.5%	20.1%	21.9%	20.3%

15. SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION

Quarters ended	May 31,	February 29,	February 28,	November 30,	August 31,
<i>(in thousands of dollars, except percentages and per share data)</i>					
	2016	2015	2016	2015	2014
	\$	\$	\$	\$	\$
Revenue	540,257	516,426	551,523	540,313	497,001
Adjusted EBITDA	243,115	239,763	248,382	244,142	218,860
Operating margin	45.0%	46.4%	45.0%	45.2%	44.0%
Integration, restructuring and acquisition costs	1,126	5,669	4,320	2,030	—
Claims and litigations	10,499	—	—	—	(27,431)
Impairment of goodwill and intangible assets	450,000	—	—	—	—
Impairment of property, plant and equipment	—	—	—	—	—
Profit (loss) for the period	(387,357)	64,149	62,042	61,106	56,709
Cash flow from operating activities	181,498	197,279	205,954	96,093	22,122
Acquisitions of property, plant and equipment, intangible and other assets	94,442	103,718	116,732	143,319	102,883
Free cash flow	84,664	75,845	74,698	40,042	64,939
Capital intensity	17.5%	20.1%	21.2%	27.1%	20.7%
Earnings (loss) per share ⁽¹⁾					
Basic	(7.89)	1.31	1.27	1.25	1.16
Diluted	(7.89)	1.30	1.26	1.24	1.15

(1) Per multiple and subordinate voting share.

15.1 SEASONAL VARIATIONS

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

Effective on September 1, 2015, the Corporation's operating margin is no longer subject to fluctuations in management fees. Under the Amended and Restated Management Services Agreement, the annual management fees payable to Cogeco Inc. are payable on a monthly basis, representing 0.85% of the consolidated revenue of the Corporation with no maximum level or inflation-based adjustment. In fiscal 2015, the annual management fees were fully paid in the first quarter, thus resulting in higher operating margins in the second, third and fourth quarters.

16. ADDITIONAL INFORMATION

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

/s/ Jan Peeters

Jan Peeters
Chairman of the Board

/s/ Louis Audet

Louis Audet
President and Chief Executive Officer

Cogeco Communications Inc.
Montréal, Québec
July 6, 2016



(formerly Cogeco Cable)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

		Three months ended May 31,		Nine months ended May 31,	
	Notes	2016	2015	2016	2015
		\$	\$	\$	\$
<i>(In thousands of Canadian dollars, except per share data)</i>					
Revenue		540,257	516,426	1,632,093	1,522,897
Operating expenses	4	292,555	276,663	882,566	823,133
Management fees – Cogeco Inc.		4,587	—	13,888	9,877
Integration, restructuring and acquisition costs		1,126	5,669	7,476	7,008
Claims and litigations	2	10,499	—	10,499	—
Depreciation and amortization	5	123,928	116,351	378,664	347,799
Impairment of goodwill and intangible assets	6	450,000	—	450,000	—
Financial expense	7	32,792	35,743	101,984	106,995
Income taxes	8	12,127	17,851	51,225	48,321
Profit (loss) for the period		(387,357)	64,149	(264,209)	179,764
Earnings (loss) per share					
Basic	9	(7.89)	1.31	(5.39)	3.68
Diluted	9	(7.89)	1.30	(5.39)	3.64

COGECO COMMUNICATIONS INC.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

	Three months ended May 31,		Nine months ended May 31,	
	2016	2015	2016	2015
(In thousands of Canadian dollars)	\$	\$	\$	\$
Profit (loss) for the period	(387,357)	64,149	(264,209)	179,764
Other comprehensive income (loss)				
Items to be subsequently reclassified to profit or loss				
<i>Cash flow hedging adjustments</i>				
Net change in fair value of hedging derivative financial instruments	788	(1,878)	(49,813)	29,909
Net change in fair value of hedging derivative financial instruments reclassified to financial expense	—	1,254	48,108	(29,716)
Related income taxes	(198)	257	402	(169)
	590	(367)	(1,303)	24
<i>Foreign currency translation adjustments</i>				
Net foreign currency translation differences on net investments in foreign operations	(27,342)	(4,819)	(3,917)	101,205
Net changes in unrealized adjustments on translation of long-term debt designated as hedges of net investments in foreign operations	19,406	3,036	4,550	(63,191)
	(7,936)	(1,783)	633	38,014
	(7,346)	(2,150)	(670)	38,038
Items not to be subsequently reclassified to profit or loss				
<i>Defined benefit plans actuarial adjustments</i>				
Remeasurement of net defined benefit liability	(291)	1,770	(2,421)	(1,611)
Related income taxes	78	(482)	651	427
	(213)	1,288	(1,770)	(1,184)
Other comprehensive income (loss) for the period	(7,559)	(862)	(2,440)	36,854
Comprehensive income (loss) for the period	(394,916)	63,287	(266,649)	216,618

COGECO COMMUNICATIONS INC.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited)

	Share capital	Share-based payment reserve	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity
<i>(In thousands of Canadian dollars)</i>	\$	\$	\$	\$	\$
	<i>(Note 11)</i>		<i>(Note 12)</i>		
Balance at August 31, 2014	997,144	11,280	28,325	471,507	1,508,256
Profit for the period	—	—	—	179,764	179,764
Other comprehensive income (loss) for the period	—	—	38,038	(1,184)	36,854
Comprehensive income for the period	—	—	38,038	178,580	216,618
Issuance of subordinate voting shares under the Stock Option Plan	5,577	—	—	—	5,577
Share-based payment	—	5,098	—	—	5,098
Share-based payment previously recorded in share-based payment reserve for options exercised	1,391	(1,391)	—	—	—
Dividends on multiple voting shares (Note 11 C))	—	—	—	(16,476)	(16,476)
Dividends on subordinate voting shares (Note 11 C))	—	—	—	(34,841)	(34,841)
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	(6,425)	—	—	—	(6,425)
Distribution to employees of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	3,576	(3,650)	—	74	—
Total contributions by (distributions to) shareholders	4,119	57	—	(51,243)	(47,067)
Balance at May 31, 2015	1,001,263	11,337	66,363	598,844	1,677,807
Balance at August 31, 2015	1,001,618	12,535	83,820	660,999	1,758,972
Loss for the period	—	—	—	(264,209)	(264,209)
Other comprehensive loss for the period	—	—	(670)	(1,770)	(2,440)
Comprehensive loss for the period	—	—	(670)	(265,979)	(266,649)
Issuance of subordinate voting shares under the Stock Option Plan	5,193	—	—	—	5,193
Share-based payment	—	5,286	—	—	5,286
Share-based payment previously recorded in share-based payment reserve for options exercised	1,243	(1,243)	—	—	—
Dividends on multiple voting shares (Note 11 C))	—	—	—	(18,359)	(18,359)
Dividends on subordinate voting shares (Note 11 C))	—	—	—	(38,985)	(38,985)
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	(4,575)	—	—	—	(4,575)
Distribution to employees of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	4,631	(3,867)	—	(764)	—
Total contributions by (distributions to) shareholders	6,492	176	—	(58,108)	(51,440)
Balance at May 31, 2016	1,008,110	12,711	83,150	336,912	1,440,883

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

	Notes	May 31, 2016	August 31, 2015
<i>(In thousands of Canadian dollars)</i>		\$	\$
			<i>(restated, Note 3)</i>
Assets			
Current			
Cash and cash equivalents		54,758	163,166
Trade and other receivables		105,231	123,880
Income taxes receivable		17,914	10,747
Prepaid expenses and other		23,000	16,416
Derivative financial instruments		—	49,834
		200,903	364,043
Non-current			
Other assets		12,997	23,205
Property, plant and equipment		1,995,209	1,985,421
Intangible assets		2,068,684	2,131,483
Goodwill		1,061,925	1,497,800
Deferred tax assets		4,140	12,086
		5,343,858	6,014,038
Liabilities and Shareholders' equity			
Liabilities			
Current			
Bank indebtedness		26,863	—
Trade and other payables		223,711	287,632
Provisions		29,329	23,780
Income tax liabilities		27,070	53,790
Deferred and prepaid revenue		63,751	62,094
Derivative financial instruments		72	—
Current portion of long-term debt	10	12,095	297,629
		382,891	724,925
Non-current			
Long-term debt	10	2,999,827	2,982,395
Deferred and prepaid revenue and other liabilities		30,425	29,609
Pension plan liabilities and accrued employee benefits		4,592	3,943
Deferred tax liabilities		485,240	514,194
		3,902,975	4,255,066
Shareholders' equity			
Share capital	11 B)	1,008,110	1,001,618
Share-based payment reserve		12,711	12,535
Accumulated other comprehensive income	12	83,150	83,820
Retained earnings		336,912	660,999
		1,440,883	1,758,972
		5,343,858	6,014,038

COGECO COMMUNICATIONS INC.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

		Three months ended May 31,		Nine months ended May 31,	
	Notes	2016	2015	2016	2015
(In thousands of Canadian dollars)		\$	\$	\$	\$
Cash flow from operating activities					
Profit (loss) for the period		(387,357)	64,149	(264,209)	179,764
Adjustments for:					
Depreciation and amortization	5	123,928	116,351	378,664	347,799
Impairment of goodwill and intangible assets	6	450,000	—	450,000	—
Financial expense	7	32,792	35,743	101,984	106,995
Income taxes	8	12,127	17,851	51,225	48,321
Share-based payment	11 D)	1,892	1,592	5,495	4,892
Loss on disposals and write-offs of property, plant and equipment		537	137	1,495	1,550
Defined benefit plans contributions, net of expense		263	256	(2,030)	(2,561)
		234,182	236,079	722,624	686,760
Changes in non-cash operating activities	13	36,050	28,754	(21,623)	(105,273)
Financial expense paid		(48,909)	(49,651)	(112,906)	(111,267)
Income taxes paid		(39,825)	(17,903)	(104,550)	(52,624)
		181,498	197,279	483,545	417,596
Cash flow from investing activities					
Acquisition of property, plant and equipment		(89,629)	(99,577)	(341,632)	(297,803)
Acquisition of intangible and other assets		(4,813)	(4,141)	(15,861)	(11,471)
Other		(492)	777	741	1,041
		(94,934)	(102,941)	(356,752)	(308,233)
Cash flow from financing activities					
Increase (decrease) in bank indebtedness		3,534	(4,140)	26,863	11,705
Net increase (decrease) under the revolving facilities		(37,238)	(9,522)	36,459	(33,964)
Repayment of long-term debt and settlement of derivative financial instruments		(9,339)	(7,854)	(240,629)	(28,200)
Transaction costs on long-term debt conversion and increase in deferred transaction costs		(668)	—	(1,108)	(480)
Issuance of subordinate voting shares	11 B)	592	26	5,193	5,577
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	11 B)	—	—	(4,575)	(6,425)
Dividends paid on multiple voting shares	11 C)	(6,120)	(5,492)	(18,359)	(16,476)
Dividends paid on subordinate voting shares	11 C)	(13,029)	(11,633)	(38,985)	(34,841)
		(62,268)	(38,615)	(235,141)	(103,104)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		(256)	(331)	(60)	3,217
Net change in cash and cash equivalents		24,040	55,392	(108,408)	9,476
Cash and cash equivalents, beginning of the period		30,718	17,915	163,166	63,831
Cash and cash equivalents, end of the period		54,758	73,307	54,758	73,307

COGECO COMMUNICATIONS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2016

(unaudited)

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

NATURE OF OPERATIONS

Cogeco Communications Inc. ("Cogeco Communications" or the "Corporation" or the "Parent Corporation") (formerly Cogeco Cable Inc.) is a Canadian public communications corporation whose subordinate voting shares are listed on the Toronto Stock Exchange ("TSX") under the trading symbol "CCA". On January 13, 2016 at the Annual Shareholders' Meeting, the shareholders approved a special resolution to rename the Corporation from Cogeco Cable Inc. to Cogeco Communications Inc.

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

The Corporation is a subsidiary of Cogeco Inc. ("Cogeco"), which holds 31.8% of the Corporation's equity shares, representing 82.3% of the votes attached to the Corporation's voting shares.

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

1. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting* and do not include all the information required for annual financial statements. Certain information and footnote disclosure included in annual financial statements were omitted or condensed where such information is not considered material to the understanding of the Corporation's interim financial information. As such, these condensed interim consolidated financial statements should be read in conjunction with the Corporation's 2015 annual consolidated financial statements.

These condensed interim consolidated financial statements have been prepared with the accounting policies the Corporation adopted in its 2015 annual consolidated financial statements. The accounting policies have been applied consistently to all periods presented in the condensed interim consolidated financial statements unless otherwise indicated.

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

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

The results of operations for the interim period are not necessarily indicative of the results of operations for the full year. The Corporation does not expect seasonality to be a material factor in quarterly results except that in the Canadian and American broadband services segments, the number of customers in the video and Internet services are generally lower in the second half of the fiscal year as a result of a decrease in economic activity due to the beginning of the vacation period, the end of the television season, and students leaving their campuses at the end of the school year. Cogeco Communications offers its services in several university and college towns such as Kingston, Windsor, St.Catharines, Hamilton, Peterborough, Trois-Rivières and Rimouski in Canada and in the Pennsylvania region, and to a lesser extent in South Carolina, eastern Connecticut, Maryland and Delaware in the United States. In the American broadband services segment, the Miami region is also subject to seasonal fluctuations due to winter season residents returning home from late spring through the fall. Furthermore, the second, third and fourth quarters' operating margins of previous fiscal years were higher as very low or no management fees were paid to Cogeco, while the first quarter's operating margin was lower as it sustained the whole or mostly all of the annual fee. During fiscal 2015 the Corporation paid a fee equal to 2% of its total revenue, subject to a maximum amount. As the maximum amount was reached in the first quarter of fiscal 2015, the Corporation did not pay any management fees for the remainder of the year. On July 14, 2015, the Management Agreement was amended and restated in order to align the annual fees with the costs, time and resources committed by Cogeco. In fiscal 2016, under the Amended and Restated Agreement, management fees are no longer subject to a maximum amount and are payable monthly, consisting of an amount equal to 0.85% of the consolidated revenue of the Corporation, with no maximum level or inflation-based adjustment. Accordingly, management fees will be recognized and paid throughout the year resulting in more comparable operating margins from quarter to quarter.

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

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

2. OPERATING SEGMENTS

The Corporation's segment profit (loss) is reported in three operating segments: Canadian broadband services, American broadband services and Business information and communications technology ("Business ICT") services. The reporting structure reflects how the Corporation manages its business activities to make decisions about resources to be allocated to the segments and to assess their performance.

The Canadian and American broadband services segments provide a wide range of video, Internet and telephony services primarily to residential customers and also provide business services to small and medium sized businesses across their coverage areas. The Canadian broadband services activities are carried out by Cogeco Connexion in the Provinces of Québec and Ontario and the American broadband services activities are carried out by Atlantic Broadband in western Pennsylvania, southern Florida, Maryland/Delaware, South Carolina and eastern Connecticut.

The Business ICT services segment provides colocation, network connectivity, managed hosting, cloud services and a rich portfolio of managed IT services in Canada, the United States and Europe to small, medium and large enterprises around the globe. Cogeco Peer 1 provides these services in the following key vertical markets: online retail, financial services, technology business services, public sector, education, health care, business services, manufacturing, media and online gaming. Cogeco Peer 1 provides its services through data centres and points-of-presence in North America and Europe. The activities of the Business ICT services segment are carried out across Canada (British Columbia, Ontario, Québec), the United States (California, Texas, Virginia, Florida and Georgia) and Europe (London and Southampton, United Kingdom ("UK")).

The Corporation and its chief operating decision maker assess the performance of each operating segment based on its segment profit (loss), which is equal to revenue less operating expenses and management fees to Cogeco Inc. The other expenses, except for financial expense and income taxes, are reported by segment solely for external reporting purposes. Financial expense and income taxes are managed on a consolidated basis and, accordingly, are not reflected in segmented results. The Inter-segment eliminations and other, eliminate any intercompany transactions included in each segment's operating results and include head office activities. Transactions between operating segments are measured at the amounts agreed to between the parties.

Three months ended May 31, 2016					
	Canadian broadband services	American broadband services	Business ICT services	Inter-segment eliminations and other	Consolidated
	\$	\$	\$	\$	\$
Revenue ⁽¹⁾	318,361	150,369	72,344	(817)	540,257
Operating expenses	153,051	87,452	49,408	2,644	292,555
Management fees – Cogeco Inc.	—	—	—	4,587	4,587
Segment profit (loss)	165,310	62,917	22,936	(8,048)	243,115
Integration, restructuring and acquisition costs ⁽²⁾	—	21	1,105	—	1,126
Claims and litigations ⁽³⁾	—	—	10,499	—	10,499
Depreciation and amortization	60,517	31,951	31,385	75	123,928
Impairment of goodwill and intangible assets (Note 6)	—	—	450,000	—	450,000
Financial expense	—	—	—	—	32,792
Income taxes	—	—	—	—	12,127
Loss for the period					(387,357)
Acquisition of property, plant and equipment	33,812	24,973	30,844	—	89,629
Acquisition of intangible and other assets	3,235	1,000	578	—	4,813

(1) Revenue by geographic market includes \$357,954 in Canada, \$173,170 in the United States and \$9,133 in Europe.

(2) Comprised of acquisition and integration costs in the American broadband services segment and restructuring costs in the Business ICT services segment.

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

COGECO COMMUNICATIONS INC.
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Three months ended May 31, 2015					
	Canadian broadband services	American broadband services	Business ICT services	Inter-segment eliminations and other	Consolidated
	\$	\$	\$	\$	\$
Revenue ⁽¹⁾	317,486	121,135	78,475	(670)	516,426
Operating expenses	153,797	68,763	51,546	2,557	276,663
Segment profit (loss)	163,689	52,372	26,929	(3,227)	239,763
Integration, restructuring and acquisition costs ⁽²⁾	—	304	5,365	—	5,669
Depreciation and amortization	59,599	25,851	30,829	72	116,351
Financial expense					35,743
Income taxes					17,851
Profit for the period					64,149
Acquisition of property, plant and equipment	53,981	17,375	28,221	—	99,577
Acquisition of intangible and other assets	2,665	695	781	—	4,141

(1) Revenue by geographic market includes \$357,306 in Canada, \$149,233 in the United States and \$9,887 in Europe.

(2) Comprised of acquisition costs in the American broadband services segment and restructuring costs in the Business ICT services segment.

Nine months ended May 31, 2016					
	Canadian broadband services	American broadband services	Business ICT services	Inter-segment eliminations and other	Consolidated
	\$	\$	\$	\$	\$
Revenue ⁽¹⁾	948,020	458,773	227,984	(2,684)	1,632,093
Operating expenses	457,184	262,514	151,510	11,358	882,566
Management fees – Cogeco Inc.	—	—	—	13,888	13,888
Segment profit (loss)	490,836	196,259	76,474	(27,930)	735,639
Integration, restructuring and acquisition costs ⁽²⁾	2,752	594	4,130	—	7,476
Claims and litigations ⁽³⁾	—	—	10,499	—	10,499
Depreciation and amortization	182,970	97,427	98,042	225	378,664
Impairment of goodwill and intangible assets (Note 6)	—	—	450,000	—	450,000
Financial expense					101,984
Income taxes					51,225
Loss for the period					(264,209)
Property, plant and equipment	1,119,810	437,970	436,599	830	1,995,209
Intangible assets	989,290	976,178	103,216	—	2,068,684
Goodwill	4,662	784,323	272,940	—	1,061,925
Acquisition of property, plant and equipment	178,568	83,218	79,820	26	341,632
Acquisition of intangible and other assets	8,940	2,949	3,972	—	15,861

(1) Revenue by geographic market includes \$1,067,664 in Canada, \$535,071 in the United States and \$29,358 in Europe.

(2) Comprised of acquisition and integration costs in the American broadband services segment and restructuring costs in the Canadian broadband services and Business ICT services segments.

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

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Nine months ended May 31, 2015					
	Canadian broadband services	American broadband services	Business ICT services	Inter-segment eliminations and other	Consolidated
	\$	\$	\$	\$	\$
		(restated, Note 3)			(restated, Note 3)
Revenue ⁽¹⁾	946,674	343,741	234,587	(2,105)	1,522,897
Operating expenses	464,119	194,613	153,280	11,121	823,133
Management fees – Cogeco Inc.	—	—	—	9,877	9,877
Segment profit (loss)	482,555	149,128	81,307	(23,103)	689,887
Integration, restructuring and acquisition costs ⁽²⁾	—	304	6,704	—	7,008
Depreciation and amortization	178,883	73,545	95,071	300	347,799
Financial expense					106,995
Income taxes					48,321
Profit for the period					179,764
Property, plant and equipment ⁽³⁾	1,115,536	434,007	434,840	1,038	1,985,421
Intangible assets ⁽³⁾	989,428	997,647	144,408	—	2,131,483
Goodwill ⁽³⁾	4,662	787,133	706,005	—	1,497,800
Acquisition of property, plant and equipment	152,113	58,974	86,714	2	297,803
Acquisition of intangible and other assets	8,134	2,023	1,314	—	11,471

(1) Revenue by geographic market includes \$1,063,685 in Canada, \$429,226 in the United States and \$29,986 in Europe.

(2) Comprised of acquisition costs in the American broadband services segment and restructuring costs in the Business ICT services segment.

(3) At August 31, 2015.

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

At May 31, 2016				
	Canada	United States	Europe	Total
	\$	\$	\$	\$
Property, plant and equipment	1,455,950	495,792	43,467	1,995,209
Intangible assets	1,052,465	1,008,746	7,473	2,068,684
Goodwill	221,867	823,697	16,361	1,061,925

At August 31, 2015				
	Canada	United States	Europe	Total
	\$	\$	\$	\$
		(restated, Note 3)		(restated, Note 3)
Property, plant and equipment	1,429,517	504,073	51,831	1,985,421
Intangible assets	1,061,954	1,059,528	10,001	2,131,483
Goodwill	333,710	1,106,494	57,596	1,497,800

COGECO COMMUNICATIONS INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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3. BUSINESS COMBINATION

BUSINESS COMBINATION IN FISCAL 2015

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

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

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

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

	As previously reported	Adjustments	As currently reported
	\$	\$	\$
Intangible assets	2,124,904	6,579	2,131,483
Goodwill	1,504,379	(6,579)	1,497,800

4. OPERATING EXPENSES

	Three months ended May 31,		Nine months ended May 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Salaries, employee benefits and outsourced services	88,042	85,925	265,531	253,360
Service delivery costs ⁽¹⁾	162,167	149,641	485,908	439,837
Customer related costs ⁽²⁾	16,427	15,245	49,486	50,351
Other external purchases ⁽³⁾	25,919	25,852	81,641	79,585
	292,555	276,663	882,566	823,133

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

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

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

COGECO COMMUNICATIONS INC.
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5. DEPRECIATION AND AMORTIZATION

	Three months ended May 31,		Nine months ended May 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Depreciation of property, plant and equipment	106,510	100,264	325,345	300,525
Amortization of intangible assets	17,418	16,087	53,319	47,274
	123,928	116,351	378,664	347,799

6. IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

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

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

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

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

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

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

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

	At May 31, 2016		At August 31, 2015	
	Pre-tax discount rate	Terminal growth rate	Pre-tax discount rate	Terminal growth rate
CGU / Operating segment	%	%	%	%
Business ICT services	11.3	3.2	11.4	3.2

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

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

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

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

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

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

7. FINANCIAL EXPENSE

	Three months ended May 31,		Nine months ended May 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Interest on long-term debt	32,309	33,153	100,026	97,934
Net foreign exchange losses (gains)	(599)	621	(1,988)	1,783
Amortization of deferred transaction costs	605	566	1,827	1,704
Capitalized borrowing costs ⁽¹⁾	(509)	(117)	(1,318)	(258)
Other	986	1,520	3,437	5,832
	32,792	35,743	101,984	106,995

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

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8. INCOME TAXES

	Three months ended May 31,		Nine months ended May 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Current	24,528	22,887	70,635	62,797
Deferred	(12,401)	(5,036)	(19,410)	(14,476)
	12,127	17,851	51,225	48,321

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

	Three months ended May 31,		Nine months ended May 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Profit (loss) before income taxes	(375,230)	82,000	(212,984)	228,085
Combined Canadian income tax rate	26.92%	26.70%	27.12%	26.57%
Income taxes at combined Canadian income tax rate	(101,030)	21,895	(57,756)	60,601
Adjustment for losses or profit subject to lower or higher tax rates	(695)	695	3,260	3,530
Revaluation of deferred tax assets	12,278	—	12,278	—
Impact on deferred taxes as a result of changes in substantively enacted tax rates	(343)	—	1,294	—
Income taxes arising from non-deductible expenses ⁽¹⁾	107,348	110	107,730	1,673
Tax impacts related to foreign operations	(5,423)	(4,692)	(16,616)	(13,466)
Other	(8)	(157)	1,035	(4,017)
Income taxes at effective income tax rate	12,127	17,851	51,225	48,321

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

9. EARNINGS (LOSS) PER SHARE

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

	Three months ended May 31,		Nine months ended May 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Profit (loss) for the period	(387,357)	64,149	(264,209)	179,764
Weighted average number of multiple and subordinate voting shares outstanding	49,096,586	48,934,965	49,005,630	48,869,617
Effect of dilutive stock options ^{(1) (2)}	—	232,012	—	251,438
Effect of dilutive incentive share units ⁽²⁾	—	236,652	—	244,804
Effect of dilutive performance share units ⁽²⁾	—	51,627	—	40,831
Weighted average number of diluted multiple and subordinate voting shares outstanding	49,096,586	49,455,256	49,005,630	49,406,690
Earnings (loss) per share				
Basic	(7.89)	1.31	(5.39)	3.68
Diluted	(7.89)	1.30	(5.39)	3.64

(1) For the three and nine-month periods ended May 31, 2016, 162,900 and 170,200 stock options (1,100 for the three and nine-month periods in 2015) 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.

(2) The weighted average dilutive potential of subordinate voting shares which amounted to 387,097 and 435,822 for the three and nine-month periods ended May 31, 2016, is anti-dilutive due to the loss for the period.

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10. LONG-TERM DEBT

	Maturity	Interest rate %	May 31, 2016 \$	August 31, 2015 \$
Parent Corporation				
Term Revolving Facility ⁽¹⁾				
Canadian Revolving Facility				
Revolving loan – US\$126.2 million (US\$70.5 million at August 31, 2015)	January 2021	1.90 ^{(2) (3)}	165,448	92,757
Revolving loan – £44.1 million (£54 million at August 31, 2015)	January 2021	1.97 ⁽²⁾	83,742	109,021
Senior Secured Notes				
Series A – US\$25 million	September 2024	4.14	32,647	32,755
Series B – US\$150 million	September 2026	4.29	195,856	196,515
Senior Secured Notes				
Series A – US\$190 million ⁽⁴⁾	October 2015	—	—	249,953
Series B	October 2018	7.60	54,837	54,789
Senior Secured Notes – US\$215 million	June 2025	4.30	280,631	281,559
Senior Secured Debentures Series 2	November 2020	5.15	199,131	199,002
Senior Secured Debentures Series 3	February 2022	4.93	198,834	198,703
Senior Secured Debentures Series 4	May 2023	4.18	297,719	297,510
Senior Unsecured Debenture	March 2018	5.94	99,930	99,901
Senior Unsecured Notes – US\$400 million	May 2020	4.88	519,691	520,759
Subsidiaries				
First Lien Credit Facilities ⁽⁵⁾				
Term Loan A Facility – US\$145 million at August 31, 2015	November 2017	—	—	188,224
Term Loan A-2 Facility – US\$98.2 million (US\$100 million at August 31, 2015)	September 2019	2.58 ^{(2) (6)}	126,950	129,391
Term Loan A-3 Facility – US\$124.6 million	September 2019	2.58 ^{(2) (6)}	161,109	—
Term Loan B Facility – US\$362.6 million (US\$369.4 million at August 31, 2015)	November 2019	3.25 ⁽²⁾	465,119	473,653
Revolving Facility – US\$93 million (US\$111 million at August 31, 2015)	September 2019	2.58 ⁽²⁾	121,923	146,043
Term Revolving Facility				
UK Revolving Facility – £4.4 million (£4.7 million at August 31, 2015)	January 2021	1.95 ⁽²⁾	8,355	9,489
			3,011,922	3,280,024
Less current portion			12,095	297,629
			2,999,827	2,982,395

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

(2) Interest rate on debt includes applicable margin.

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

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

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

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

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11. SHARE CAPITAL

A) AUTHORIZED

Unlimited number of:

Class A Preference shares, without voting rights, redeemable by the Corporation and retractable at the option of the holder at any time at a price of \$1 per share, carrying a cumulative preferential cash dividend at a rate of 11% of the redemption price per year.

Class B Preference shares, without voting rights, could be issued in series.

Multiple voting shares, 10 votes per share.

Subordinate voting shares, 1 vote per share.

B) ISSUED AND PAID

	May 31, 2016	August 31, 2015
	\$	\$
15,691,100 multiple voting shares	98,346	98,346
33,671,541 subordinate voting shares (33,533,342 at August 31, 2015)	924,493	918,057
	1,022,839	1,016,403
163,785 subordinate voting shares held in trust under the Incentive Share Unit Plan (223,852 at August 31, 2015)	(8,710)	(11,322)
90,898 subordinate voting shares held in trust under the Performance Share Unit Plan (54,133 at August 31, 2015)	(6,019)	(3,463)
	1,008,110	1,001,618

During the first nine months of fiscal 2016, subordinate voting share transactions were as follows:

	Number of shares	Amount
		\$
Balance at August 31, 2015	33,533,342	918,057
Shares issued for cash under the Stock Option Plan	138,199	5,193
Share-based payment previously recorded in share-based payment reserve for options exercised	—	1,243
Balance at May 31, 2016	33,671,541	924,493

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

	Number of shares	Amount
		\$
Balance at August 31, 2015	223,852	11,322
Subordinate voting shares acquired	27,927	1,933
Subordinate voting shares distributed to employees	(87,994)	(4,545)
Balance at May 31, 2016	163,785	8,710

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

	Number of shares	Amount \$
Balance at August 31, 2015	54,133	3,463
Subordinate voting shares acquired	38,176	2,642
Subordinate voting shares distributed to employees	(1,411)	(86)
Balance at May 31, 2016	90,898	6,019

C) DIVIDENDS

For the nine-month period ended May 31, 2016, quarterly eligible dividends of \$0.39 per share, for a total of \$1.17 per share, were paid to the holders of multiple and subordinate voting shares, totaling \$57.3 million, compared to quarterly eligible dividends of \$0.35 per share, for a total of \$1.05 per share or \$51.3 million for the nine-month period ended May 31, 2015.

At its July 6, 2016 meeting, the Board of Directors of Cogeco Communications declared a quarterly eligible dividend of \$0.39 per share for multiple voting and subordinate voting shares, payable on August 3, 2016 to shareholders of record on July 20, 2016.

D) SHARE-BASED PAYMENT PLANS

The Corporation offers, for the benefit of its employees and those of its subsidiaries, an Employee Stock Purchase Plan and a Stock Option Plan to its executive officers and designated employees. No more than 10% of the outstanding subordinate voting shares are available for issuance under these plans. Furthermore, the Corporation offers an Incentive Share Unit Plan ("ISU Plan") and a Performance Share Unit Plan ("PSU Plan") for executive officers and designated employees, and a Deferred Share Unit Plan ("DSU Plan") for members of the Board of Directors. A detailed description of these plans can be found in the 2015 annual consolidated financial statements of the Corporation.

Under the Stock Option Plan, the following options were granted by the Corporation and are outstanding at May 31, 2016:

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

(1) During the nine-month period ended May 31, 2016, the Corporation granted 71,650 stock options to Cogeco's executive officers as executive officers of the Corporation.

(2) The weighted average share price for options exercised during the period was \$63.54.

During the three and nine-month periods ended May 31, 2016, the Corporation charged Cogeco amounts of \$162,000 and \$442,000 (\$128,000 and \$355,000 in 2015) with respect to the Corporation's options granted to Cogeco's executive officers. As a result, a compensation expense of \$214,000 and \$473,000 (\$222,000 and \$611,000 in 2015) was recorded for the three and nine-month periods ended May 31, 2016.

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The weighted average fair value of stock options granted for the nine-month period ended May 31, 2016 was \$11.36 (\$11.78 in 2015) per option. The weighted average fair value of each option granted was estimated at the grant date for purposes of determining share-based payment expense using the Black-Scholes option pricing model based on the following weighted-average assumptions:

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

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

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

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

A compensation expense of \$784,000 and \$2,909,000 (\$1,114,000 and \$3,292,000 in 2015) was recorded for the three and nine-month periods ended May 31, 2016 related to this plan. During the three and nine-month periods ended May 31, 2016, the Corporation charged Cogeco \$69,000 and \$248,000 (\$72,000 and \$232,000 in 2015) with respect to the Corporation's ISUs granted in previous years to Cogeco's executive officers.

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

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

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

A compensation expense of \$323,000 and \$850,000 (\$129,000 and \$477,000 in 2015) was recorded for the three and nine-month periods ended May 31, 2016 related to this plan. During the three and nine-month periods ended May 31, 2016, the Corporation charged Cogeco \$135,000 and \$364,000 (\$58,000 and \$131,000 in 2015) with respect to the Corporation's PSUs granted to Cogeco's executive officers.

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

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

A compensation expense of \$205,000 and \$209,000 (compensation expense reduction of \$131,000 and compensation expense of \$432,000 in 2015) were recorded for the three and nine-month periods ended May 31, 2016 related to this plan.

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12. ACCUMULATED OTHER COMPREHENSIVE INCOME

	Cash flow hedge reserve	Foreign currency translation	Total
	\$	\$	\$
Balance at August 31, 2014	1,296	27,029	28,325
Other comprehensive income	24	38,014	38,038
Balance at May 31, 2015	1,320	65,043	66,363
Balance at August 31, 2015	1,330	82,490	83,820
Other comprehensive income (loss)	(1,303)	633	(670)
Balance at May 31, 2016	27	83,123	83,150

13. STATEMENTS OF CASH FLOWS

CHANGES IN NON-CASH OPERATING ACTIVITIES

	Three months ended May 31,		Nine months ended May 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Trade and other receivables	4,515	10,834	20,436	1,083
Prepaid expenses and other	5,446	4,135	1,869	(2,056)
Trade and other payables	17,474	8,929	(53,674)	(110,531)
Provisions	6,634	3,441	7,133	3,053
Deferred and prepaid revenue and other liabilities	1,981	1,415	2,613	3,178
	36,050	28,754	(21,623)	(105,273)

14. EMPLOYEE BENEFITS

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

The total expense related to these plans is as follows:

	Three months ended May 31,		Nine months ended May 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Defined benefit plans				
Recognized in operating expenses (salaries, employee benefits and outsourced services)				
Current service cost	560	512	1,680	1,536
Administrative expense	49	42	147	126
Recognized in financial expense (other)				
Net interest	21	40	65	121
Defined contribution and collective registered retirement saving plans				
Recognized in operating expenses (salaries, employee benefits and outsourced services)	1,971	2,016	6,461	6,379
	2,601	2,610	8,353	8,162

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15. FINANCIAL INSTRUMENTS

A) FINANCIAL RISK MANAGEMENT

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

Liquidity risk

At May 31, 2016, the Corporation had used \$277.7 million of its \$800 million amended and restated Term Revolving Facility for a remaining availability of \$522.3 million. In addition, two subsidiaries related to Atlantic Broadband also benefit from a Revolving Facility of \$196.7 million (US\$150 million), of which \$124.7 million (US\$95.1 million) was used at May 31, 2016 for a remaining availability of \$71.9 million (US\$54.9 million).

Interest rate risk

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

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

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

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

Foreign exchange risk

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

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

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

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

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

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

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

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

B) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	May 31, 2016		August 31, 2015	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Long-term debt	3,011,922	3,108,475	3,280,024	3,377,318

C) CAPITAL MANAGEMENT

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

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

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

- (1) Net secured indebtedness is defined as the total of bank indebtedness, principal on long-term debt and obligations under derivative financial instruments, less cash and cash equivalents and principal on Senior Unsecured Debenture and Senior Unsecured Notes.
- (2) Excluding Atlantic Broadband and other non-significant unrestricted subsidiaries' cash and cash equivalents and non-recourse First Lien Credit Facilities.
- (3) Calculation based on adjusted EBITDA and financial expense for the twelve-month period ended May 31, 2016 and August 31, 2015 excluding Atlantic Broadband and other non-significant unrestricted subsidiaries.
- (4) Net indebtedness is defined as the total of bank indebtedness, principal on long-term debt and obligations under derivative financial instruments, less cash and cash equivalents.

CUSTOMER STATISTICS

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